



Era Information & Entertainment Limited

年代資訊影視有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8043



2006

Annual Report

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid report in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.



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Corporate Information

Executive Director

Leung Chung Chu, Andrew (*Chairman*)
Yau Kar Man
Ng Wai Lun

Independent non-executive Director

Chan Kin Wo
Yow Cecil
Yim Chun Leung

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

Head office and principal place of business

Unit 1008
10th Floor, Trans Asia Centre
18 Kin Hong Street
Kwai Chung
New Territories
Hong Kong

Company secretary and qualified accountant

Ng Wai Lun *FCCA, CPA*

Compliance officer

Leung Chung Chu, Andrew

Audit committee

Chan Kin Wo (*Chairman*)
Yow Cecil
Yim Chun Leung

Remuneration committee

Chan Kin Wo (*Chairman*)
Yow Cecil
Yim Chun Leung
Leung Chung Chu, Andrew
Ng Wai Lun

Authorised representatives

Leung Chung Chu, Andrew
Ng Wai Lun

Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

Principal share registrar and transfer office in the Cayman Islands

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Branch share registrar and transfer office in Hong Kong

Hong Kong Registrars Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Stock code

8043



Chairman's Statement

On behalf of the directors (the "Directors") of Era Information & Entertainment Limited and its subsidiaries (the "Company" and collectively the "Group"), I am pleased to present the annual results for the year ended 31 December 2006.

2006 is a difficult year for the Group. The close down of the Group's online games licensor resulted to impairment in value of deposit, receivables and inventories. Such impairment in value accounted for more than half of the total loss of the Group for the year ended 31 December 2006. In addition, following the close down of the Group's online games licensor in April 2006, turnover of the Group's games distribution business is seriously affected.

Facing the problems of illegal internet download, piracy and lack of major video titles during the year ended 31 December 2006, the Group's turnover in the video business also dropped when compared with that of 2005.

Theatrical release arrangement business in the People's Republic of China ("PRC") of the Group continues to grow. Turnover as well as the results of this segment continues to improve when compared with those of last year. Consolidating more than two years' knowledge in the film release and exhibition industry in the PRC, the Group determined to put more resources into the business in the PRC and is already in the course to look for suitable sites for the setting up of a new line of business in the PRC to enhance the income source.

On behalf of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong, 21 March 2007

Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK\$71.1 million (2005 : approximately HK\$79.4 million). Loss attributable to shareholders amounted to approximately HK\$12.1 million (2005 : approximately HK\$6.9 million).

Decrease in the turnover is mainly due to significant drop of more than 82.5% in the turnover of the games distribution business. This unsatisfactory result is due to the close down of the Group's online games licensor in April 2006. Impairment in value of deposit, receivables and inventories following such incident amounted to approximately HK\$6.3 million, which already represents approximately 52.1% of the loss attributable to shareholders for the year ended 31 December 2006.

Turnover for the sales of home video products decreased by approximately 8.3% when compared with that of last year. There is still a lack of major video titles to be released in the year 2006. Indeed, the increased rental cost continues to hit the overall home video distribution network of the Group.

BUSINESS REVIEW

Despite facing various unfavourable market factors, the Group released a number of new home video titles during the year ended 31 December 2006, including some blockbusters such as "King Kong", "The Da Vinci Code", "Over The Hedge" and "Click", etc.

The Group is still in the process of identifying new potential online games and PC games. Therefore after the close down of the Group's online games licensor in April 2006, there is no turnover of online games and only a small turnover of PC game up to the end of December 2006.

Turnover of the Group's PRC subsidiary, 北京年恩長影文化傳播有限公司 ("年恩"), increased by approximately 186.1% when compared with that of the year ended 31 December 2005. The operating results of 年恩 was also improving when compared with that of last year. During the year under review, 年恩 has arranged theatrical release arrangement for five film titles. Box office results of most of these film titles are satisfactory, this also increase the Group's confidence to put more resources into the PRC market.



Management Discussion and Analysis

PROSPECTS

As high definition television and high definition discs format players are becoming more popular, the Group believes that the high definition format video discs will be playing an important role in the future. Accordingly, the Group planned to distribute video discs in high definition formats in Hong Kong in the second quarter of 2007, this helps to enhance the product range of the Group in the coming future. On the other hand, new home video titles recently released by the Group in 2007 included “Casino Royale”, etc. Other blockbuster home video titles expected to be released by the Group in the year of 2007 include “The Holiday”, “Ghost Rider”, “Open Season”, “Shrek 3” and “Spider-Man 3”, etc.

When compare with the Hong Kong market that is facing various unfavourable market factors, the PRC market reveals a high growth potential. While the Group’s PRC operation has shown improvement in its operating results as well as growth in its turnover, the Group planned to utilise its knowledge in film release and exhibition industry as well as its business network and relationship to source for more potential business opportunities in the PRC market.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows.

