



**International Entertainment Corporation**  
國際娛樂有限公司  
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8118



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors (the “Directors”) of International Entertainment Corporation (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Contents

2	CORPORATE INFORMATION	24	CONSOLIDATED INCOME STATEMENT
4	CHAIRMAN'S STATEMENT	25	CONSOLIDATED BALANCE SHEET
6	MANAGEMENT DISCUSSION AND ANALYSIS	26	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
10	BOARD OF DIRECTORS AND SENIOR MANAGEMENT	27	CONSOLIDATED CASH FLOW STATEMENT
12	REPORT OF THE DIRECTORS	29	NOTES TO THE FINANCIAL STATEMENTS
20	CORPORATE GOVERNANCE REPORT	82	FINANCIAL SUMMARY
23	REPORT OF THE AUDITORS		

# Corporate Information

## EXECUTIVE DIRECTORS

Dr. CHENG Kar Shun (*Chairman*)  
Mr. LO Lin Shing, Simon  
Mr. CHOI Wing Kin  
Mr. SO Kam Wing

## NON-EXECUTIVE DIRECTOR

Mr. WU Wing Kin

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Hon Kit  
Mr. KWEE Chong Kok, Michael  
Mr. WONG Chi Keung

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1502-05  
New World Tower 1  
16-18 Queen's Road Central  
Hong Kong

## COMPANY WEBSITE

<http://www.cyberonair.com>

## COMPANY SECRETARY

Mr. KWOK Chi Kin CPA, ACCA

## AUTHORISED REPRESENTATIVES

Mr. LO Lin Shing, Simon  
Mr. KWOK Chi Kin

## COMPLIANCE OFFICER

Mr. CHOI Wing Kin

## QUALIFIED ACCOUNTANT

Mr. KWOK Chi Kin CPA, ACCA

## AUDIT COMMITTEE MEMBERS

Mr. CHEUNG Hon Kit (*Committee Chairman*)  
Mr. WONG Chi Keung  
Mr. WU Wing Kin

## REMUNERATION COMMITTEE MEMBERS

Mr. WONG Chi Keung (*Committee Chairman*)  
Mr. KWEE Chong Kok, Michael  
Mr. WU Wing Kin

## PRINCIPAL BANKERS

Asia Commercial Bank Limited  
Asia Financial Centre  
120 Des Voeux Road Central  
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

Hang Seng Bank  
83 Des Voeux Road Central  
Hong Kong

Bank of China  
Unit G1, Nan Fung Commercial Centre  
Wang Kwun Road  
Kowloon Bay, Hong Kong

# Corporate Information

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## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **AUDITORS**

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F One Pacific Place  
88 Queensway  
Hong Kong

# Chairman's Statement



**Dear fellow shareholders,**

It is my pleasure to share with you all the financial performance of International Entertainment Corporation (the "Company") and its subsidiaries (together the "Group") for the year ended 31 March 2006.

The Group recorded significant increase in turnover for the year upon completion of the acquisition of M8 Entertainment Inc., which is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres, in December 2004. With more than 90% of the Group's turnover for the year derived from entertainment businesses, this shows our dedicated efforts of focusing on the Group's business direction in entertainment.

In the area of entertainment business, the Group has entered into agreements with international film distribution companies such as New Line to secure the licensing of quality films worldwide. Recent releases include *Running Scared*, starring Paul Walker and directed by Wayne Kramer, which was released theatrically by New Line in March 2006. *Havoc* and *11:14* were both released on DVD and video by New Line in late 2005, while *Santa's Slay* was released on DVD and video by Lions Gate after a premiere on Spike TV late in 2005.

All these films have added tremendous value to our existing quality entertainment content and provide audience with an extensive variety of choices to choose from. In alliance with these international film distribution companies, the entire theatrical release process is much facilitated.

With a vision to expand into other genres of entertainment business, the Group has entered into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau, including 51% equity stake in "Hyatt Hotel and Casino Manila", which is a luxury casino hotel with a floor area of over 90,000 square metres, comprising more than 360 deluxe rooms and suites, a casino and entertainment areas, and 40% equity interest in the Arc of Triumph Development Company Limited, which owns a prime-location land parcel in Macau proposed to be developed into a super deluxe hotel and residential complex, comprising numerous hotel rooms and casino facilities. While pending completion and approval of the acquisition, the Group will continue to explore and identify any business opportunities emerging from the entertainment industry.

Efforts were also made on IT sector during the year under review. Cyber On-Air (Asia) Limited ("COAA"), a wholly owned subsidiary of the Company, successfully replaced the existing radio communication system inside the tunnel for one of the tunnel management companies during the year. It has also provided a cost-saving compression solution to one of the fixed network operators, helping them to reduce rental costs of international public list circuits ("IPLC").

# Chairman's Statement

*(Continued)*

However, due to change of business environment of the telecommunications market, COAA faced with great challenges during the year. Low cost vendors from China and Taiwan tend to invest in low cost equipment instead of high cost and premium equipment, which intensified market competition. In response to the ever-changing market conditions, the Group is committed to enhancing its research and development levels with an aim to offer wireless network solutions to other segments such as education as well as the segment of small and medium enterprises.

COAA is actively identifying potential partnerships with wireless network operators to develop new technologies such as Mesh Networking and Voice over Wi-Fi, and to provide solutions to meet customers' needs. These will definitely help COAA to reposition itself as a wireless solution system integrator in the IT markets.

In pursuit of our objective of expanding our channels to reach a wider spectrum of audiences for entertainment business, we will diversify our scope of business to encompass theatrical release of feature films and video distribution, and fostering meaningful partnership and producing quality films. We will continue to explore markets.

## **PROSPECTS**

Looking ahead in 2006, the Group is devoted to gradually transform into a leisure and entertainment conglomerate. On the back of positive global economic performance and the booming tourism industry, and the rocketed number of tourists from China in particular, the Group is confident that the prospects of entertainment industry will be promising.

## **APPRECIATION**

For and on behalf of the Board, I would like to express my sincere gratitude to our management and staff, without whom the achievements would not be possible. I would also like to extend my heartfelt thanks to our shareholders, suppliers and customers for their continuous support.

**Dr. Cheng Kar Shun**

*Chairman*

Hong Kong, 26 June 2006

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2006 was approximately HK\$274.3 million, representing an increase of approximately 8.0 times, as compared with approximately HK\$34.4 million for the last year. The increase in turnover was mainly contributed by the revenue from entertainment business. The Group reported a gross loss of approximately HK\$83.0 million for the year under review, as compared to the gross loss of approximately HK\$0.9 million in the last year. The increase in gross loss for the year was primarily due to write-downs on some of the films.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 2.6 times to approximately HK\$81.7 million for the year ended 31 March 2006 from approximately HK\$31.9 million in the last year. The increase was mainly attributable to the inclusion of the expenses incurred by M8 Entertainment Inc. and its subsidiaries after the completion of the acquisition in December 2004.

In current year, in view of the deteriorating results of certain subsidiaries, an impairment loss of approximately HK\$14.8 million has been recognised for the goodwill arising on the acquisition of these subsidiaries.

The Group recorded an operating loss for the year ended 31 March 2006, amounted to approximately HK\$170.3 million, representing an increase of approximately 5.9 times, as compared with approximately HK\$28.8 million in last year. The increase in operating loss for the year was mainly due to the write-downs on some of the films and impairment loss recognised for the goodwill arising on acquisition of subsidiaries during the year.

## BUSINESS REVIEW

The principal activities of the Group are provision of application solutions, network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

### 1. Entertainment business

The revenue derived from the entertainment business for the year ended 31 March 2006 was approximately HK\$257.5 million. The revenue comprised primarily from sales of the theatrical feature films, *Running Scared*, *Santa's Slay*, *Man About Town* and *Monster*. *Running Scared* is written and directed by Wayne Kramer and starring Paul Walker. *Santa's Slay* is a horror-comedy produced in association with Brett Ratner. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn and *Monster* is a critically acclaimed drama, for which Charlize Theron won the 2004 Academy Award for Best Actress. Since the acquisition of M8 Entertainment Inc. was completed on 22 December 2004, only the results of M8 during the period from 1 January 2005 to 31 March 2005 were taken up in the consolidated results of the last year. The revenue derived from the entertainment business during that period was approximately HK\$18.5 million.

### 2. Wireless application and network solutions

Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks ("WLAN") whereas network solutions include solutions for computer networks, data communication networks, WLAN networks and synchronization networks.

During the year ended 31 March 2006, the revenue was approximately HK\$8.1 million, compared to approximately HK\$5.5 million in the last year. The increase in revenue was due to additional projects being completed during the year under review.



# Management Discussion and Analysis

(Continued)

### 3. Project services

For the year ended 31 March 2006, the Group completed certain projects, revenue derived from the provision of project services was approximately HK\$6.8 million, compared to approximately HK\$8.6 million in the last year. The decrease in revenue was due to the keen competition in the market.

### FUTURE OUTLOOK

With the improvement of the economic climate, more and more companies are willing to invest and improve their IT networks. Therefore, the Group is going to expand the sales force to increase the solution sales especially on the network security solution. Under existing product range with existing vendor, the Group is able to provide internal wireless and wire line network access security solution. The Group is going to look for potential vendors and partner to achieve a total solution which is marketable and meets the demands of customers.

Competition is still severe for project services. The Group will re-position our project service team as a total wireless solution team for the indoor radio coverage. The project service team will not only offer project implementation and management service but also the design and supply of the indoor wireless network for potential customers.

The Group will commence pre-production of several film projects in coming year. In addition to the production of films, the Group would engage in the acquisition of films. The acquired films would be distributed by the Group. Same as previous years, the Group will attend major film markets, including the Cannes Film Festival and the Berlin Film Festival, and distribute the films worldwide, to most territories around the world.

The Group has taken a further step into the entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau on 23 November 2004. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006 and 22 June 2006. As at the date of this report, the acquisition has not been completed because the relevant regulatory approval procedure is still on going. The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2006, the Group's net current assets amounted to approximately HK\$285.5 million (2005: approximately HK\$439.4 million). Current assets amounted to approximately HK\$540.6 million (2005: approximately HK\$909.4 million), of which approximately HK\$293.0 million (2005: approximately HK\$362.0 million) was cash, bank deposits and pledged deposits, approximately HK\$25.0 million (2005: approximately HK\$83.3 million) was trade receivables, and approximately HK\$198.2 million (2005: approximately HK\$441.3 million) was film costs.

The Group had current liabilities amounted to approximately HK\$255.1 million (2005: approximately HK\$470.0 million), of which approximately HK\$59.4 million (2005: approximately HK\$52.7 million) was trade payables, approximately HK\$46.4 million (2005: approximately HK\$110.5 million) was other payables and accrued charges, approximately HK\$130.5 million (2005: approximately HK\$252.9 million) was bank and other borrowings, and approximately HK\$15.6 million (2005: approximately HK\$15.6 million) was loans from Directors and related companies.

As at 31 March 2006, the Group did not have any bank overdraft (2005: approximately HK\$2.1 million). The bank loans of the Group amounted to approximately HK\$127.1 million (2005: approximately HK\$247.4 million), which will be due within one year.

# Management Discussion and Analysis

*(Continued)*

As at 31 March 2006 the Group had loans from the Directors of approximately HK\$3.0 million (2005: approximately HK\$3.0 million), of which approximately HK\$1.8 million (2005: approximately HK\$1.8 million) was unsecured, bore interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK\$12.6 million (2005: approximately HK\$12.6 million), of which approximately HK\$9.8 million (2005: approximately HK\$9.8 million) was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on 30 June 2006; approximately HK\$1.2 million was unsecured, bore interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was repayable on 30 June 2006; approximately HK\$1.2 million (2005: approximately HK\$1.2 million) was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand and the remaining balance was unsecured, interest-free and repayable on demand. Guarantees were given to a related company in respect of loans utilised by subsidiaries of the Group amounting to HK\$11.0 million (2005: HK\$11.0 million).

In addition, the Group had other loans of approximately HK\$3.4 million (2005: approximately HK\$3.4 million), of which approximately HK\$2.0 million (2005: approximately HK\$2.0 million) was unsecured, bore interest at the HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

During the year ended 31 March 2005, the Group issued two non-interest bearing promissory notes of approximately HK\$36.1 million, which was repaid on 21 June 2005.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 26.9% as at 31 March 2006, compared to 32.0% as at 31 March 2005.

The Group financed its operations generally with internally generated cash flows, the present available credit facilities.

## **CHARGES ON GROUP ASSETS**

As at 31 March 2006, the Group's bank deposit of approximately HK\$59.9 million (2005: approximately HK\$9.0 million), trade receivables, deposits and prepayments of HK\$32.2 million (2005: approximately HK\$78.6 million), and film assets of HK\$76.3 million (2005: approximately HK\$160.8 million) have been pledged to banks to secure banking facility granted to the Group.

As at 31 March 2005, 79,414,501 Class B shares of M8 Entertainment Inc., a subsidiary of the Company, and 130,891,920 Class C shares of M8 Entertainment Inc. are pledged to the holders of the non-interest bearing promissory note in the amount of approximately US\$2,794,279 (equivalent to approximately HK\$21.8 million) in favour of Music Box Entertainment Limited and the non-interest bearing promissory note in the amount of approximately US\$1,831,924 (equivalent to approximately HK\$14.3 million) in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust. The pledges were released on 21 June 2005.