As at 31 December 2006, the Group had net current assets of approximately HK\$26.0 million, of which approximately HK\$2.1 million and HK\$11.1 million (2005: approximately HK\$2.1 million and HK\$17.3 million) were pledged bank deposits and bank and cash balances respectively. The Directors are confident that the Group’s existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars, Renminbi or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

CAPITAL STRUCTURE

As at 31 December 2006, the Group’s net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$27.8 million as at 31 December 2006, representing a decrease of approximately 30.3% over last year.

Management Discussion and Analysis

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2006, the Group's time deposits of approximately HK\$2.1 million were pledged to banks in respect of banking facilities granted to the Group.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not have any material acquisition, disposal and significant investments during the year under review.

GEARING RATIO

As at 31 December 2006, the Group did not have any borrowings.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had commitments of unpaid film rights of approximately HK\$11.6 million due to licensors and commitments of unpaid purchase costs of approximately HK\$1.8 million due to suppliers.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had a total of 66 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$14.6 million for the year under review.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

The emoluments of the Directors and senior management of the Company are determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.



Directors' Profiles

DIRECTORS

Executive Directors

Mr. LEUNG Chung Chu, Andrew, aged 50, is the Chairman and compliance officer of the Company. Mr. Leung is a co-founder of the Group. He is also an executive director of Era Information & Entertainment (BVI) Limited, Era Digital Media Limited, Era Home Entertainment Limited, Era Films (HK) Limited, Red River Agents Limited, Era Communications Limited and 北京年恩長影文化傳播有限公司, subsidiaries of the Company. He is responsible for the finance, corporate policy making, films rights and TV rights distribution, as well as strategic planning and overall management of the Group. Mr. Leung graduated with a bachelor of social sciences degree with honours from the University of Hong Kong. He has over 25 years' experience in the home video and entertainment related business. Mr. Leung is also a member of the remuneration committee and authorised representative of the Company.

Mr. YAU Kar Man, aged 48, is also an executive director of Era Digital Media Limited, Era Home Entertainment Limited, Era Films (HK) Limited, Red River Agents Limited and Era Communications Limited, subsidiaries of the Company. He is responsible for the management and development of the Group's home video distribution as well as the games distribution and online business. Mr. Yau joined the Group in July 1992 and holds a higher diploma in accountancy from the Hong Kong Polytechnic University.

Mr. NG Wai Lun, aged 44, is also the company secretary and qualified accountant of the Company. He is also an executive director of 北京年恩長影文化傳播有限公司, subsidiary of the Company. Mr. Ng joined the Group in March 2000. He is responsible for the Group's finance, corporate projects and investments, as well as company secretarial matters. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He gained extensive experience of over 20 years in auditing, finance and corporate projects with an international accounting firm, two Hong Kong listed companies and an overseas listed company. Mr. Ng is also a member of the remuneration committee and authorised representative of the Company.

Directors' Profiles

DIRECTORS (*continued*)

Independent non-executive Directors

Mr. CHAN Kin Wo, aged 51, is a solicitor having been in active practice in Hong Kong since 1988. He is qualified also in England and Wales, Australia and Singapore. He opened his partnership firm Tsang, Chan & Woo, Solicitors & Notaries in 1992 and has been the partner since then. Mr. Chan was appointed as an independent non-executive Director in January 2001. Mr. Chan is also the chairman of the audit committee and remuneration committee of the Company.

Mr. YOW, Cecil, aged 53, is experienced in both advertising and entertainment. He possesses over 20 years of experience in advertising, primarily in the management of advertising agencies. He was also involved in the business of content production and distribution for both TV and movies. He has a remarkable career managing major multinational advertising agencies, marketing consultant firms and production and distribution companies he either co-founded or founded. Mr. Yow was appointed as an independent non-executive Director in January 2001. Mr. Yow is also a member of the audit committee and remuneration committee of the Company.

Mr. YIM Chun Leung, aged 44, is a chief financial officer of a private company in Hong Kong which engages in investment and property holding businesses. Mr. Yim is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has more than 20 years' experience in auditing, accounting and finance fields. He has been appointed as an executive director of New Heritage Holdings Ltd., a company listed on the main board of the Exchange, since 23 December 2004. Mr. Yim was appointed as an independent non-executive Director in September 2004. Mr. Yim is also a member of the audit committee and remuneration committee of the Company.



Directors' Report

The Directors have pleasure in presenting their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 33 to the financial statements. There were no material changes in the nature of the Group's principal activities during the year.

The Group's turnover and contribution to operating result for the year is attributable to home video products distribution, theatrical and television rights distribution, film rights sub-licensing and games distribution including personal computer games and online games principally derived in Hong Kong. The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 and the state of the affairs of the Group at that date are set out in the financial statements on pages 28 to 74.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment during the year are set out in note 17 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 are set out in note 33 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 26 and 30 to the financial statements respectively.



Directors' Report

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and the consolidated statement of recognised income and expense on page 30 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$25 million. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the relevant law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders to the Company.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 51% of the total sales for the year and the sales attributable to the largest customer included therein amounted to approximately 16%.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 76% of the total purchases for the year and purchases attributable to the largest supplier included therein amounted to approximately 28%.

None of the Directors, any of their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.



Directors' Report

DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

Executive directors

Mr. Leung Chung Chu, Andrew (*Chairman*)

Mr. Yau Kar Man

Mr. Ng Wai Lun

Mr. Keung Chi Wai (resigned on 27 January 2007)

Independent non-executive directors

Mr. Chan Kin Wo

Mr. Yow Cecil

Mr. Yim Chun Leung

In accordance with article 87(1) and (2) of the Company's articles of association as resolved by the board of Directors, Mr. Leung Chung Chu, Andrew and Mr. Ng Wai Lun will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out on pages 8 and 9 of the annual report.

DIRECTORS' EMOLUMENTS AND THE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and of the individuals with highest emoluments of the Group are set out in notes 12 and 13 to the financial statements respectively.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 14 to the financial statements.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Leung Chung Chu, Andrew and Mr. Yau Kar Man has entered into a service agreement with the Company for a term of one year commencing from 1 June 2004. Each of Mr. Ng Wai Lun and Mr. Keung Chi Wai has entered into a service contract with the Company for a term of one year commencing from 1 March 2005. All of the executive Directors' service contracts will automatically continue after their respective expiry terms until terminated by either party giving not less than three month's notice in writing.

Each of Mr. Chan Kin Wo and Mr. Yow Cecil has been appointed for a term of two years commencing from 1 June 2003 and renewed for another two years commencing from 1 June 2005. Mr. Yim Chun Leung has been appointed for a term of two years commencing from 30 September 2004 and renewed for another one year commencing from 30 September 2006. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of the Securities on the GEM (the "GEM Listing Rules") and the Company considers the independent non-executive Directors to be independent.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.



Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests of the Directors and the chief executives of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and /or short positions of which they were taken or deemed to have taken under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which have been notified to the Company and the Exchange pursuant to Rules 5.46 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

(a) **The Company**

Interests in shares of the Company

Name of Directors	Capacity	Number and class of shares	Approximate percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Beneficial owner	25,000,000 ordinary shares (long position)	7.81%
Mr. Ng Wai Lun	Beneficial owner	480,000 ordinary shares (long position)	0.15%
Mr. Keung Chi Wai (<i>Note 1</i>)	Beneficial owner	108,000 ordinary shares (long position)	0.03%

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) **The Company** *(continued)*

Long positions in underlying shares of equity derivatives of the Company

Name of Directors	Capacity	Description of equity derivatives (number and class of underlying shares)	Approximate percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Beneficial owner	share options to subscribe for shares (1,200,000 ordinary shares) <i>(Note 2)</i>	0.38%
Mr. Yau Kar Man	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note 2)</i>	0.13%
Mr. Ng Wai Lun	Beneficial owner	share options to subscribe for shares (300,000 ordinary shares) <i>(Note 2)</i>	0.09%
Mr. Keung Chi Wai <i>(Note 1)</i>	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note 2)</i>	0.13%
Mr. Chan Kin Wo	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note 2)</i>	0.13%
Mr. Yow Cecil	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note 2)</i>	0.13%

Notes:

1. Mr. Keung Chi Wai has resigned as a Director with effect from 27 January 2007. Please refer to the announcement of the Company dated 19 January 2007 for details.
2. The aforesaid share options are classified as "long position" under the SFO. For details of the share options granted, please refer to the section headed "Share Option Schemes" below.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(b) The associated corporation

Interest in an associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number and class of shares held	Approximate percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Winning Scope Sdn. Bhd.	Beneficial owner	400,000 ordinary shares (long position) <i>(Note)</i>	8.26%

Note: Mr. Leung Chung Chu, Andrew is personally interested in 400,000 shares of Malaysian Ringgit 1 each in Winning Scope Sdn. Bhd., representing approximately 8.26% of the issued share capital of Winning Scope Sdn. Bhd., a company of which the Company is indirectly interested in approximately 22.73% of its issued share capital.

Saved as disclosed herewith, as at 31 December 2006, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors nor chief executives of the Company or their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights.

Save as disclosed above, as at 31 December 2006, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken 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 Rules 5.46 to 5.68 of the GEM Listing Rules.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its holding companies or any of its subsidiaries was a party thereof during the year under review.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Capacity	Number and class of shares	Approximate percentage of issued share capital
Mr. Lien Tai Sheng	Interest of controlled corporation	180,000,000 ordinary shares (long position) (<i>Note</i>)	56.25%
年代網際事業股份有限公司 (Era Communications Co., Ltd.) (“ERA Taiwan”)	Interest of controlled corporation	180,000,000 ordinary shares (long position) (<i>Note</i>)	56.25%
5D Technology Holdings Ltd. (“5D Technology”)	Beneficial owner	180,000,000 ordinary shares (long position) (<i>Note</i>)	56.25%

Note: The 180,000,000 shares are owned by 5D Technology which is a company incorporated in the British Virgin Islands with all its shares held by ERA Taiwan. ERA Taiwan is a company incorporated in Taiwan and Mr. Lien Tai Sheng and his associates (as defined in the GEM Listing Rules), beneficially own approximately 78.15% of the issued share capital of ERA Taiwan.