# Management Discussion and Analysis

(Continued)

## **MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS**

On 23 November 2004, the Company, Cross-Growth Co. Ltd. (“Cross-Growth”) and Chow Tai Fook Enterprises Limited (“CTF”) entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entire issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due as at the date of completion of the acquisition agreement from members of Fortune Gate Overseas Limited and its subsidiaries to CTF and its subsidiaries (the “Acquisition”) and, in addition to making cash payment of HK\$450 million (subject to adjustments), to issue a HK\$400,000,000 convertible note due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK\$2 per share (subject to adjustments) (the “Convertible Note”) as consideration to satisfy part of the purchase consideration of HK\$850 million (the “Purchase Price”). As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau (the “Purchase Option”) on 17 March 2005 and the Purchase Price will be increased by HK\$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash.

Pursuant to the GEM Listing Rules, the Acquisition constitutes a connected transaction and a very substantial acquisition for the Company and the Acquisition has been treated as a deemed new listing application (the “Application”) which is subject to the approval of the listing committee of the Stock Exchange (the “Listing Committee”). However, on 13 June 2006, the Listing Division of the Stock Exchange (the “Listing Division”) issued a letter to the Company stating that the Company, as enlarged by the Acquisition, is not suitable for listing and has determined to reject the Application. The Company does not agree with the Listing Division’s decision and intends to continue to proceed with the Application. On 19 June 2006, the Company submitted a request for review of such decision by the Listing Committee pursuant to Rule 4.05 of the GEM Listing Rules.

Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006 and 22 June 2006. As at the date of this report, the acquisition has not been completed because the relevant regulatory approval procedure is still on going.

Save as disclosed above, there were neither significant investments held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the year ended 31 March 2006.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES**

The Group’s assets and liabilities were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has no significant exposure to foreign exchange fluctuations.

## **CONTINGENT LIABILITIES**

As at 31 March 2006, the Company has provided corporate guarantees of approximately HK\$11.0 million (2005: HK\$11.0 million) to secure loans and other borrowings granted to its subsidiaries.

As at 31 March 2005, the Group also provided guarantee to a promissory note holder amounted to approximately US\$1,831,924 (equivalent to approximately HK\$14.3 million).

## **EMPLOYEES AND REMUNERATION POLICIES**

The total number of employees of the Group was 45 as at 31 March 2006 (as at 31 March 2005: 52). The staff cost for the year ended 31 March 2006 was approximately HK\$26.4 million (for the year ended 31 March 2005: approximately HK\$10.2 million). The remuneration of employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company’s performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

# Board of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Dr. Cheng Kar Shun**, aged 59, was appointed as an executive Director in July 2004. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited and the chairman of New World Mobile Holdings Limited, New World TMT Limited, NWS Holdings Limited and Tai Fook Securities Group Limited and the independent non-executive director of HKR International Limited, all of which are companies whose shares are listed on the Stock Exchange. He is also a director of CTF. Dr. Cheng is the chairman of the Advisory Council for the Better Hong Kong Foundation and a committee member of the Tenth Chinese People's Political Consultative Conference of the PRC. In 2001, he was awarded the Gold Bauhinia Star by the Government of Hong Kong.

**Mr. Lo Lin Shing, Simon**, aged 50, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of CME and IMM since 1986. Mr. Lo is the chairman of New World CyberBase Limited and the deputy-chairman of Tai Fook Securities Group Limited. He is also a non-executive director of Beijing Beida Jade Bird Universal Sci-Tech Company Limited, Cheung Tai Hong Holdings Limited and New World Mobile Holdings Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

**Mr. Choi Wing Kin**, aged 44, was appointed as executive Director in May 2001. He was the founder and an executive director of Cyber On-Air Limited (a wholly owned subsidiary of the Company). Mr. Choi holds the position of Chief Operating Officer of New World CyberBase Limited (a company whose shares are listed on the Stock Exchange). He has over 19 years' experience in information technology and telecommunications industry. Professionally, Mr. Choi possesses a Chartered Engineer qualification from the Engineering Council (UK) and is a member of The Institution of Electrical Engineers (UK), The Hong Kong Institution of Engineers (HK), and The Institution of Engineers (Australia). He has a Bachelor of Science degree in Electronics and Computer Science from the Chinese University of Hong Kong.

**Mr. So Kam Wing**, aged 46, joined the Group in January 2002 as vice president of technical operations and was appointed as an executive Director in October 2002. He is responsible for direction steering and management of the overall daily operation of the Group in Hong Kong and Asia Pacific region. Mr. So obtained several academic qualifications including Master of Science in E-Commerce for Executives and Higher Diploma in Marine Electronics from Hong Kong Polytechnic University, Graduate Diploma in Management in Hong Kong University of Science and Technology, Professional Diploma in Telecommunication Technology from Hong Kong Management Association. Mr. So has over 15 years of experience in the field of telecommunications.

## NON-EXECUTIVE DIRECTOR

**Mr. Wu Wing Kin**, aged 50, was appointed as a non-executive Director in May 2001. Mr. Wu is presently the general manager of Phillip Securities (HK) Ltd. and Phillip Commodities (HK) Ltd. Mr. Wu is also an ordinary member of the Hong Kong Securities Institute. Mr. Wu has more than 20 years of working experience in the financial, securities and futures industries.

# Board of Directors and Senior Management

(Continued)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Cheung Hon Kit**, aged 52, joined the Group in May 2001. Mr. Cheung has over 27 years of experience in real estate development and property investment. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked in key executive position in various leading property development companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and the managing director of Wing On Travel (Holdings) Limited and chairman and executive director of Cheung Tai Hong Holdings Limited. He is also a director of Panva Gas Holdings Limited and Innovo Leisure Recreation Holdings Limited. The shares of all the abovementioned companies are listed on the Stock Exchange.

**Mr. Kwee Chong Kok, Michael**, aged 59, was appointed as an independent non-executive Director in September 2004. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Graduate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States. Mr. Kwee is the chairman and chief executive officer of PAMA Group Inc. He served as a member of the Hong Kong Advisory Committee on Legal Education and Hong Kong Financial Secretary's Economic Advisory Committee from 1995 and 2004.

**Mr. Wong Chi Keung**, aged 51, was appointed as an independent non-executive Director in September 2004. Mr. Wong holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a Responsible Officer for advising on securities, corporate finance and asset management activities for Legend Capital Partners, Inc. under the SFO. He is the managing director of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Ting Group Holdings Limited, Fu Ji Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Automobile Holding Company Limited, PacMOS Technology Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies whose shares are listed on the Stock Exchange.

## SENIOR MANAGEMENT

**Mr. Lee Sammy Sean**, aged 47, is the chairman of M8. He has joined the M8 Group since July 2002 and has secured financing from different media funds for the films of the M8 Group including *Monster*, *Havoc* and *Upside of Anger* through his worldwide network of potential financiers. Mr. Lee is a lawyer by training and is experienced in business transaction structuring and corporate consulting.

**Mr. Tse Cho Tseung**, aged 52, joined the Group as Chief Operating Officer in November 2005. Mr. Tse is responsible for overall general operation of the Group. He holds a Diploma in Accounting from The Hong Kong Baptist University and has over 25 years of experience in accounting and finance, construction, property development and investment, and trading business.

**Mr. Kwok Chi Kin**, aged 29, joined the Group as Chief Financial Officer and was appointed as Qualified Accountant and Company Secretary in May 2004. He is responsible for the finance and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is a Certified Public Accountant in Hong Kong and a member of The Association of Chartered Certified Accountants. He has about 7 years of auditing experience and accounting experience in listed companies in Hong Kong.

# Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its subsidiaries and associate are set out in notes 42 and 19 respectively to the financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 17% and 31% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company which to the knowledge of the directors owns more than 5% of the Company's share capital have an interest in any of Group's five largest suppliers or customers.

## **RESULTS**

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 24.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 82.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

## **SHARE CAPITAL**

Details of the movements during the year in the share capital of the Company are set out in note 33 to the financial statements.

## **RESERVE AND DISTRIBUTABLE RESERVE**

Details of movements in the reserve of the Group during the year are set out in the consolidated statement of changes in equity of this Annual Report.

Under the Companies Law (Revised) of the Cayman Islands, the Company's reserve available for distribution to shareholders as at 31 March 2006 comprised share premium and merger reserve of HK\$316,854,000 (2005: HK\$316,854,000) less the accumulated losses of HK\$264,847,000 (2005: HK\$126,872,000).

# Report of the Directors

*(Continued)*

## **DIRECTORS**

The directors of the Company during the year and up to the date of this report were:

### **Executive directors**

Dr. Cheng Kar Shun  
Mr. Lo Lin Shing, Simon  
Mr. Choi Wing Kin  
Mr. So Kam Wing

### **Non-executive director**

Mr. Wu Wing Kin

### **Independent non-executive directors**

Mr. Cheung Hon Kit  
Mr. Kwee Chong Kok, Michael  
Mr. Wong Chi Keung

In accordance with article 87A of the Company's articles of association, Mr. Choi Wing Kin and Mr. Wu Wing Kin shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The terms of office of non-executive directors (including the independent non-executive directors) should be subject to retirement by rotation in accordance with the Company's articles of association.

No director has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### **Confirmation of Independence of Independent Non-executive Directors**

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung an annual confirmation of his independence pursuant to the Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors are independent.

## **INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

Save as disclosed below, as at 31 March 2006, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

# Report of the Directors

(Continued)

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

### Long-position in the ordinary shares of the Company

Name of director	Number of ordinary shares of HK\$1.00 each in the share capital of the Company			Approximate percentage of the issued share capital of the Company
	Personal interest	Corporate interest	Total	
Mr. Choi Wing Kin	1,329,600	–	1,329,600	0.56%
Mr. So Kam Wing	49,200	–	49,200	0.02%
Mr. Lo Lin Shing, Simon	–	364,800 (Note)	364,800	0.15%

Note: These shares are held by Wellington Equities Inc., which is wholly owned by Mr. Lo Lin Shing, Simon.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Save as disclosed below, as at 31 March 2006, so far as is known to the directors or chief executives of the Company, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

### Long positions in the ordinary shares of the Company

Name of shareholder	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	–	–	120,000,079	50.88%
Cross-Growth Co., Ltd.	Beneficial owner	–	–	200,000,000 (Note 3)	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	–	707,494,341 (Note 4)	–	1,027,494,420	435.69%
	Interest of a controlled corporation	120,000,079 (Note 1)	–	200,000,000 (Note 3)		



# Report of the Directors

(Continued)

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

### Long positions in the ordinary shares of the Company (Continued)

Name of shareholder	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Centennial Success Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 5)	707,494,341 (Notes 4, 5)	200,000,000 (Notes 3, 5)	1,027,494,420	435.69%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 6)	707,494,341 (Notes 4, 6)	200,000,000 (Notes 3, 6)	1,027,494,420	435.69%
Young China Investments Ltd.	Beneficial owner	19,000,000	–	–	19,000,000	8.06%
Mr. Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	–	–	19,000,000	8.06%

Notes:

- (1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.
- (2) Young China Investments Ltd. is wholly owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company held by Young China Investments Ltd. under the SFO.
- (3) These underlying shares of the Company represent the new shares to be issued upon full conversion at the initial conversion price of HK\$2 per share of the convertible note to be issued by the Company to Cross-Growth Co., Ltd. (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth Co., Ltd., the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004.  
  
Cross-Growth Co., Ltd. is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 200,000,000 underlying shares held by Cross-Growth Co., Ltd. under the SFO.
- (4) These unissued shares of the Company represent the rights shares underwritten by CTF in respect of a possible rights issue of the Company, details of which are set out in the announcement of the Company dated 23 November 2004.
- (5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under the SFO.
- (6) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under the SFO.

# Report of the Directors

(Continued)

## SHARE OPTIONS

Particulars of the share option schemes of the Company and its subsidiaries are set out in note 36 to the financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section headed “Share Options” above, at no time during the year was the Company, its ultimate holding company, any subsidiaries of its ultimate holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS’ INTERESTS IN CONTRACTS

Other than as disclosed in note 41 to the financial statements and the section headed “Connected Transactions” below, no contracts of significance, to which the Company, its ultimate holding company, any subsidiaries of its ultimate holding company or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

Other than as disclosed in the section headed “Connected Transactions” below, no contracts of significance were entered into between the Company, or any of its subsidiaries, and a controlling shareholder, or any of its subsidiaries.

## COMPETING BUSINESS

None of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflicts of interest with the Group.

## CONNECTED TRANSACTIONS

### Connected Transactions

- (1) On 23 November 2004, the Company, Cross-Growth Co., Ltd. (“Cross-Growth”) and CTF entered into a conditional acquisition agreement (the “Acquisition Agreement”) pursuant to which the Company agreed conditionally to acquire the share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due from members of Fortune Gate Overseas Limited and its subsidiaries (the “Hotel Group”) to CTF and its subsidiaries (the “CTF Group”) as at the date of completion of the Acquisition Agreement (the “Acquisition”). The total purchase price for the Acquisition is HK\$850 million (the “Purchase Price”) of which HK\$450 million of the Purchase Price will be paid by cash and the Company will issue a convertible note of HK\$400 million which will be due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK\$2 per share (subject to adjustments) (the “Convertible Note”). In order to finance the Acquisition, the Company proposed to raise net proceeds of approximately HK\$1,229 million by way of rights issue (the “Rights Issue”) CTF also granted an option to the Company for the Company to purchase a 40% of the issued share capital of Arc of Triumph Development Company Limited (“ATD”), a company incorporated in Macau from an associate of CTF at a price of HK\$363.2 million (the “Purchase Option”). On 23 November 2004, CTF own a 73% attributable interest in the Hotel Group and an associate of the CTF Group owns a 40% attributable interest in ATD.

As announced on 17 March 2005, the Company exercised the Purchase Option in favour of the Company to purchase a 40% equity interest in ATD at a price of HK\$363.2 million (subject to adjustments) which will be paid in cash.

As announced on 29 September 2005, the Company is in negotiations with Cross-Growth and CTF to amend the Acquisition Agreement, amongst other things, to exclude from the Hotel Group, a company called Foreign Holiday Philippines, Inc (“FHPI”).

# Report of the Directors

*(Continued)*

## **CONNECTED TRANSACTIONS** *(Continued)*

### **Connected Transactions** *(Continued)*

(1) *(Continued)*

As announced on 6 January 2006, Cross-Growth and the Company agreed to extend the long stop date for the fulfillment of the conditions precedent of the Acquisition Agreement to 30 June 2006.

As announced on 22 June 2006, Cross-Growth and the Company agreed to extend the long stop date for the fulfillment of the conditions precedent of the Acquisition Agreement to 31 December 2006.

Details of the proposed acquisitions are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006 and 22 June 2006.

Under the GEM Listing Rules, the Acquisition (including the exercise of the Purchase Option) constitute a connected transaction and a very substantial acquisition of the Company which is treated as reverse takeover and the Stock Exchange has indicated to the Company that it would treat the Company as a new listing applicant if the Acquisition proceeds.

As at the date of this report, the Acquisition and the Rights Issue have not been completed because the relevant approval procedure is still on going.

### **Continuing Connected Transactions**

- (1) On 16 May 2003, Cyber On-Air (Asia) Limited ("COAA"), a wholly owned subsidiary of the Company, entered into an agreement with New World PCS Limited ("NWPCS"), an associate of CTF, for the provision of installation work of cellular base stations for NWPCS commencing from 1 May 2003 to 30 April 2004. Subsequently, on 22 April 2004 and 7 October 2004, NWPCS and COAA entered into addendums to the agreement to extend the contract period of the agreement by 12 months, from 1 May 2004 to 30 April 2005, and modify some of the terms of the agreement. The maximum aggregate annual values of the transactions for the periods from 1 May 2004 to 31 March 2005 and from 1 April 2005 to 30 April 2005 are HK\$8,000,000 and HK\$1,000,000 respectively. On 27 April 2005, COAA entered into an agreement with NWPCS for the provision of installation of cellular base stations for NWPCS from 1 May 2005 to 30 April 2006. The maximum aggregate value of the transactions under this agreement for the periods from 1 May 2005 to 31 March 2006 and from 1 April 2006 to 30 April 2006 are HK\$9,000,000 and HK\$1,000,000 respectively. During the year ended 31 March 2006, the project service income generated from the provision of installation work of cellular base stations by COAA to NWPCS amounted to approximately HK\$3,267,000.
- (2) Pursuant to the tenancy agreements date 10 August 2004 and 24 February 2005 entered into between Future Growth Limited, a wholly owned subsidiary of the Company, and New World Tower Company Limited ("NWT"), an associate of CTF, for the lease of office premises at Room 1502-05, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong. The total maximum aggregate annual value of the transactions under the tenancy agreements is approximately HK\$1,003,000. During the year, the Group paid rental, air-conditioning charges and management charges of HK\$1,003,000 to NWT.
- (3) On 23 May 2006, Future Growth Limited has renewed the tenancy agreement with NWT, for the lease of Rooms 1502-05, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with an area of approximately 3,938 square feet for two years commencing from 24 May 2006 to 23 May 2008 (both dates inclusive). The maximum aggregate annual value of the transactions (including the rent, air-conditioning charges and management charges) under the tenancy agreement is approximately HK\$1,489,000. During the year, no rental was paid under this tenancy agreement as the lease was commenced from 24 May 2006.

# Report of the Directors

*(Continued)*

## **CONNECTED TRANSACTIONS** *(Continued)*

### **Continuing Connected Transactions** *(Continued)*

The independent non-executive directors confirm that the continuing connected transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed Upon Procedures Regarding Financial Information”.

Save as disclosed above, other related party transactions entered by the Group during the year are disclosed in note 41 to the financial statements.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **EMOLUMENT POLICY**

The Board has established a remuneration committee (the “Remuneration Committee”) which has three members, comprising two independent non-executive directors and a non-executive director, Mr. Wong Chi Keung, Mr. Kwee Chong Kok, Michael and Mr. Wu Wing Kin. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of directors, senior management and other employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **DIVIDENDS**

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: nil).

# Report of the Directors

*(Continued)*

## **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Dr. Cheng Kar Shun**

*Chairman*

Hong Kong, 26 June 2006

# Corporate Governance Report

The Company is committed to high standards of corporate governance and complied with the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 15 of the GEM Listing Rules. This report summaries the Group's corporate governance practices and explains deviations, if any, from the Code.

## BOARD OF DIRECTORS

The principal duty of the board of directors (the "Board") of the Company is to ensure that the Company is properly managed in the interest of shareholders.

The Chairman is responsible for the management of the Board. The Company does not have Chief Executive Officer. The Board is primarily responsible for the overall management of the Company and oversight of the management. Management is responsible for the day-to-day operations of the Company.

As at 31 March 2006, the Board comprised eight Directors, of whom four are executive Directors, one is non-executive Director and three are independent non-executive Directors. Biographical details of the Directors are set out on pages 10 to 11.

The Board held 11 meetings during the year ended 31 March 2006. The attendance records of individual Directors are set out below:

<b>Directors</b>	<b>Attendance</b>
<b>Executive directors</b>	
Dr. Cheng Kar Shun ( <i>Chairman</i> )	8/11
Mr. Lo Lin Shing, Simon	8/11
Mr. Choi Wing Kin	10/11
Mr. So Kam Wing	11/11
<b>Non-executive director</b>	
Mr. Wu Wing Kin	8/11
<b>Independent non-executive directors</b>	
Mr. Cheung Hon Kit	9/11
Mr. Kwee Chong Kok, Michael	7/11
Mr. Wong Chi Keung	9/11

The Directors (including the non-executive Directors) are subject to rotation in accordance with the Articles of Association of the Company (that at each annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office) provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. This means a Director's specific term of appointment cannot exceed three years. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

# Corporate Governance Report

(Continued)

## **CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung an annual confirmation of his independence pursuant to the Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors are independent.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the rules 5.48 to 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 March 2006.

## **REMUNERATION OF DIRECTORS**

The Board has established a remuneration committee (the "Remuneration Committee") which has three members, comprising two independent non-executive directors and a non-executive director, Mr. Wong Chi Keung, Mr. Kwee Chong Kok, Michael and Mr. Wu Wing Kin. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of directors and senior management is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. The Remuneration Committee held one meeting during the year ended 31 March 2006. The attendance records of the members of Remuneration Committee are set out below:

<b>Committee members</b>	<b>Attendance</b>
Mr. Wong Chi Keung ( <i>Chairman</i> )	1/1
Mr. Kwee Chong Kok, Michael	1/1
Mr. Wu Wing Kin	1/1

## **NOMINATION OF DIRECTORS**

The Board has the power under the Articles of Association of the Company to appoint any person as a director either to fill a casual vacancy on the Board, or as an additional member to the Board. There was no nomination of directors during the year.

# Corporate Governance Report

(Continued)

## AUDITORS' REMUNERATION

For the year ended 31 March 2006, approximately HK\$1,800,000 (2005: HK\$1,516,000) was charged to the Group's income statement for the audit service provided by the auditors of the Group. During the year, the auditors of the Group have performed the following non-audit services.

Description of service performed	Fee HK\$'000
Preparation of accountants' report for the proposed acquisition of hotel business, audit for hotel business for the period ended 30 April 2005, 31 August 2005 and year ended 31 December 2005 and review of sufficiency of working capital, pro-forma statement of assets and liabilities and statement of indebtedness of the enlarged group.	2,480
Hong Kong profits tax return filing services	Note

*Note: The auditors of the Group have been appointed as the tax representative of the Company and the services fee is subject to negotiation.*

## AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met four times with the executive Directors and the management to review the financial reporting process, internal controls of the Group, the Company's reports and accounts including the annual report for the year ended 31 March 2006, and provided advice and recommendations to the board of directors. The Audit Committee also met with external auditors once to discuss the financial reporting process and internal controls of the Group during the year.

The attendance records of the members of Audit Committee are set out below:

Committee members	Attendance
Mr. Cheung Hon Kit ( <i>Chairman</i> )	4/4
Mr. Wong Chi Keung	4/4
Mr. Wu Wing Kin	4/4

## FINANCIAL REPORTING

The Board acknowledges their responsibility for preparing the financial statements of the Group for the year ended 31 March 2006. The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The auditors of the Company also set out their reporting responsibilities on the Report of Auditors on page 23 of this Annual Report.



# Report of the Auditors

## Deloitte. 德勤

### TO THE SHAREHOLDERS OF INTERNATIONAL ENTERTAINMENT CORPORATION

國際娛樂有限公司

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements on pages 24 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

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

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

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

26 June 2006

# Consolidated Income Statement

For the Year Ended 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	7	274,311	34,448
Cost of sales		(357,328)	(35,308)
Gross loss		(83,017)	(860)
Other income	9	9,281	3,977
Selling and distribution costs		(21,012)	(2,424)
Impairment loss recognised in respect of goodwill	17	(14,843)	–
General and administrative expenses		(60,717)	(28,210)
Other expenses		–	(1,244)
Finance costs	10	(2,704)	(1,117)
Loss before taxation	11	(173,012)	(29,878)
Taxation	14	(22,049)	–
Loss for the year		(195,061)	(29,878)
Attributable to:			
Equity holders of the Company		(117,063)	(19,295)
Minority interests		(77,998)	(10,583)
		(195,061)	(29,878)
Loss per share	15		
Basic		HK\$(0.50)	HK\$(0.10)
Diluted		HK\$(0.50)	HK\$(0.10)

# Consolidated Balance Sheet

At 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	16	1,952	4,061
Goodwill	17	-	15,764
Interest in an associate	19	-	-
Deferred tax assets	34	-	22,543
		<b>1,952</b>	<b>42,368</b>
<b>Current assets</b>			
Inventories	20	655	1,873
Film costs	21	198,207	441,311
Trade receivables	22	25,001	83,321
Other receivables, deposits and prepayments	23	23,295	20,312
Amounts due from related companies	24	458	584
Tax recoverable		15	-
Pledged bank deposits	23	59,861	9,014
Bank balances and cash	23	233,123	353,009
		<b>540,615</b>	<b>909,424</b>
<b>Current liabilities</b>			
Trade payables	25	59,371	52,650
Other payables and accrued charges	26	46,444	110,520
Amounts due to related companies	27	2,454	1,549
Loans from directors	28	3,044	3,044
Loans from related companies	29	12,582	12,582
Preference dividend payable	26	673	673
Other borrowings	30	3,374	3,374
Bank borrowings	31	127,133	249,510
Promissory notes	32	-	36,084
		<b>255,075</b>	<b>469,986</b>
Net current assets		<b>285,540</b>	<b>439,438</b>
Total assets less current liabilities		<b>287,492</b>	<b>481,806</b>
<b>Capital and reserves</b>			
Share capital	33	235,831	235,831
Share premium and reserves		51,661	168,598
Equity attributable to equity holders of the Company		<b>287,492</b>	<b>404,429</b>
Minority interests		-	77,377
Total equity		<b>287,492</b>	<b>481,806</b>

The financial statements on pages 24 to 81 were approved and authorised for issue by the Board of Directors on 26 June 2006 and are signed on its behalf by:

**Dr. Cheng Kar Shun**  
DIRECTOR

**Mr. Lo Lin Shing, Simon**  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2006

	Attributable to equity holders of the Company						Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 1 April 2004	831	-	53,022	-	(126,168)	(72,315)	-	(72,315)
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	(2,793)	-	(2,793)	(2,538)	(5,331)
Loss for the year	-	-	-	-	(19,295)	(19,295)	(10,583)	(29,878)
Total recognised expense for the year	-	-	-	(2,793)	(19,295)	(22,088)	(13,121)	(35,209)
Issue of shares at premium by the Company as a result of the settlement of loan notes, including unpaid accrued interest	4,000	40,569	-	-	-	44,569	-	44,569
Issue of shares through subscription	120,000	-	-	-	-	120,000	-	120,000
Issue of shares through placements	111,000	232,500	-	-	-	343,500	-	343,500
Share issue expenses	-	(9,237)	-	-	-	(9,237)	-	(9,237)
Acquisition of subsidiaries	-	-	-	-	-	-	90,498	90,498
	235,000	263,832	-	-	-	498,832	90,498	589,330
At 31 March 2005	235,831	263,832	53,022	(2,793)	(145,463)	404,429	77,377	481,806
Effect of changes in accounting policies (see note 3)	-	-	-	-	(505)	(505)	-	(505)
At 1 April 2005, as restated	235,831	263,832	53,022	(2,793)	(145,968)	403,924	77,377	481,301
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	631	-	631	621	1,252
Loss for the year	-	-	-	-	(117,063)	(117,063)	(77,998)	(195,061)
Total recognised income and expense for the year	-	-	-	631	(117,063)	(116,432)	(77,377)	(193,809)
At 31 March 2006	235,831	263,832	53,022	(2,162)	(263,031)	287,492	-	287,492

Note: Pursuant to a group reorganisation (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company issued shares in exchange for the entire issued share capital of Cyber On-Air Multimedia Limited (formerly known as HKcyber Limited) ("HKCYBER") and thereby became the holding company of the Group on 17 July 2000. Details of the Group Reorganisation and the issue and placing of shares of the Company are set out in Section I in the prospectus dated 21 July 2000 issued by the Company.