Save as disclosed above, as at 31 December 2006, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

Directors' Report

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 5 June 2001, certain Directors and participants have been granted options to subscribe for shares at a subscription price of HK\$1 per share, details of which are set out as follows:

Name of grantee	Date of grant	Granted	Number of shares options		
			Outstanding as at 1 January 2006	Lapsed during the year under review	Outstanding as at 31 December 2006
<i>Executive directors</i>					
Mr. Leung Chung Chu, Andrew	5 June 2001	1,200,000	1,200,000	–	1,200,000
Mr. Yau Kar Man	5 June 2001	400,000	400,000	–	400,000
Mr. Ng Wai Lun	5 June 2001	300,000	300,000	–	300,000
Mr. Keung Chi Wai (<i>Note 2</i>)	5 June 2001	400,000	400,000	–	400,000
<i>Independent non-executive directors</i>					
Mr. Chan Kin Wo	5 June 2001	400,000	400,000	–	400,000
Mr. Yow Cecil	5 June 2001	400,000	400,000	–	400,000
<i>Other participants</i>					
Employees in aggregate (<i>Note 1</i>)	5 June 2001	3,860,000	<u>2,170,000</u>	<u>110,000</u>	<u>2,060,000</u>
Total			<u><u>5,270,000</u></u>	<u><u>110,000</u></u>	<u><u>5,160,000</u></u>

Notes:

- Employees are those working under employment contracts regarded as "continuous contracts" under the Employment Ordinance (Chapter 57 of the laws of Hong Kong).
- Mr. Keung Chi Wai has resigned as a Director with effect from 27 January 2007.

No share options under the share option scheme (the "Share Option Scheme") adopted by the Company on 5 June 2001 were granted during the year ended 31 December 2006.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 30 to the financial statements.

Directors' Report

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2006 which do not constitute connected transactions under the GEM Listing Rules are set out in note 32 to the financial statements.

COMPETING INTEREST

The Directors are of the view that ERA Taiwan, being the single largest shareholder of the Company, has not and will not directly compete with the Group in respect of the businesses of home video products distribution, theatrical and television rights distribution, film rights sub-licensing and games distribution because of geographical differences. However, the Directors are of the view that the internet projects or businesses of ERA Taiwan may continue to expand and there is a risk that the future internet projects or businesses of ERA Taiwan may compete with the Group.

Save as disclosed above, as at 31 December 2006, the Directors are not aware of any business or interest of each Director, initial management shareholder and their respective associates (as defined in the GEM Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

As required by the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors, Mr. Chan Kin Wo, Mr. Yow Cecil and Mr. Yim Chun Leung. The Audit Committee met on a quarterly basis during the year under review. The Group's financial results for the year ended 31 December 2006 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 21 to 25 of this annual report.



Directors' Report

AUDITORS

RSM Nelson Wheeler will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditor of the Company is to be proposed at the forthcoming annual general meeting.

There is no change in auditor of the Company in the preceding three years.

On behalf of the Board

Leung Chung Chu, Andrew

Chairman and Executive Director

Hong Kong, 21 March 2007

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has established a formal and transparent procedure to protect the interests of the shareholders of the Company. The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year under review, except that:-

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman and chief executive officer of the Company are performed by the same individual, Mr. Leung Chung Chu, Andrew. The Directors will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The articles of association of the Company before the amendment on 27 April 2006 provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, Mr. Leung Chung Chu, Andrew, being the chairman of the Company, was not subject to retirement by rotation. In order to comply with the code provision A.4.2, amendments had been made to the articles of association of the Company at the annual general meeting on 27 April 2006 to specify that every Director should be subject to retirement by rotation at least once every three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealing and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

Directors	Attendance
<i>Executive Directors</i>	
Mr. Leung Chung Chu, Andrew (<i>Chairman</i>)	4/4
Mr. Yau Kar Man	4/4
Mr. Ng Wai Lun	4/4
Mr. Keung Chi Wai (<i>Note</i>)	4/4
<i>Independent non-executive Directors</i>	
Mr. Chan Kin Wo	4/4
Mr. Yow Cecil	4/4
Mr. Yim Chun Leung	4/4

Note: Mr. Keung Chi Wai has resigned as a Director with effect from 27 January 2007.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The board of Directors has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, Directors' appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification pursuant to the GEM Listing Rules to carry out their duties so as to protect the interests of shareholders.

The board of Directors established audit committee and remuneration committee and their duties were discussed and approved in the board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer of the Company are not separated and are performed by the same individual, Mr. Leung Chung Chu, Andrew of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

NON-EXECUTIVE DIRECTORS

Each of Mr. Chan Kin Wo and Mr. Yow Cecil has been appointed for a term of two years commencing from 1 June 2003 and renewed for another two years commencing from 1 June 2005. Mr. Yim Chun Leung has been appointed for a term of two years commencing from 30 September 2004 and renewed for another one year commencing from 30 September 2006. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

Corporate Governance Report

REMUNERATION OF DIRECTORS

A remuneration committee of the Company was established in December 2005. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, such as any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors.

Members of the remuneration committee included:

Mr. Chan Kin Wo (*chairman*)
Mr. Yow Cecil
Mr. Yim Chun Leung
Mr. Leung Chung Chu, Andrew
Mr. Ng Wai Lun

The remuneration committee meeting has been held on 21 March 2007. Details of the attendance of the remuneration committee meetings are as follows:-

Members	Attendance
Mr. Chan Kin Wo (<i>chairman</i>)	1/1
Mr. Yow Cecil	1/1
Mr. Yim Chun Leung	1/1
Mr. Leung Chung Chu, Andrew	1/1
Mr. Ng Wai Lun	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors with reference to the factors including salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.



Corporate Governance Report

NOMINATION OF DIRECTORS

The board of Directors considers the past performance and qualification of the candidates for Directors, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

The board of Directors held a meeting for nomination of Directors on 21 March 2007. Details of the attendance of the meetings are as follows:–

Directors	Attendance
<i>Executive Directors</i>	
Mr. Leung Chung Chu, Andrew (<i>Chairman</i>)	1/1
Mr. Yau Kar Man	1/1
Mr. Ng Wai Lun	1/1
<i>Independent non-executive Directors</i>	
Mr. Chan Kin Wo	1/1
Mr. Yow Cecil	1/1
Mr. Yim Chun Leung	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association and as resolved by the board of Directors, Mr. Leung Chung Chu, Andrew and Mr. Ng Wai Lun will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

The Company's external auditors are RSM Nelson Wheeler. The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Group. During the year under review, the Group has paid an aggregate of approximately HK\$256,000 to the external auditors for their non-audit services including taxation and other advisory services.

Corporate Governance Report

AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems.

Members of the audit committee included:

Mr. Chan Kin Wo (*chairman*)

Mr. Yow Cecil

Mr. Yim Chun Leung

The audit committee held four meeting during the period under review. Details of the attendance of the audit committee meetings are as follows:–

Members	Attendance
Mr. Chan Kin Wo (<i>Chairman</i>)	4/4
Mr. Yow Cecil	4/4
Mr. Yim Chun Leung	4/4

The Group's audited results for the year ended 31 December 2006 and the unaudited results for the financial statements published during the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

The audit committee of the Company considered that the existing the proposed terms in relation to the appointment of the Group's external auditor are fair and reasonable.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on pages 26 and 27 of this annual report.

INTERNAL CONTROL

During the review, the Directors are of the view that the Group should adopt a new trading and accounting computer system to (i) improve the internal control with a more systematic computer system, and (ii) improve the efficiency of the daily operation of the Group. The new trading and accounting computer system has been implemented within the Group since 1 January 2007.



Independent Auditor's Report

RSM! Nelson Wheeler

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Certified Public Accountants

To the shareholders of

ERA INFORMATION & ENTERTAINMENT LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Era Information & Entertainment Limited (the "Company") set out on pages 28 to 74, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

Auditor's responsibility *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 December 2006 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong, 21 March 2007



Consolidated Income Statement

Year ended 31 December 2006

	<i>Note</i>	2006 HK\$'000	2005 HK\$'000
Turnover	6	71,129	79,445
Cost of goods sold		<u>(53,899)</u>	<u>(60,466)</u>
Gross profit		17,230	18,979
Other income	7	291	109
Selling and distribution costs		(6,564)	(6,702)
Administrative expenses		(17,468)	(18,117)
Other operating expenses		<u>(5,248)</u>	<u>(410)</u>
Operating loss		(11,759)	(6,141)
Finance costs	9	<u>(17)</u>	<u>(45)</u>
Loss before tax		(11,776)	(6,186)
Income tax expense	10	<u>(300)</u>	<u>(688)</u>
Loss for the year attributable to equity holders of the Company	11	<u>(12,076)</u>	<u>(6,874)</u>
		HK cents	HK cents
Loss per share	16		
– Basic		<u>(3.77)</u>	<u>(2.15)</u>



Consolidated Balance Sheet

31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	837	689
Club membership	19	650	650
Deferred tax assets	20	327	627
		<u>1,814</u>	<u>1,966</u>
Current assets			
Inventories	21	3,273	4,724
Film rights	22	5,256	8,056
Trade and other receivables	23	19,024	18,000
Prepayments and deposits		2,278	8,786
Pledged bank deposits	24	2,128	2,059
Bank and cash balances	25	11,089	17,310
		<u>43,048</u>	<u>58,935</u>
Total assets		<u>44,862</u>	<u>60,901</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	26	3,200	3,200
Share premium		65,991	65,991
Exchange reserve		5	16
Accumulated losses		(41,385)	(29,309)
Total equity		<u>27,811</u>	<u>39,898</u>
Current liabilities			
Trade and other payables	29	17,051	21,003
Total liabilities		<u>17,051</u>	<u>21,003</u>
Total equity and liabilities		<u>44,862</u>	<u>60,901</u>
Net current assets		<u>25,997</u>	<u>37,932</u>
Total assets less current liabilities		<u>27,811</u>	<u>39,898</u>