Merger reserve of the Group represents the difference between the share capital and share premium of HKCYBER whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation.

# Consolidated Cash Flow Statement

For the Year Ended 31 March 2006

Note	2006 HK\$'000	2005 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(173,012)</b>	(29,878)
Adjustments for:		
Interest income	<b>(9,227)</b>	(684)
Interest expenses	<b>2,704</b>	1,117
Allowance for bad and doubtful debts	<b>11,874</b>	4,247
Allowance for obsolete inventories	-	27
Gain on disposal of property, plant and equipment	-	(1)
Loss on write-off of inventories	-	22
Loss on write-off of property, plant and equipment	<b>67</b>	14
Impairment loss recognised in respect of film costs	<b>100,748</b>	-
Impairment loss recognised in respect of goodwill	<b>14,843</b>	-
Depreciation of property, plant and equipment	<b>2,647</b>	1,582
Amortisation of goodwill	-	968
Amortisation of intangible assets	-	175
Amortisation of film costs	<b>235,577</b>	30,495
Discount on acquisition	-	(3,079)
Operating cash flows before movements in working capital	<b>186,221</b>	5,005
Increase in film costs	<b>(66,930)</b>	(11,683)
Decrease (increase) in inventories	<b>1,218</b>	(841)
Decrease in trade receivables	<b>58,320</b>	364
Increase in other receivables, deposits and prepayments	<b>(14,538)</b>	(15,736)
Decrease (increase) in amounts due from related companies	<b>126</b>	(178)
Increase in trade payables	<b>6,721</b>	3,413
(Decrease) increase in other payables and accrued charges	<b>(65,233)</b>	9,953
Increase in amounts due to related companies	<b>905</b>	732
Cash generation from (used in) operations	<b>106,810</b>	(8,971)
Hong Kong Profits Tax paid	<b>(15)</b>	-
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>106,795</b>	(8,971)
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>8,908</b>	684
Advance to a subsidiary for a film project	-	(39,000)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	-	(35,795)
Purchase of property, plant and equipment	<b>(600)</b>	(2,945)
Proceeds on disposal of property, plant and equipment	-	1
Increase in pledged bank deposits	<b>(50,550)</b>	(1,171)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(42,242)</b>	(78,226)

# Consolidated Cash Flow Statement

For the Year Ended 31 March 2006 (Continued)

	2006 HK\$'000	2005 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(17,651)	(5,580)
Net proceeds from issue of shares by way of subscription and placements	–	454,263
Advances from a related company	–	500
New bank borrowings	31,679	1,903
Repayment of bank borrowings	(161,088)	–
Repayment of promissory notes	(36,084)	–
Repayment of loans from directors	–	(10,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<b>(183,144)</b>	441,086
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(118,591)</b>	353,889
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<b>350,858</b>	(437)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>856</b>	(2,594)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<b>233,123</b>	350,858
Represented by		
Bank balances and cash	<b>233,123</b>	353,009
Bank overdrafts	–	(2,151)
	<b>233,123</b>	350,858

# Notes to the Financial Statements

For the Year Ended 31 March 2006

## 1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands. Its immediate holding company is Mediastar International Limited (“Mediastar”) (incorporated in British Virgin Islands). Its immediate holding company and ultimate holding company are Chow Tai Fook Enterprises Limited (“CTF”) (incorporated in Hong Kong) and Cheng Yu Tung Family (Holdings) Limited (incorporated in British Virgin Islands) respectively. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries and associate are set out in notes 42 and 19 respectively to the financial statements.

The shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 31 July 2000.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“INT(s)”) (hereinafter collectively referred to as “new HKFRS(s)”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005 other than HKFRS 3 “Business Combinations” that had been adopted during the year ended 31 March 2005 for business combinations for which the agreement date is on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current accounting years are prepared and presented:

### Business combinations

In the current year, the Group has applied HKFRS 3 “Business combinations” other than business combinations for which the agreement date is on or after 1 January 2005 which was adopted during the year ended 31 March 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

#### *Goodwill*

In previous years, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3.

With respect to goodwill previously capitalised on the consolidated balance sheet, the Group on 1 April 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$32,124,000 with a corresponding decrease in the cost of goodwill (see note 17). The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 “The effects of changes in foreign exchange rates” which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisition of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisition prior to 1 April 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

### Share-based payments

In the current year, the Group has applied HKFRS 2 “Share-based payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and its subsidiaries, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 April 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 April 2005. There were no unvested options on 1 April 2005. The adoption of HKFRS 2 has had no effect on the result of prior or current accounting years.

### Financial instruments

In the current year, the Group has applied HKAS 32 “Financial instruments: Disclosure and Presentation” and HKAS 39 “Financial instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

#### *Financial assets and financial liabilities other than debt and equity securities*

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of the Statement of Standard Accounting Practice 24) “Accounting for Investments in Securities” in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, interest-free 6-month promissory notes were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest free notes are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provision in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the promissory notes and the goodwill as at 1 April 2005 has been decreased by HK\$416,000 and HK\$921,000 respectively in order to state the promissory notes at amortised cost in accordance with HKAS 39. The Group’s accumulated losses as at 1 April 2005 has been increased by HK\$505,000. Loss for the year has been increased by HK\$416,000 due to recognition of imputed interest expense (see Note 3 for the financial impact).



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

### 3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 HK\$'000	2005 HK\$'000
Non-amortisation of goodwill	1,810	–
Imputed interest expense on the promissory notes	(416)	–
Decrease in loss for the year	1,394	–

The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31.3.2005 HK\$'000 (originally stated)	Effect of HKAS 1 HK\$'000	As at 31.3.2005 HK\$'000 (restated)	Effect of HKAS 39 HK\$'000	As at 1.4.2005 HK\$'000 (restated)
Goodwill	15,764	–	15,764	(921)	14,843
Promissory notes	(36,084)	–	(36,084)	416	(35,668)
Other assets/liabilities	502,126	–	502,126	–	502,126
	481,806	–	481,806	(505)	481,301
Share capital	235,831	–	235,831	–	235,831
Accumulated losses	(145,463)	–	(145,463)	(505)	(145,968)
Other reserves	314,061	–	314,061	–	314,061
Minority interests	–	77,377	77,377	–	77,377
Total equity	404,429	77,377	481,806	(505)	481,301
Minority interests	77,377	(77,377)	–	–	–
	481,806	–	481,806	(505)	481,301

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

### 3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised HKFRSs will not have any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 June 2006.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from equity attributable to equity holders of the Company therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **Goodwill**

#### *Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

#### *Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Goodwill** (Continued)

*Goodwill arising on acquisitions on or after 1 January 2005 (Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### **Investments in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

#### *Financial assets*

The Group's financial assets are mainly loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, amount due from an associate, bank deposits, bank balances and amount due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### Financial liabilities

Financial liabilities including trade payables, other payables and accrued charges, amounts due to related companies, loans from directors, loans from related companies, preference dividend payable, bank and other borrowings and promissory notes are subsequently measured at amortised cost, using the effective interest rate method.

#### Equity instruments

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

#### Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

### Equity-settled share-based payment transactions

#### Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium and share capital. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

### Revenue recognition

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

Engineering service income is recognised over the relevant contract period on a straight line basis.

Other service income is recognised when the services are rendered.

Fee licensing income is recognised when the film production is completed and the ownership of the production has been passed to the distributors. Also, the licensing contract is signed with a fixed or determinable fees and the collectibility of proceeds is reasonable assured.

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

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight line method to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

### Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

### Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Film costs

Film costs represents film rights and films and animation series produced by the Group or acquired by the Group.

Film rights are started at cost less accumulated amortisation and any identified impairment loss. 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 distribution of film rights.

### Leasing

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

#### *The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset 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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

### **Cash and cash equivalents**

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

### **Retirement benefits costs**

Payments to retirement benefits schemes are charged as an expense as they fall due.



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 4, the management has made various estimates based on past experiences, expectations of the future and other information. The key source of estimation uncertainty and the critical amounting judgement that may significantly affect on the amounts recognised in the financial statements are disclosed below:

### Allowance for obsolete inventories

The management of the Group reviews the inventories listing at each balance sheet date and identifies obsolete and slow-moving inventory items which are no longer suitable for use in production. Allowance was made by reference to the latest market value for those inventories identified. In addition, the Group carries out an inventory review on a product-by-product basis at balance sheet date and make the necessary write-down for obsolete items.

### Estimated impairment of goodwill

Determination whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, impairment loss may arise. As at 31 March 2006, the carrying amount of goodwill is nil. Details of the recoverable amount calculation are disclosed in note 18.

### Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

### Estimated impairment of film costs

Once that is indication of impairment of film costs, the management of the Group reviews the fair values of film costs on a film-by-film basis by referring to respective present value which was calculated based on the estimated future income. The income forecast calculation requires the Group to estimate the future income expected to arise. Where the actual income less than expected, impairment loss of film costs may arise.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, amounts due from related companies, pledged bank deposits, bank balances, trade payables, other payables, amounts due to related companies, loans from directors, loans from related companies, and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### **Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a term responsible credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### **Currency risk**

Certain trade receivables, trade payables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### **Interest rate risk**

The Group's cash flow interest rate risk mainly relates to variable-rate borrowings. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 7. TURNOVER

	2006 HK\$'000	2005 HK\$'000
The Group's turnover comprises:		
Sales of goods	8,112	5,517
Service income	8,727	10,417
Film licensing income	257,472	18,514
	<b>274,311</b>	34,448

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three operating divisions, namely network solutions, project services and entertainment business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Network solutions – Providing enabling services to operators and enterprises to set up broadband networks
- Project services – Project implementation services to manufacturers, carriers and enterprises
- Entertainment business – Production and licensing of theatrical motion pictures in a variety of genres

During the years ended 31 March 2005 and 2006, the Group had one more operating division, application solutions, which provided wireless applications to operators and enterprises based on wireless technologies. As the revenue, segment results and assets of application solutions division for both years are less than 10% of the Group's revenue, segment results and assets, no separate disclosure of segment information on application solutions has been presented.

Segment information about these businesses is presented below.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

#### Income statement for the year ended 31 March 2006

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	8,112	6,796	257,472	1,931	-	274,311
Inter-segment sales	105	-	-	-	(105)	-
Total	<b>8,217</b>	<b>6,796</b>	<b>257,472</b>	<b>1,931</b>	<b>(105)</b>	<b>274,311</b>

Inter-segment sales are charged at prevailing market prices.

#### RESULTS

Segment results	<b>(2,500)</b>	<b>1,641</b>	<b>(162,672)</b>	<b>983</b>	<b>-</b>	<b>(162,548)</b>
Other income						9,281
Unallocated expenses						(17,041)
Finance costs						(2,704)
Loss before taxation						(173,012)
Taxation						(22,049)
Loss for the year						<b>(195,061)</b>

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

#### Balance sheet at 31 March 2006

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>					
Segment assets	1,040	1,198	240,837	422	243,497
Unallocated corporate assets					299,070
Consolidated total assets					<b>542,567</b>
<b>LIABILITIES</b>					
Segment liabilities	1,515	2,407	95,132	1,005	100,059
Unallocated corporate liabilities					155,016
Consolidated total liabilities					<b>255,075</b>

#### Other information for the year ended 31 March 2006

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment and film costs	38	–	83,411	176	83,625
Depreciation and amortisation	168	–	235,838	2,218	238,224
Loss on write-off of property, plant and equipment	–	–	–	67	67
Impairment loss recognised in respect of film costs	–	–	100,748	–	100,748
Impairment loss recognised in respect of goodwill	4,807	–	10,036	–	14,843
Allowance for bad and doubtful debts	–	–	11,874	–	11,874

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

#### Income statement for the year ended 31 March 2005

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	5,517	8,648	18,514	1,769	34,448
Inter-segment sales	–	–	–	–	–
<b>Total</b>	<b>5,517</b>	<b>8,648</b>	<b>18,514</b>	<b>1,769</b>	<b>34,448</b>
Inter-segment sales are charged at prevailing market prices.					
<b>RESULTS</b>					
Segment results	1,998	2,299	(21,325)	957	(16,071)
Other income					898
Unallocated expenses					(13,588)
Finance costs					(1,117)
Loss before taxation					(29,878)
Taxation					–
<b>Loss for the year</b>					<b>(29,878)</b>

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

#### Balance sheet at 31 March 2005

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>					
Segment assets	3,927	3,020	608,714	243	615,904
Unallocated corporate assets					335,888
Consolidated total assets					<u>951,792</u>
<b>LIABILITIES</b>					
Segment liabilities	4,135	3,478	126,587	557	134,757
Unallocated corporate liabilities					335,229
Consolidated total liabilities					<u>469,986</u>

#### Other information for the year ended 31 March 2005

	Network solutions HK\$'000	Project services HK\$'000	Entertainment business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipments, film costs and goodwill	328	–	486,306	2,545	489,179
Depreciation and amortisation	57	15	30,831	2,317	33,220
Loss on write-off of property, plant and equipment	–	–	–	14	14
Allowance for bad and doubtful debts	–	–	4,247	–	4,247
Loss on write-off of inventories	–	–	–	22	22

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Geographical segments

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC") and the United States of America (the "USA").