Approved by the Board of Directors on 21 March 2007

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2006

	Attributable to equity holders of the Company				
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	3,200	65,991	5	(22,435)	46,761
Loss for the year	-	-	-	(6,874)	(6,874)
Exchange difference	-	-	11	-	11
At 31 December 2005	3,200	65,991	16	(29,309)	39,898
Loss for the year	-	-	-	(12,076)	(12,076)
Exchange difference	-	-	(11)	-	(11)
At 31 December 2006	<u>3,200</u>	<u>65,991</u>	<u>5</u>	<u>(41,385)</u>	<u>27,811</u>

Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006	2005
	HK\$'000	HK\$'000

CASH FLOWS FROM OPERATING ACTIVITIES

Operating loss	(11,759)	(6,141)
Adjustments for:		
Allowance for doubtful debts	5,386	534
Amortisation of film rights	31,384	35,123
Bad debts written off	112	8
Depreciation	239	277
Film rights written off	425	–
Impairment losses	191	415
Reversal of allowance for doubtful debts of trade receivables	(138)	(124)
Reversal of impairment losses	(366)	(4,235)
Interest income	(221)	(91)
Operating profit before working capital changes	25,253	25,766
Decrease in inventories	1,727	2,956
(Increase)/decrease in trade and other receivables	(1,238)	7,667
Decrease in prepayments and deposits	1,362	2,761
Decrease in trade and other payables	(3,952)	(7,212)
Cash generated from operations	23,152	31,938
Interest expenses	(17)	(45)
Net cash generated from operating activities	23,135	31,893

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property, plant and equipment	(371)	(61)
Purchases of film rights	(29,050)	(33,622)
Increase in pledged bank deposits	(69)	(48)
Interest income	221	91
Net cash used in investing activities	(29,269)	(33,640)



Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,134)	(1,747)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	17,310	19,086
Effect of foreign exchange rate change	(87)	(29)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>11,089</u>	<u>17,310</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u>11,089</u>	<u>17,310</u>

Notes to the Financial Statements

Year ended 31 December 2006

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law (Revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is at Unit 1008, 10th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, Hong Kong. The Company's shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2006, 5D Technology Holdings Ltd, a company incorporated in the British Virgin Islands, is the immediate parent; Era Communications Co., Ltd. ("ERA Taiwan"), a company incorporated in Taiwan, is the ultimate parent and Mr. Lien Tai Sheng is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs")

In the current year, the Group has adopted all the new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. The HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange reserve.

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

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of recognised income and expense within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests 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. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Associates *(continued)*

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

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange reserve.

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

(c) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

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



Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(d) Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful life is four years.

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

(e) Operating leases

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

(f) Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(h) Film rights

Film rights represent license fees prepaid and/or payable by instalments under license agreements for the reproduction and distribution of video products, films in theatre and television, and sub-licensing of film titles in specified geographical areas and time periods.

Film rights are stated at cost less accumulated amortisation and impairment losses, if any.

The portion of film rights expected to be recouped within 12 months of the balance sheet date is reported as a current asset. The portion of film rights expected to be recouped in more than 12 months from the balance sheet date is reported as a non-current asset.

The costs of film rights are amortised on a systematic basis over the underlying license periods with reference to projected revenue, ranging from 1 year to 12 years, according to the following:

- video products: upon sales of video products;
- theatrical release: when films are released in theatre;
- television release: when film materials are delivered; and
- film rights sub-licensing: when film materials are delivered.

(i) Trade and other receivables

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

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under the HKFRSs. 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 for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(1) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of home video products, personal computer (“PC”) games and online games are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the home video products, PC games and online games are delivered and the title has been passed to the customers.

Theatrical income is recognised when the film is released.

Revenue from the distribution of film in television is recognised when the film materials are delivered.

Film rights sub-licensing income is recognised on the transfer of risks and rewards of ownership, which is generally in accordance with the terms of the underlying license agreements.

Advertising income is recognised over the period in which the advertisements are displayed.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from the provision of services is recognised when the services are rendered.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(o) Taxation

Income tax represents the sum of the current tax 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 or 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.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) **Taxation** *(continued)*

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 profit, 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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 assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Segment reporting *(continued)*

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(r) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except inventories, receivables and deferred tax assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Impairment of assets *(continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(t) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

Notes to the Financial Statements

Year ended 31 December 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Deferred tax assets

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations by the balance sheet date.

(iii) Allowance for doubtful debts of receivables

The Group's management determines the allowance for doubtful debts of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of changes in the financial position of the customers. Management will reassess the allowance at each balance sheet date.

(iv) Impairment loss of film rights

The Group evaluate whether film rights have suffered any impairment loss whenever events or changes in circumstances indicate that the carrying amount of the film rights may not be recoverable, in accordance with the relevant accounting policy set out above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

Notes to the Financial Statements

Year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Foreign exchange risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The carrying amounts of the trade and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Interest rate risk

As the Group has no significant interest-bearing assets except pledged bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group has minimal exposure to interest-rate risk as the Group has no significant interest-bearing borrowings.

Notes to the Financial Statements

Year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT *(continued)*

Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

The Group is principally engaged in home video products distribution, theatrical release arrangement, film rights sub-licensing and games distribution. An analysis of the Group's turnover is as follows:

	2006 HK\$'000	2005 HK\$'000
Home video products distribution	60,467	65,933
Theatrical release arrangement and film rights sub-licensing	9,293	5,683
Games distribution <i>(note)</i>	1,369	7,829
	<u>71,129</u>	<u>79,445</u>

Note: Games distribution includes sales of PC games and online games of approximately HK\$1,309,000 (2005: HK\$7,623,000) and online advertising income of approximately HK\$60,000 (2005: HK\$206,000) for the year.

7. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Bank interest income	221	91
Distribution income	37	8
Facilities charges income	33	10
	<u>291</u>	<u>109</u>



Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into three main business segments:

Home video products distribution	–	sale of home video products
Theatrical release arrangement and film rights sub-licensing	–	arrange distribution of motion pictures and sub-licensing film rights
Games distribution	–	sale of PC games and online games products and provision for advertising services

(b) Secondary reporting format – geographical segments

The Group's principal markets are located in three main geographical areas:

Hong Kong	–	sale of home video products
	–	sub-licensing film rights
	–	sale of PC games and online games products and provision for advertising services
The Peoples' Republic of China (The "PRC")	–	arrange distribution of motion pictures and sub-licensing film rights
Others	–	sale of home video products

Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Home video products distribution		Theatrical release arrangement and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE										
External turnover	60,467	65,933	9,293	5,683	1,369	7,829	-	-	71,129	79,445
External other income	70	18	-	-	-	-	-	-	70	18
Inter-segment revenue	-	-	-	-	1,146	1,475	(1,146)	(1,475)	-	-
Total revenue	<u>60,537</u>	<u>65,951</u>	<u>9,293</u>	<u>5,683</u>	<u>2,515</u>	<u>9,304</u>	<u>(1,146)</u>	<u>(1,475)</u>	<u>71,199</u>	<u>79,463</u>
RESULT										
Segment result	<u>2,291</u>	<u>2,754</u>	<u>(1,407)</u>	<u>(3,726)</u>	<u>(7,209)</u>	<u>490</u>	<u>-</u>	<u>-</u>	<u>(6,325)</u>	<u>(482)</u>
Unallocated corporate expenses									<u>(5,655)</u>	<u>(5,750)</u>
Operating loss excluding interest income									<u>(11,980)</u>	<u>(6,232)</u>
Interest expenses									<u>(17)</u>	<u>(45)</u>
Interest income									<u>221</u>	<u>91</u>
Loss before tax									<u>(11,776)</u>	<u>(6,186)</u>
Income tax expense									<u>(300)</u>	<u>(688)</u>
Loss for the year									<u>(12,076)</u>	<u>(6,874)</u>

Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

	Home video products distribution		Theatrical release arrangement and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS										
Segment assets	<u>36,912</u>	<u>36,775</u>	<u>4,219</u>	<u>4,306</u>	<u>286</u>	<u>12,029</u>	<u>-</u>	<u>-</u>	<u>41,417</u>	<u>53,110</u>
Unallocated corporate assets									<u>3,445</u>	<u>7,791</u>
Consolidated total assets									<u>44,862</u>	<u>60,901</u>
LIABILITIES										
Segment liabilities	<u>13,641</u>	<u>14,948</u>	<u>1,990</u>	<u>3,538</u>	<u>431</u>	<u>1,812</u>	<u>-</u>	<u>-</u>	<u>16,062</u>	<u>20,298</u>
Unallocated corporate liabilities									<u>989</u>	<u>705</u>
Consolidated total liabilities									<u>17,051</u>	<u>21,003</u>
OTHER INFORMATION										
Capital expenditure	<u>29,272</u>	<u>33,172</u>	<u>145</u>	<u>507</u>	<u>4</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>29,421</u>	<u>33,683</u>
Depreciation and amortisation	<u>31,268</u>	<u>34,432</u>	<u>331</u>	<u>934</u>	<u>24</u>	<u>34</u>	<u>-</u>	<u>-</u>	<u>31,623</u>	<u>35,400</u>
Impairment loss	<u>-</u>	<u>101</u>	<u>191</u>	<u>314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191</u>	<u>415</u>
Reversal of impairment losses	<u>(168)</u>	<u>(3,632)</u>	<u>-</u>	<u>(130)</u>	<u>(198)</u>	<u>(473)</u>	<u>-</u>	<u>-</u>	<u>(366)</u>	<u>(4,235)</u>
Non-cash (income)/expenses other than depreciation, amortisation and impairment losses	<u>(68)</u>	<u>399</u>	<u>657</u>	<u>143</u>	<u>5,196</u>	<u>(124)</u>	<u>-</u>	<u>-</u>	<u>5,785</u>	<u>418</u>