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	14,669	15,045
Elsewhere in the PRC	2,170	977
USA	127,978	12,636
Europe	112,596	5,482
Asia other than Hong Kong and the PRC	16,898	308
	<b>274,311</b>	<b>34,448</b>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, film costs and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, film costs and goodwill	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	292,535	342,146	25,692	2,566
Elsewhere in the PRC	676	3,032	9	307
USA	249,356	584,071	57,924	486,306
	<b>542,567</b>	<b>929,249</b>	<b>83,625</b>	<b>489,179</b>



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 9. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of property, plant and equipment	-	1
Interest income on bank deposits	9,227	684
Sundry income	54	21
Rental income	-	192
Discount on acquisition	-	3,079
	<b>9,281</b>	<b>3,977</b>

## 10. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank overdrafts and bank loans	17,651	4,483
Interest on loans from related companies	510	567
Interest on loans from directors	111	289
Interest on other loans	111	241
Imputed interest expense on promissory notes	416	-
	<b>18,799</b>	5,580
Less: Amount capitalised in film costs	<b>(16,095)</b>	(4,463)
	<b>2,704</b>	1,117

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 11. LOSS BEFORE TAXATION

	2006 HK\$'000	2005 HK\$'000
Loss before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	11,874	4,247
Allowance for obsolete inventories (included in cost of sales)	–	27
Amortisation of film costs (included in cost of sales)	235,577	30,495
Amortisation of goodwill (included in other expenses)	–	968
Amortisation of intangible assets (included in general and administrative expenses)	–	175
Auditors' remuneration	1,800	1,516
Cost of inventories recognised as an expense (included in cost of sales)	11,034	9,991
Depreciation of property, plant and equipment	2,647	1,582
Impairment loss recognised in respect of film costs (included in cost of sales)	100,748	–
Loss on write-off of inventories	–	22
Loss on write-off of property, plant and equipment	67	14
Net foreign exchange loss	376	8
Rental expenses under operating leases on		
– premises	3,699	1,753
– equipment	394	267
Staff costs, including directors' emoluments		
– Salaries and allowances	25,875	10,204
– Retirement benefits schemes contributions (note 37)	495	15
	<b>26,370</b>	<b>10,219</b>

## 12. DIRECTORS' EMOLUMENTS

	2006 HK\$'000	2005 HK\$'000
Directors' fees	660	381
Other emoluments:		
Salaries and other benefits	501	496
Contributions to retirement benefits scheme	12	12
	<b>513</b>	<b>508</b>
	<b>1,173</b>	<b>889</b>

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 12. DIRECTORS' EMOLUMENTS (Continued)

The emoluments paid or payable to each of the eight (2005: nine) directors were as follows:

	Cheng Kar Shun HK\$'000	Lo Lin Shing, Simon HK\$'000	Choi Wing Kin HK\$'000	So Kam Wing HK\$'000	Wu Wing Kin HK\$'000	Cheung Hon Kit HK\$'000	Kwee Chong Kok, Michael HK\$'000	Wong Chi Keung HK\$'000	Total HK\$'000
<b>2006</b>									
Fees:									
Executive directors	100	100	-	-	-	-	-	-	200
Non-executive directors	-	-	-	-	120	110	110	120	460
Other emoluments:									
Salaries and other benefits	-	-	-	501	-	-	-	-	501
Contributions to retirement benefits scheme	-	-	-	12	-	-	-	-	12
Total emoluments	100	100	-	513	120	110	110	120	1,173

	Cheng Kar Shun HK\$'000	Lo Lin Shing, Simon HK\$'000	Choi Wing Kin HK\$'000	So Kam Wing HK\$'000	Wu Wing Kin HK\$'000	Cheung Hon Kit HK\$'000	Kwee Chong Kok, Michael HK\$'000	Wong Chi Keung HK\$'000	Ng Wai Hung HK\$'000 (Note)	Total HK\$'000
<b>2005</b>										
Fees:										
Executive directors	67	50	-	-	-	-	-	-	-	117
Non-executive directors	-	-	-	-	67	67	52	51	27	264
Other emoluments:										
Salaries and other benefits	-	-	-	496	-	-	-	-	-	496
Contributions to retirement benefits scheme	-	-	-	12	-	-	-	-	-	12
Total emoluments	67	50	-	508	67	67	52	51	27	889

Note: Mr. Ng Wai Hung resigned as an independent non-executive director of the Company with effect from 8 November 2004.

During the year, no emolument was paid by the Group to the directors as discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director had waived or agreed to waive any remuneration.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, there was no director of the Company (2005: one) whose emolument is included in the disclosures in note 12 above. The emoluments of the five (2005: four) individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	8,405	1,725
Contributions to retirement benefits scheme	118	39
	<b>8,523</b>	1,764

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to HK\$1,000,000	–	4
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	1	–
	<b>5</b>	4

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 14. TAXATION

	2006 HK\$'000	2005 HK\$'000
Deferred taxation (note 34)	<b>22,049</b>	–

No provision for Hong Kong Profits Tax or taxation arising in other jurisdictions has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both years.

The income tax rate of the Group's subsidiaries operating in Hong Kong is 17.5%.

The income tax rate of the Group's subsidiaries operating in the PRC is 33%.

The income tax rate of the Group's subsidiaries operating in the USA is 36.8%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	USA		Hong Kong and the PRC		Total	
	2006 HK'000	2005 HK'000	2006 HK'000	2005 HK'000	2006 HK'000	2005 HK'000
Loss before taxation	<b>(150,197)</b>	(21,604)	<b>(22,815)</b>	(8,274)	<b>(173,012)</b>	(29,878)
Tax at the income tax rates of 36.8% for USA and 17.5% for Hong Kong and the PRC	<b>(55,272)</b>	(7,950)	<b>(3,993)</b>	(1,448)	<b>(59,265)</b>	(9,398)
Tax effect of expenses not deductible for tax purpose	<b>2,370</b>	1,621	<b>2,631</b>	509	<b>5,001</b>	2,130
Tax effect of income not taxable for tax purpose	–	–	<b>(1,545)</b>	(644)	<b>(1,545)</b>	(644)
Tax effect of tax losses not recognised and deductible temporary difference	<b>52,902</b>	6,329	<b>2,904</b>	1,583	<b>55,806</b>	7,912
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	–	<b>(6)</b>	–	<b>(6)</b>	–
Reversal of deferred tax assets due to change in estimate	<b>22,049</b>	–	–	–	<b>22,049</b>	–
Others	–	–	<b>9</b>	–	<b>9</b>	–
Tax charge for the year	<b>22,049</b>	–	–	–	<b>22,049</b>	–

Details of the deferred taxation are set out in note 34 to the financial statements.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 15. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company for the year ended 31 March 2006 together with the comparative figures for 2005 are based on the following data:

	2006 HK\$'000	2005 HK\$'000
<u>Loss</u>		
Loss for the purpose of basic and diluted loss per share	<b>(117,063)</b>	(19,295)
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>235,831,447</b>	192,793,091
	2006 HK\$	2005 HK\$
<u>Loss per share</u>		
Basic and diluted loss per share	<b>(0.50)</b>	(0.10)

The computation of diluted loss per share does not assume the exercise of the subsidiary's outstanding share options since their exercise would result in a decrease in loss per share.

The following table summaries the impact on basic loss per share as a result of adjustments arising from changes in accounting policies:

	2006 HK\$	2005 HK\$
Impact on basic and diluted loss per share		
Reported figures before adjustments	<b>(0.51)</b>	(0.10)
Adjustments arising from changes in accounting policies (see note 3)	<b>0.01</b>	-
	<b>(0.50)</b>	(0.10)

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer hardware HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 April 2004	172	113	6,048	6,333
Acquired on acquisition of subsidiaries	36	391	–	427
Exchange adjustments	1	4	–	5
Additions	1,865	391	689	2,945
Disposals	–	–	(5)	(5)
Write-off	–	(7)	(26)	(33)
<b>At 31 March 2005</b>	<b>2,074</b>	<b>892</b>	<b>6,706</b>	<b>9,672</b>
Exchange adjustments	1	7	–	8
Additions	383	27	190	600
Write-off	–	–	(102)	(102)
<b>At 31 March 2006</b>	<b>2,458</b>	<b>926</b>	<b>6,794</b>	<b>10,178</b>
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 April 2004	167	68	3,818	4,053
Provided for the year	531	134	917	1,582
Eliminated on disposals	–	–	(5)	(5)
Eliminated on write-off	–	(4)	(15)	(19)
<b>At 31 March 2005</b>	<b>698</b>	<b>198</b>	<b>4,715</b>	<b>5,611</b>
Exchange adjustments	1	2	–	3
Provided for the year	1,296	313	1,038	2,647
Eliminated on write-off	–	–	(35)	(35)
<b>At 31 March 2006</b>	<b>1,995</b>	<b>513</b>	<b>5,718</b>	<b>8,226</b>
<b>NET BOOK VALUES</b>				
<b>At 31 March 2006</b>	<b>463</b>	<b>413</b>	<b>1,076</b>	<b>1,952</b>
At 31 March 2005	1,376	694	1,991	4,061

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	Over the rental lease term or 30%, whichever is the shorter period
Furniture, fixtures and equipment	15% – 33 <sup>1</sup> / <sub>3</sub> %
Computer hardware	15% – 33 <sup>1</sup> / <sub>3</sub> %

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 17. GOODWILL

	HK\$'000
<hr/>	
COST	
At 1 April 2004	36,650
Arising on acquisition of subsidiaries	11,238
	<hr/>
At 31 March 2005	47,888
Elimination of accumulated amortisation upon the application of HKFRS 3	(32,124)
Effect of changes in accounting policies (see note 3)	(921)
	<hr/>
At 1 April 2005, as restated and at 31 March 2006	14,843
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	31,156
Charge for the year	968
	<hr/>
At 31 March 2005	32,124
Elimination of accumulated amortisation upon the application of HKFRS 3	(32,124)
	<hr/>
At 1 April 2005, as stated	–
Impairment loss recognised	14,843
	<hr/>
<b>At 31 March 2006</b>	<b>14,843</b>
	<hr/>
CARRYING AMOUNT	
<b>At 31 March 2006</b>	<b>–</b>
	<hr/>
At 31 March 2005	15,764
	<hr/>

Particulars regarding impairment testing on goodwill are disclosed in note 18.

Until 31 March 2005, goodwill had been amortised on a straight line basis over its estimated useful life of 10 years.



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 17 has been allocated to two individual cash generating units ("CGU(s)"), including subsidiaries in Network Solutions segment and subsidiaries in entertainment business segment. The carrying amounts of goodwill as at 31 March 2006 allocated to these units are as follows:

	<b>Goodwill</b> HK\$'000
Network solutions segment	—
Entertainment business segment	—
	<hr/>
	—
	<hr/>

The basis of recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Due to continues losses incurred by the subsidiaries principally engaging in network solutions and entertainment business and having taken into account of the uncertain futures prospect and revenue to be generated from these subsidiaries, during the year ended 31 March 2006, the directors reassessed the recoverable amount of goodwill and recognised an impairment losses in relation to goodwill arising on acquisition of Cyber-On-Air Group limited and its subsidiaries as well as M8 Entertainment Inc. ("M8") and its subsidiaries amounting to HK\$4,807,000 and HK\$10,036,000 respectively.

### **Network solutions segment**

The recoverable amounts of this unit have been determined based on value in use calculation. That calculation use cash flow projections based on financial budgets approved by management covering 5 years, and discount rates of 8%. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. There was negative cash flow result from the cash flow projection. The management considers full impairment is required to write off the goodwill arising from the acquisition of network solutions segment.

### **Entertainment business segment**

The recoverable amount of the CGU in M8 and its subsidiaries has been determined based on value in use calculation. That calculation use cash flow projections based on financial budgets approved by the management covering the coming 2 years and discount rate of 12%. Another key assumption for the value in use valuations is the budgeted movie produced, which is determined based on the number of movie produced in previous year and management's expectations for the market development.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 19. INTEREST IN AN ASSOCIATE

	2006 HK\$'000	2005 HK\$'000
Cost of investment in an associate, unlisted	–	–
Share of post-acquisition losses	<b>(1,271)</b>	(1,271)
	<b>(1,271)</b>	(1,271)
Amount due from an associate	<b>3,500</b>	3,500
	<b>2,229</b>	2,229
Impairment loss recognised	<b>(2,229)</b>	(2,229)
	<b>–</b>	–

The amount due from an associate is unsecured, non-interest bearing and has no fixed repayment terms.

In the opinion of the directors, the carrying amount of the amount due from an associate approximates to its fair value.

Details of the associate at 31 March 2006 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of equity capital attributable to the Group	Issued share capital	Principal activity
Target Wise Holdings Limited	Hong Kong	50%	HK\$100	Inactive

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest.

## 20. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	<b>49</b>	44
Work in progress	<b>470</b>	1,743
Finished goods	<b>136</b>	86
	<b>655</b>	1,873

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 21. FILM COSTS

	HK\$'000
<hr/>	
COST	
At 1 April 2004	–
Acquired on acquisition of subsidiaries	458,423
Exchange adjustments	(2,763)
Additions during the year	16,146
	<hr/>
At 31 March 2005	471,806
Exchange adjustments	17,944
Addition during the year	83,025
	<hr/>
<b>At 31 March 2006</b>	<b>572,775</b>
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	–
Provided for the year	30,495
	<hr/>
At 31 March 2005	30,495
Exchange adjustments	7,748
Provided for the year	235,577
Impairment loss recognised	100,748
	<hr/>
<b>At 31 March 2006</b>	<b>374,568</b>
	<hr/>
CARRYING AMOUNTS	
<b>At 31 March 2006</b>	<b>198,207</b>
	<hr/>
At 31 March 2005	441,311
	<hr/>

Amortisation of film costs is determined on a film-by-film basis in accordance with the income forecast method.

The directors reassessed the recoverability of the film costs as at 31 March 2006 by reference to the future prospect and expected revenue to be generated from the films and determined that an impairment of approximately HK\$100,748,000 be recognised in the income statement.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 22. TRADE RECEIVABLES

The credit terms of the Group range from 0 to 90 days. A longer period is granted to few film distributors with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables is as follows:

	2006 HK\$'000	2005 HK\$'000
Aged:		
0 – 30 days	1,112	34,335
31 – 60 days	172	1,292
61 – 90 days	6,624	18,560
Over 90 days	17,093	29,134
	<b>25,001</b>	83,321

In the opinion of the directors, the carrying amount of the trade receivables approximates to their fair value.

## 23. OTHER CURRENT FINANCIAL ASSETS

Bank deposits are short term highly liquid investments carrying interest at market rate 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.

The bank balances (included in bank balances and cash) and pledged bank deposits carry fixed interest rate from 0.25% to 4.17% (2005: 0.01% to 2.15%) and 2.15% to 4.38% (2005: 0.25% to 2.15%) respectively.

In the opinion of the directors, the carrying amount of bank balances, bank deposits and other receivables and deposits approximates to their fair values.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 24. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are disclosed as follows:

Name of related company	Relationship	2006 HK\$'000	2005 HK\$'000
New World CyberBase (Greater China) Limited ("NWC")	Common director, Mr. Lo Lin Shing, Simon ("Mr. Lo")	–	26
New World CyberBase (Shanghai) Limited	Common director, Mr. Lo	28	28
上海創時信息系統有限公司	Subsidiary of NWC	405	530
廣州易圖通信息技術有限公司	Subsidiary of NWC	14	–
Cyber On-Air (BVI) Ltd.	Common director, Mr. Choi Wing Kin ("Mr. Choi")	11	–
		<b>458</b>	<b>584</b>

The amounts are unsecured, non-interest bearing and repayable on demand.

In the opinion of the directors, the carrying amount of the amounts due from related companies approximates to their fair value.

## 25. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2006 HK\$'000	2005 HK\$'000
Aged:		
0 – 30 days	2,871	9,071
31 – 60 days	253	6,950
61 – 90 days	65	11,585
Over 90 days	56,182	25,044
	<b>59,371</b>	<b>52,650</b>

In the opinion of the directors, the carrying amount of the trade payables approximates to their fair value.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 26. OTHER PAYABLES AND PREFERENCE DIVIDEND PAYABLE

In the opinion of the directors, the carrying amounts of other payables and preference dividend payable approximates to their fair values.

## 27. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, non-interest bearing and repayable on demand.

In the opinion of the directors, the carrying amount of the amounts due to related companies approximates to their fair value.

## 28. LOANS FROM DIRECTORS

	2006 HK\$'000	2005 HK\$'000
Mr. Choi	2,849	2,849
Mr. So Kam Wing ("Mr. So")	195	195
	<b>3,044</b>	<b>3,044</b>

The amounts are unsecured and repayable on demand. Included in the total amount of HK\$3,044,000 is approximately HK\$1,776,000 (2005: HK\$1,776,000) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") + 2% per annum. The remaining balance is non-interest bearing.

In the opinion of the directors, the carrying amount of loans from directors approximates to their fair value.

## 29. LOANS FROM RELATED COMPANIES

Related companies are companies in which a director of the Company has a beneficial interest.

The Group obtained loan advances of HK\$11,800,000 (2005: HK\$11,800,000) from Cyber Network Technology Limited ("Cyber Network"). Included in this amount is HK\$1,200,000 (2005: HK\$1,200,000), which bears interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited, is subject to a corporate guarantee issued by the Company and repayable on 30 June 2006. Besides, approximately HK\$800,000 (2005: HK\$800,000), which bears interest at HIBOR + 2% per annum, is unsecured and repayable on demand. The remaining balance of HK\$9,800,000 (2005: HK\$9,800,000) which bears interest at HIBOR + 2% per annum, is subject to a corporate guarantee issued by the Company and repayable on 30 June 2006.

The Group also obtained loan advances from Wellington Equities Inc. ("Wellington") amounting to approximately HK\$782,000 (2005: HK\$782,000). Included in this amount is HK\$456,000 (2005: HK\$456,000), which bears interest at HIBOR + 2% per annum, is unsecured and repayable on demand. The remaining balance of HK\$326,000 (2005: HK\$326,000) is interest free and repayable on demand.

In the opinion of the directors, the carrying amount of loans from related companies approximates to their fair value.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 30. OTHER BORROWINGS

The amounts are unsecured and repayable on demand. Included in this amount is approximately HK\$1,968,000 (2005: HK\$1,968,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing and is repayable on demand.

The Group's borrowings are denominated in Hong Kong dollars which is the same as the functional currencies of the Group.

In the opinion of the directors, the carrying amount of the other borrowings approximates to their fair value.

## 31. BANK BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Bank loans	127,133	247,359
Bank overdrafts	-	2,151
Total, repayable on demand or within one year	<b>127,133</b>	249,510
Secured	127,133	247,359
Unsecured	-	2,151
	<b>127,133</b>	249,510

The bank borrowings of the Group are variable-rate borrowings that carry interests in excess of the announced base rate of interest of Bank of America ranging from 0.75% to 1.25% during the year ended 31 March 2006 (2005: 0.75% to 1.50%). All of the Group's borrowings are denominated in United States dollars.

The effective interest rates on the Group's bank borrowings are also equal to contracted interest rates.

As at balance sheet date, the Group undrawn borrowing facility amounting to HK\$7,806,000 (2005: HK\$1,170,000) with floating rate expiring within one year.

During the year, in respect of bank loans with a carrying amount of HK\$127,133,000 as at 31 March 2006, the Group breached certain of the terms of the loan agreements, which were primarily related to the debt-equity ratio of M8 and its subsidiaries. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 March 2006, negotiation had not been concluded. Up to the date of the report of the financial statements, the negotiations are still in progress. The directors of the Company are confident that their negotiations with the lender will ultimately reach a successful conclusion. In any event, should the lender calls for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

In the opinion of the directors, the carrying amount of bank borrowings approximates to their fair value.

# Notes to the Financial Statements

*For the Year Ended 31 March 2006 (Continued)*

## **32. PROMISSORY NOTES**

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company entered into a conditional agreement (the "Acquisition Agreement") with Music Box Entertainment Limited ("Music Box") and Mr. Lee Sammy Sean, pursuant to which Mediamaster Limited agreed to acquire approximately 50.4% of the total voting rights in M8, a company incorporated in Canada with limited liability, for a consideration of US\$11,626,203 (the "Acquisition"). US\$7,000,000 of the consideration was satisfied by cash, an amount of approximately US\$2,794,279 was satisfied by the issue of non-interest bearing promissory note in favour of Music Box (the "Note") and for the remaining amount, at the request and direction of Music Box, Mediamaster issued a non-interest bearing promissory note of approximately US\$1,831,924 in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust (the "Damon Note"). The Acquisition was completed on 22 December 2004 ("Completion").

The Note matured 6 months after Completion and had been secured by a pledge over 130,891,920 of Class C shares of M8 owned by Mediamaster Limited in favour of Music Box upon Completion. The Damon Note would matured 6 months after Completion and had been secured by a pledge over 79,414,501 Class B shares owned by Mediamaster Limited in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust upon Completion. On Completion, the Company also executed a guarantee to guarantee the payment obligations of Mediamaster Limited under the Damon Note.

The Damon Note and the Note were duly repaid on 21 June 2005.



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 33. SHARE CAPITAL

	Par value of shares HK\$	Number of shares	Value HK\$'000
Authorised:			
Ordinary shares			
At 1 April 2004	0.01 each	2,000,000,000	20,000
Share consolidation (note a(i))		(1,980,000,000)	–
	1.00 each	20,000,000	20,000
Increase (note a(iii))	1.00 each	480,000,000	480,000
At 31 March 2005 and at 31 March 2006	1.00 each	<u>500,000,000</u>	<u>500,000</u>
Preference shares			
At 1 April 2004	0.05 each	2,000	100
Cancelled (note a(ii))		(2,000)	(100)
At 31 March 2005 and at 31 March 2006		<u>–</u>	<u>–</u>
Issued and fully paid:			
Ordinary shares			
At 1 April 2004	0.01 each	83,144,786	831
Share consolidation (note a(i))		(82,313,339)	–
	1.00 each	831,447	831
Issue of subscription shares (note b)	1.00 each	120,000,000	120,000
Issue of new shares for settlement of loan notes (note c)	1.00 each	4,000,000	4,000
Placing of new shares (note d)	1.00 each	80,000,000	80,000
Placing of new shares (note e)	1.00 each	31,000,000	31,000
At 31 March 2005 and at 31 March 2006	1.00 each	<u>235,831,447</u>	<u>235,831</u>

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 33. SHARE CAPITAL (Continued)

Notes:

- (a) Pursuant to resolutions passed at an extraordinary general meeting held on 22 April 2004 (the "EGM"):
- (i) every 100 issued shares of HK\$0.01 each in the capital of the Company were consolidated into one new share of HK\$1.00 each (the "Share Consolidation");
  - (ii) the 2,000 unissued non-voting preference shares of HK\$0.05 each in the authorised share capital of the Company were cancelled (the "Cancellation"); and
  - (iii) after the Share Consolidation and Cancellation became effective, the authorised share capital of the Company was increased from HK\$20,000,000 to HK\$500,000,000 by the creation of 480,000,000 unissued new shares of HK\$1.00 each.
- (b) On 8 March 2004, the Company, CTF and Mediastar, jointly announced that the Company and Mediastar had entered into a conditional subscription agreement ("Subscription Agreement") relating to the subscription by Mediastar of 120,000,000 shares of HK\$1.00 each in the Company for a cash consideration of HK\$120 million ("Subscription") on terms and conditions as set out in the Subscription Agreement. The Subscription was completed on 30 April 2004.
- (c) On 8 March 2004, the Company entered into conditional settlement agreements with Mr. Wong Kwok Kin, Mr. Choi, Mr. So, Cyber Network and Wellington (collectively the "Loan Notes Holders"), pursuant to which the Loan Notes Holders had conditionally agreed to the full and final settlement of all amounts outstanding under the loan notes of approximately HK\$42,600,000 and unpaid accrued interest of approximately HK\$1,969,000, and the discharge and release of the share charges in respect of all the shares in Cyber On-Air Group Limited granted by the Company in favour of the Loan Notes Holders. The Company issued an aggregate of 4,000,000 shares of HK\$1.00 each in the Company to the Loan Notes Holders. The Settlement Agreements were completed on 30 April 2004.
- (d) On 8 March 2004, the Company and Tai Fook Securities Company Limited, a fellow subsidiary of the Company, entered into a conditional placing agreement ("Placing Agreement") relating to a subscription by Mediastar of 80,000,000 shares of HK\$1.00 each in the Company for a cash consideration of HK\$80 million ("Placing") on terms and conditions as set out in the Placing Agreement. The Placing was completed on 5 May 2004. The net proceeds from the subscription will be used as general working capital for the Company and investing in suitable investment project(s).
- (e) On 18 January 2005, Mediastar entered into a placing and subscription agreement with the Company and a placing agent, pursuant to which the placing agent placed 31,000,000 shares of HK\$1.00 each in the Company from Mediastar to independent investors at a price of HK\$8.50 per share. On completion of the placing, Mediastar subscribed for 31,000,000 new shares of HK\$1.00 each at a price of HK\$8.50 per share. The placing and subscription were completed on 31 January 2005. The net proceeds from the subscription will be for the general working capital of the Company.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 34. DEFERRED TAXATION

The following are the major deferred tax (liabilities) and assets recognised and the movements thereon during the current and the prior reporting years:

	<b>Accelerated accounting depreciation and amortisation</b> HK\$'000	<b>Estimated tax losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 2004	(291)	291	–
Acquired on acquisition of subsidiary	10,788	11,734	22,522
Exchange adjustments	9	12	21
Credit (charge) to income statement	156	(156)	–
At 31 March 2005	10,662	11,881	22,543
Exchange adjustments	(234)	(260)	(494)
Charge to income statement	(10,428)	(11,621)	(22,049)
At 31 March 2006	–	–	–

At the balance sheet date, the Group had estimated unused tax losses of approximately HK\$584,282,000 (2005: HK\$400,230,000) and deductible temporary differences of HK\$1,218,000 (2005: nil) available for offset against future profits. As at 31 March 2006, deferred tax assets has been recognised in respect of nil (2005: HK\$34,075,000) of such losses due to the unpredictability of future profit streams. Tax losses amounting to HK\$282,938,000 (2005: HK\$262,180,000) may be carried forward indefinitely. The remaining HK\$31,636,000 and HK\$269,708,000 will expire before 2015 and 2026 respectively (2005: HK\$138,050,000 will expire before 2014).

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 35. ACQUISITION OF SUBSIDIARIES

- (i) On 22 December 2004, the Group acquired a 50.4% of the issued share capital of M8 at a consideration of approximately HK\$93,177,000 including incidental costs. The acquisition has been accounted for using the acquisition method of accounting under Statements of Standard Accounting Practice 30 "Business Combinations". The amount of goodwill arising as a result of the acquisition was approximately HK\$11,238,000.

	2005 HK\$'000
Net assets acquired	
Property, plant and equipment	427
Deferred tax assets	22,522
Film costs	448,023
Trade receivables	83,959
Other receivables, deposits and prepayments	4,343
Pledged bank deposits	6,801
Bank balances and cash	27,576
Trade payables	(43,127)
Other payables and accrued charges	(94,650)
Advance from the Company for a film project	(39,000)
Bank overdrafts	(1,575)
Bank and other borrowings	(245,456)
	<hr/>
Net assets	169,843
Minority interests	(87,904)
Goodwill	11,238
	<hr/>
Total consideration	93,177
	<hr/>
Satisfied by:	
Cash	57,093
Promissory notes (note 32)	36,084
	<hr/>
	93,177
	<hr/>

With the adoption of HKAS 39 during the year ended 31 March 2005, imputed interest expense on promissory note was approximately HK\$921,000. As a result, the amount of goodwill arising from this acquisition was adjusted to approximately HK\$10,317,000. Details please refer to notes 2, 3 and 17.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 35. ACQUISITION OF SUBSIDIARIES (Continued)

- (ii) On 28 February 2005, the Group acquired a 75% of the issued share capital of Gugo Entertainment Company Limited ("Gugo") at a consideration of approximately HK\$4,703,000. The acquisition has been accounted for using the acquisition method of accounting under HKFRS 3 as disclosed in note 2. The discount on acquisition of approximately HK\$3,079,000 arising from the acquisition is recognised in the income statement.

	<b>Acquiree's carrying amount before acquisition</b>	<b>Fair value adjustments</b>	<b>Fair value</b>
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired			
Film costs	17,836	(7,436)	10,400
Other payables and accrual charges	(24)	–	(24)
	17,812	(7,436)	10,376
Minority interests	–	–	(2,594)
Discount on acquisition			(3,079)
Total consideration			4,703
Satisfied by:			
Cash			4,703

If the acquisitions of Gugo had been completed on 1 April 2004, total Group revenue for the year ended 31 March 2005 would not be affected but the loss of the Group for the year ended 31 March 2005 would have been approximately HK\$20,040,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 April 2004, nor is intended to be a projection of future results.

HK\$'000

Net cash outflow arising on acquisitions during the year:

Cash consideration	(61,796)
Bank balances and cash acquired	27,576
Bank overdrafts	(1,575)
	(35,795)

The subsidiaries acquired during the year ended 31 March 2005 contributed approximately HK\$18,514,000 to the Group's turnover and approximately loss of HK\$21,583,000 to the Group's loss from operations.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 36. SHARE OPTION SCHEMES

### THE COMPANY

#### (a) Pre-IPO share option scheme

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000 to recognise the contribution of certain directors, employees, and consultants of the Group to the growth of the Group and/or the listing of the Company's shares on the GEM of the Stock Exchange, and will expire on 16 July 2010. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

At 31 March 2006, there was no share options (2005: nil) outstanding under the Pre-IPO Scheme. The number of shares in respect of which options may be granted to any one person is not permitted to exceed 25% of the aggregate number of shares issued and issuable under the Pre-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK\$10 as consideration for the grant. The exercise price is HK\$0.05 representing a discount of 92.6% of the IPO offer price. The options may be exercised at any time during the period from 1 February 2001 to 30 July 2003 in accordance with the following schedule:

<b>Period</b>	<b>Percentage of options granted to an individual that can be exercised</b>
Date of grant to six-month period after the listing of the Company's shares on GEM	Zero
Six- to twelve-month period after the listing of the Company's shares on GEM	Up to one-third
Six- to eighteen-month period after the listing of the Company's shares on GEM	Up to two-third
Thereafter	All options which have not been previously exercised

#### (b) Post-IPO share option scheme

A post-IPO share option scheme ("Post-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000 to recognise the contribution of eligible employees to the growth of the Group and will expire on 16 July 2010. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

There was no share options granted under the Post-IPO Scheme.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 36. SHARE OPTION SCHEMES (Continued)

### THE COMPANY (Continued)

#### (b) Post-IPO share option scheme (Continued)

The total number of shares in respect of which options may be granted under the Post-IPO Scheme and any other schemes including the Pre-IPO Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Post-IPO Scheme and other schemes must not in aggregate, exceed 10% of the issued share capital of the Company from time to time unless further shareholders' approval has been obtained. Options granted to connected person must be approved by the independent non-executive directors. Options granted to connected person, who is also a substantial shareholder, in excess of 0.1% of the issued shares of the Company or with a value in excess of HK\$5 million must be approved by the Company's shareholders in general meetings. No option may be granted to any one person exceeding 25% of the aggregate number of shares issued and issuable under the Post-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK\$10 as consideration for the grant. Option period, to be determined and notified by the board of directors to each grantee during which an option may be exercised, is any period from three years to ten years from the date of grant or the tenth anniversary of the adoption date of the Post-IPO Scheme, 16 July 2010, whichever is earlier.

The exercise price is determined by the board of directors, and will not be less than the average of the closing prices of the Company's shares for the five trading days immediately preceding the date of grant or the closing price of the shares on the date of grant, whichever is the higher, provided that the exercise price should not be lower than the par or nominal value of the shares.

The Post-IPO Scheme was terminated and replaced by a new share option scheme (the "New Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004. As the Post-IPO Scheme was terminated, no further scheme option can be granted under Post-IPO Scheme thereafter. No options have been exercised, cancelled or granted during the year before termination.

#### (c) New Scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company (the "Shares") for the benefit of the Company and the shareholders of the Company (the "Shareholders") as a whole.

The categories of the participant under the New Scheme are any full-time employee, any director (whether executive or non-executive including independent non-executive director), any supplier, independent contractor, consultant, and/or adviser of the Company or any subsidiary of the Company.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 36. SHARE OPTION SCHEMES (Continued)

### THE COMPANY (Continued)

#### (c) New Scheme (Continued)

The maximum number of Shares in respect of which options may be granted to grantees under the New Scheme and other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time (the "Scheme Limit"). The maximum number of Shares in respect of which options may be granted under the New Scheme shall not (when aggregated with any Shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on the adoption date of the New Scheme (the "Scheme Mandate Limit"), which is 20,483,144 Shares, representing approximately 8.69% of the issued share capital as at the date of this annual report. Option lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may grant options beyond the Scheme Mandate if approval is obtained from Company's shareholders in general meetings.

The maximum number of Shares in respect of which options may be granted to a participant under the New Scheme shall not (when aggregated with any Shares subject to any other share option scheme(s) of the Company) in any 12 month period exceed 1% of the Shares in issue (the "Individual Limit"). The Company may grant options beyond the Individual Limit to a participant at any time if approval is obtained from Company's shareholders in general meetings.

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates shall be subject to the prior approval of the independent non-executive directors of the Company (excluding an independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares on the date of grant, in excess of HK\$5 million (or such other amount as may from time to time be specified by the Stock Exchange), such grant of options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll) on which all connected persons of the Company shall abstain from voting in favour but (for the avoidance of doubt), any connected person may without affecting the validity of the relevant resolution vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

The period within which the shares must be taken up under the option, which is to be notified by the committee of the board of directors (the "Committee") to each grantee at the time of making an offer of a grant of an option which shall not expire later than 10 years from the date of grant of an option.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$10 as consideration for the grant.



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 36. SHARE OPTION SCHEMES (Continued)

### THE COMPANY (Continued)

#### (c) New Scheme (Continued)

The exercise price is determined by the board of directors in its absolute discretion and will not be less than the average closing price of the Shares for the five trading days immediately preceding the offer date or the closing price of the Shares on the offer date, whichever is the higher, provided that the exercise price should not be lower than the nominal value of a Share.

The New Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 20 August 2004.

There were no share options granted under the New Scheme.

### A SUBSIDIARY OF THE COMPANY

#### (d) Share option scheme of M8

During 1994, the board of directors of M8 formally established the Amended and Restated 1994 Stock Option Plan ("the Plan"), which provides for the granting of stock options to acquire Class B shares of M8 to employees, officers, directors and independent service providers to M8 or any of its subsidiaries.

The total number of shares available for issue under the Plan is 23,582,762 shares, representing approximately 5.62% of the issued share capital of M8 as at the date of this annual report.

The number of shares which may be reserved for issuance to any one person shall not exceed 5% of the issued shares.

The exercise period of option granted under the Plan may not exceed 10 years from the date of grant. However, the Plan allows for accelerated expiry dates under certain conditions.

Save as determined by the board of directors and provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period nor a performance target which must be achieved before it can be exercised.

The Plan is required the payment on acceptance of option.

The exercise price of an option granted under the Plan is set at the time of grant, but cannot in any event be less than the closing price of the Class B shares of M8 on the Toronto Stock Exchange on the last business day prior to the trading day the option is granted.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 36. SHARE OPTION SCHEMES (Continued)

### A SUBSIDIARY OF THE COMPANY (Continued)

#### (d) Share option scheme of M8 (Continued)

The Plan shall continue as long as the board of directors of M8 does not terminate it. Details of the share options outstanding as at 31 March 2006 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share CAD	At 22 December 2004 (date of acquisition of M8) and 31 March 2005	Options cancelled during the year (Note)	At 31 March 2006
Employee	25 May 2000	26 May 2000 – 25 May 2010	0.120	100,000	–	100,000
Employee	29 August 2000	30 August 2002 – 29 August 2010	0.100	137,500	–	137,500
Employee	29 August 2000	30 August 2003 – 29 August 2010	0.100	306,250	–	306,250
Employee	29 August 2000	30 August 2004 – 29 August 2010	0.100	306,250	–	306,250
Employee	24 May 2001	25 May 2001 – 24 May 2011	0.035	200,000	(100,000)	100,000
Employee	15 February 2002	16 February 2003 – 15 February 2012	0.075	1,230,000	(400,000)	830,000
Employee	13 May 2002	14 May 2002 – 13 May 2012	0.170	100,000	(100,000)	–
Employee	13 May 2002	14 May 2003 – 13 May 2012	0.170	850,000	(100,000)	750,000
Employee	13 May 2002	14 May 2004 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2005 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2006 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	28 August 2002	29 August 2004 – 28 August 2012	0.160	1,200,000	–	1,200,000
Employee	01 May 2003	02 May 2003 – 01 May 2013	0.075	6,970,000	(1,000,000)	5,970,000
Total				14,850,000	(1,700,000)	13,150,000

Note: The options were cancelled due to cessation of employment of participants with the subsidiary.

No option was exercised or granted during the year ended 31 March 2005 and 2006.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 37. RETIREMENT BENEFITS SCHEMES

The Group participates in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by HSBC Life (International) Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Scheme Ordinance) on a monthly basis.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 31% to 32% (2005: 37% to 44%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to the retired staff.

The relevant USA subsidiaries participates in a 401K retirement plan, a defined contribution scheme. The administrator of the plan is Nationwide Life Insurance. During the year ended 31 March 2006, the relevant subsidiaries make contributions to the plan in a range of 1.5% to 4.0% of the basic salary of the employees under the plan on bi-weekly basis.

	2006				2005			
	Hong Kong HK\$'000	PRC HK\$'000	USA HK\$'000	Total HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	USA HK\$'000	Total HK\$'000
Gross employers' contributions	244	68	183	495	118	95	-	213
Less: Forfeited contribution utilised to offset employers' contribution for the year	-	-	-	-	(198)	-	-	(198)
Net employers' contribution charged to the income statement	244	68	183	495	(80)	95	-	15

## 38. PLEDGE OF ASSETS

As at 31 March 2006, the Group obtained general banking facilities from various banks upon the following securities:

- Pledged bank deposits owned by the Group of approximately HK\$59,861,000 (2005: HK\$9,014,000).
- Mortgages of copyright and assignments of licensing agreements with the film costs of approximately HK\$76,319,000 (2005: HK\$160,751,000) as at 31 March 2006.
- Floating charges on assets of M8 and its subsidiaries, including trade receivables, other receivables, deposits and prepayments of approximately HK\$32,183,000 (2005: HK\$78,549,000) as at 31 March 2006.

As at 31 March 2005, 79,414,501 Class B shares of M8, and 130,891,920 Class C shares of M8 owned by the Group are pledged to the holders of the non-interest bearing promissory notes as disclosed in note 32. The pledges were released on 21 June 2005.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 39. CONTINGENT LIABILITIES

	2006 HK\$'000	2005 HK\$'000
Guarantee given to Damon Note as disclosed in note 32	–	14,289

During the year, a worker filed a statement of claim against Cyber On-Air (Asia) Limited (“COAA”) and New Concept Electronic Engineering Company (“EEC”), the sub-contractor appointed by COAA, alleging that as COAA and EEC failed to provide and maintain a safe place of work. He suffered from sustained injuries. He has claimed for damages of approximately HK\$2,070,000 with interest and costs thereof. The directors are of the view that it is not practicable at this stage to determine with uncertainty the amount of damages to be awarded to the plaintiff. Accordingly, no provision was made in the financial statements.

## 40. OPERATING LEASE COMMITMENTS

At 31 March 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	3,013	5,043
In the second to fifth year inclusive	2,307	9,016
	<b>5,320</b>	14,059

Operating lease payments represent rentals payable by the Group for certain of its office premises and lease of other assets. Leases are negotiated for an average term of five years and rentals are fixed for the lease period.

## 41. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in notes 24, 27, 28, 29 and 32, the Group entered into the following transactions with related parties during the year:

	2006 HK\$'000	2005 HK\$'000
Rentals and office administrative expenses (note a)	644	625
Rental expenses (note b)	1,003	494
Finance costs to related companies (note c)	510	567
Finance costs to directors (note d)	111	289
Cabling sales (note e)	–	86
Project service income (note f)	3,267	4,901

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 41. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) A company, in which Mr. Lo Lin Shing, Simon ("Mr. Lo"), a director of the Company has a beneficial interest, provided office space for the Group and share of office administrative expenses and the above sum was charged, being an appropriate allocation of costs incurred.
- (b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has a beneficial interest, lease office premises to the Group.
- (c) Companies, in which Mr. Lo, a director of the Company has a beneficial interest, provided loans to the Group. Details of the interest rate and terms of the loan are disclosed in note 29.
- (d) The amounts included finance costs paid in respect of loans from Mr. Choi and Mr. So, directors of the Company. Details of interest rate and terms of the loans are disclosed in note 28.
- (e) Cabling sales represented sales to a company, in which Dr. Cheng and Mr. Lo are directors of the Company and Dr. Cheng has a beneficial interest.
- (f) Project service income represented service provided to a company, in which Dr. Cheng and Mr. Lo are directors of the Company and Dr. Cheng has a beneficial interest.
- (g) On 23 November 2005, Cross Growth Co., Ltd. (a company wholly-owned by CTF), CTF and the Company entered into a conditional agreement ("Acquisition Agreement") pursuant to which Cross Growth Co., Ltd agreed to sell its entire equity interest in Fortune Gate Overseas Limited ("Fortune Gate") and the shareholders loans due to CTF and its subsidiaries (excluding the Company and its subsidiaries) ("CTF Group") for a purchase price of HK\$850 million (subject to adjustment) and Cross Growth Co., Ltd. and CTF granted the Company an option ("Purchase Option") to purchase (through Fortune Gate) the 40% equity interest in Arc of Triumph Development Company Limited ("ATD") and the 40% of the related shareholders' loan ("Macau Interest") from Cheung Hung Development (Holdings) Limited ("Cheung Hung") at a price of HK\$363.2 million (subject to adjustment). The purchase price of HK\$850 million will be settled as to HK\$400 million by the convertible note (which will due in 3 years and convertible into a share of the Company at an initial conversion price of HK\$2 per share (subject to adjustment)) issued by the Company and as to the remaining HK\$450 million (subject to adjustment) by cash. If the Company exercises the Purchase Option, the purchase price will be increased by HK\$363.2 million (which will be settled by cash) and the shareholders' loans will be increased by the 40% of the related shareholders' loan due to CTF Group. In order to finance the acquisitions, the Company proposed to raise about HK\$1,229 million by way of right issue at HK\$1.5 per right share. The principal asset of Fortune Gate will be the 51% equity in a hotel group ("Hotel Group") whose principal asset is a property in Manila partly owned and partly leased by the Hotel Group for the operation of the Hyatt Hotel and Casino Manila. ATD, a company incorporated in Macau and its principal asset is a parcel of land in Macau, is 40% owned by Cheung Hung. On 17 March 2005, the Company exercised the options and will acquire the Macau Interest.

CTF holds a 100% equity interest in Fortune Gate, which was incorporated in the British Virgin Islands and is inactive, and holds a 73% attributable interest in the Hotel Group and CTF and Mr. Cheng Yu Tung and his family members owns a 48.75% equity interest in Cheung Hung respectively. Cross Growth Co., Ltd. and CTF have undertaken to effect a corporate reorganization to transfer 51% equity interest in the Hotel Group and the associated shareholders' loans and the Macau Interest from the CTF Group and its associate to Fortune Gate before the completion of acquisitions in accordance with the Acquisition Agreement.

The completion of the acquisition of Fortune Gate and the purchase of the Macau Interest is subject to the approvals from the independent shareholders of the Company and the listing committee of the Stock Exchange as well as other conditions precedent set out in the Acquisition Agreement.

At the date of this report, the acquisition of Fortune Gate and the purchase of the Macau Interest have not yet been completed.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 41. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

### (h) Compensation of key management personnel

The remuneration of other members of key management during the year was as follows:

	2006 HK\$'000	2005 HK\$'000
Short-term benefits	3,683	778

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance and experience of individuals and market trends. Total remuneration disclosed above exclude emoluments of directors and the five (2005: four) employees with the highest emoluments in the Group as disclosed in note 12 and note 13 respectively.

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
Anbo Global Company Limited	Hong Kong	Limited company	Ordinary	HK\$1	–	100	Investment holding
China On-Air Inc.	British Virgin Islands	Limited company	Ordinary	HK\$1	–	100	Investment holding
COAA	Hong Kong	Limited company	Ordinary	HK\$100 HK\$100,000* Non-voting deferred	–	100	Sales of telecommunications products, provision of network installation and engineering services
Cyber On-Air Group Limited ("COA")	British Virgin Islands	Limited company	Ordinary	HK\$100	100	–	Investment holding
Cyber On-Air Limited	Hong Kong	Limited company	Ordinary	HK\$100 HK\$10,000,000 * Non-voting deferred	–	100	As a wireless applications enabler by providing mobile commerce solutions and products in Asia Pacific Region, and acting as investment holding company
Cyber On-Air Multimedia Limited	Hong Kong	Limited company	Ordinary	HK\$2 HK\$27,668 * Non-voting deferred	100	–	Development and operation of a website "hkcyber.com"
Cyber Peak Developments Limited	British Virgin Islands	Limited company	Ordinary	US\$1	100	–	Investment holding
Five Stories, Inc.	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
Flash Star Group Limited	British Virgin Islands	Limited company	Ordinary	US\$1	100	–	Investment holding
Future Growth Limited	Hong Kong	Limited company	Ordinary	HK\$2	100	–	General business
Gugo	Hong Kong	Limited company	Ordinary	HK\$21,260,100	–	75	Animation/ development of cartoon services, licensing and merchandising distribution
Image Organisation, Inc.	USA	Limited company	Ordinary	US\$1,382,494	–	50.4	Film production and distribution
Loverwrecked, Inc.	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production
M8	Canada	Limited company	Ordinary	Class A CAD 4,520,000 Class B CAD 103,246,000 “Class B M8 Shares” Class C CAD 24,171,000 “Class C M8 Shares”	–	50.4	Film production and distribution
M8 Production 2 Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production
Man About Town Films Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production and distribution
Media 8 Distribution I	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing



# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
Media 8 Distribution II	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
Media 8 Distribution III	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
Media 8 Distribution IV	USA	Limited company	Ordinary	US\$100	–	50.4	Film production and financing
Media 8 Distribution V	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
Media 8 Distribution VI	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
Media 8 Distribution VII	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
IEC Production Limited (formerly known as "Media 8 Entertainment Limited")	Hong Kong	Limited company	Ordinary	HK\$1	–	100	Media related business
Media 8 Entertainment	USA	Limited company	Ordinary	US\$10,000	–	50.4	Film production and distribution
Mediamaster Limited	British Virgin Islands	Limited company	Ordinary	HK\$1	100	–	Investment holding
MDP Distribution, Inc.	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing
MDP Finance, Inc.	USA	Limited company	Ordinary	US\$1,000	–	50.4	Film production and financing

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
Media 8 Holdings (formerly known as "MDP Holdings USA, Inc.")	USA	Limited company	Ordinary	US\$100,000	-	50.4	Investment holding
MDP Licensing Inc.	USA	Limited company	Ordinary	US\$1,000	-	50.4	Film production and financing
MDP Production, Inc.	USA	Limited company	Ordinary	US\$1,000	-	50.4	Film production and financing
Mystic Demons Publishing	USA	Company	Ordinary	US\$100	-	50.4	Film production
Newave Technology Inc.	British Virgin Islands	Limited company	Ordinary	HK\$1	-	100	Investment holding
Running Scared, Inc.	USA	Limited company	Ordinary	US\$1,000	-	50.4	Film production
Stuhall Production Inc.	USA	Limited company	Ordinary	US\$1,000	-	50.4	Film production
Tropical Production Inc.	USA	Limited company	Ordinary	US\$1,000	-	50.4	Film production
Vantage Finance Corporation	British Virgin Islands	Limited company	Ordinary	HK\$10	-	100	Investment holding
Young Racers, Inc.	USA	Limited company	Ordinary	US\$12,000	-	50.4	Film production
Zodiac Productions Inc.	USA	Limited company	Ordinary	US\$2,000	-	50.4	Film production

# Notes to the Financial Statements

For the Year Ended 31 March 2006 (Continued)

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
上海創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US\$210,000	–	100	As a wireless applications enabler by providing mobile applications and mobile commerce solutions and products in the PRC
廣州創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US\$210,000	–	100	As a wireless applications enabler by providing mobile applications and mobile commerce solutions and products in the PRC
廣東安博信息服務有限公司	PRC	Sino-foreign joint venture	–	Registered capital of US\$500,000	–	70	Providing employment, community services and professional corporate services to the PRC enterprises and citizens of Guangdong Province

\* The deferred shares carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year or during the year.

# Financial Summary

For the Year Ended 31 March 2006

## RESULTS

	Year ended 31 March				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	2,426	38,877	16,131	34,448	<b>274,311</b>
Cost of sales	–	(21,894)	(11,488)	(35,308)	<b>(357,328)</b>
Gross profit (loss)	2,426	16,983	4,643	(860)	<b>(83,017)</b>
Other income	1,001	948	52	3,977	<b>9,281</b>
Selling and distribution expenses	(1,427)	(599)	(407)	(2,424)	<b>(21,012)</b>
General and administrative expenses	(20,362)	(28,414)	(13,829)	(28,210)	<b>(60,717)</b>
Other expenses	(47,896)	(9,125)	(3,672)	(1,244)	<b>–</b>
Impairment loss recognised	(6,128)	(34)	(20,692)	–	<b>(14,843)</b>
Finance costs	(278)	(2,596)	(1,214)	(1,117)	<b>(2,704)</b>
Share of loss of an associate	(1,271)	–	–	–	<b>–</b>
Loss on discontinuing operations	(43,063)	–	(433)	–	<b>–</b>
Loss before taxation	(116,998)	(22,837)	(35,552)	(29,878)	<b>(173,012)</b>
Taxation	–	–	–	–	<b>(22,049)</b>
Loss for the year	(116,998)	(22,837)	(35,552)	(29,878)	<b>(195,061)</b>
Attributable to:					
Equity holders of the Company	(116,998)	(22,661)	(35,552)	(19,295)	<b>(117,063)</b>
Minority interests	–	(176)	–	(10,583)	<b>(77,998)</b>
	(116,998)	(22,837)	(35,552)	(29,878)	<b>(195,061)</b>

## ASSETS AND LIABILITIES

	At 31 March				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Total assets	9,161	81,658	15,243	951,792	<b>542,567</b>
Total liabilities	(23,262)	(118,420)	(87,558)	(469,986)	<b>(255,075)</b>
Shareholder's funds	(14,101)	(36,762)	(72,315)	481,806	<b>287,492</b>
Equity attributable to equity holders of the Company	(14,101)	(36,762)	(72,315)	404,429	<b>287,492</b>
Minority interests	–	–	–	77,377	<b>–</b>
	(14,101)	(36,762)	(72,315)	481,806	<b>287,492</b>