Secondary reporting format – geographical segments

	Revenue		Total assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	<u>61,386</u>	<u>72,483</u>	<u>40,902</u>	<u>57,368</u>	<u>29,388</u>	<u>33,654</u>
The PRC	<u>8,767</u>	<u>5,249</u>	<u>3,960</u>	<u>3,533</u>	<u>33</u>	<u>29</u>
Others	<u>1,046</u>	<u>1,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>71,199</u>	<u>79,463</u>	<u>44,862</u>	<u>60,901</u>	<u>29,421</u>	<u>33,683</u>

Notes to the Financial Statements

Year ended 31 December 2006

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on loan from a minority equity holder of a subsidiary	15	44
Bank overdraft interest	2	1
	<u>17</u>	<u>45</u>

10. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Deferred tax (<i>note 20</i>)	<u>300</u>	<u>688</u>

No provision for Hong Kong and overseas profits tax has been made as the Group has no assessable profit for the year (2005: Nil).

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5%.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2006 HK\$'000	2005 HK\$'000
Loss before tax	<u>(11,776)</u>	<u>(6,186)</u>
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	(2,061)	(1,083)
Tax effect of expenses that are not deductible	64	116
Tax effect of income that is not taxable	(203)	(18)
Tax effect of tax losses previously recognised and reversed	300	601
Tax effect of net deferred tax assets not recognised	2,292	1,185
Tax effect of utilisation of tax losses not recognised previously	<u>(92)</u>	<u>(113)</u>
Income tax expense	<u>300</u>	<u>688</u>



Notes to the Financial Statements

Year ended 31 December 2006

11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting):

	2006 HK\$'000	2005 HK\$'000
Allowance for doubtful debts (included in other operating expenses)		
– trade and other receivables	240	534
– prepayment and deposits	5,146	–
Amortisation of film rights (included in cost of goods sold)	31,384	35,123
Auditors' remuneration	452	497
Bad debts written off	112	8
Cost of inventories sold (<i>note (i)</i>)	12,056	18,653
Depreciation	239	277
Film rights written off	425	–
Impairment losses		
– Film rights (included in cost of goods sold)	191	415
Operating lease rentals in respect of land and buildings	1,560	1,792
Reversal of allowance for doubtful debts		
of trade receivables (included in other operating expenses)	(138)	(124)
Reversal of impairment losses		
– Inventories (included in cost of goods sold) (<i>note (ii)</i>)	(276)	(1,483)
– Film rights (included in cost of goods sold) (<i>note (iii)</i>)	(90)	(2,752)
Staff costs including directors' emoluments		
Salaries and other costs	14,076	13,128
Retirement benefit scheme contributions	559	600
	14,635	13,728

Notes to the Financial Statements

Year ended 31 December 2006

11. LOSS FOR THE YEAR (continued)

Notes:

- (i) Cost of inventories sold includes reversal of impairment loss on inventories of approximately HK\$276,000 (2005: HK\$1,483,000) which is included in the respective amount disclosed separately above for the year.
- (ii) The Group reversed the impairment loss on inventories as a result of sales and disposal of certain video and game products.
- (iii) The Group reversed the impairment loss on film rights as a result of sales of the relevant video products and theatrical rights distribution.

12. DIRECTORS' EMOLUMENTS

The emoluments of each director were as follows:

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	2006 Total HK\$'000
Executive directors					
Leung Chung Chu, Andrew	–	1,950	–	12	1,962
Yau Kar Man	–	556	–	12	568
Ng Wai Lun	–	1,050	–	12	1,062
Keung Chi Wai (Note)	–	611	12	12	635
Independent non-executive directors					
Chan Kin Wo	80	–	–	–	80
Yow Cecil	80	–	–	–	80
Yim Chun Leung	112	–	–	–	112
	<u>272</u>	<u>4,167</u>	<u>12</u>	<u>48</u>	<u>4,499</u>

Notes to the Financial Statements

Year ended 31 December 2006

12. DIRECTORS' EMOLUMENTS (continued)

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	2005 Total HK\$'000
Executive directors					
Leung Chung Chu, Andrew	–	1,900	–	12	1,912
Yau Kar Man	–	545	–	12	557
Ng Wai Lun	–	875	–	10	885
Keung Chi Wai (<i>Note</i>)	–	509	40	10	559
Independent non-executive directors					
Chan Kin Wo	80	–	–	–	80
Yow Cecil	80	–	–	–	80
Yim Chun Leung	112	–	–	–	112
	<u>272</u>	<u>3,829</u>	<u>40</u>	<u>44</u>	<u>4,185</u>

Note: Mr. Keung Chi Wai has resigned as a Director with effect from 27 January 2007.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year. In addition, no emoluments were paid by the Group to the Directors as an inducement to join the Group or as compensation for loss of office.

At 31 December 2006 the amounts payable to the Directors and other key management personnel of the Group was approximately HK\$338,000 (2005: HK\$334,000).

Notes to the Financial Statements

Year ended 31 December 2006

13. EMPLOYEE EMOLUMENTS

Of the six individuals with the highest emoluments during the year, four (2005: four) are directors whose emoluments are disclosed in note 12 above. The aggregate of the emoluments for the other two (2005: two) individuals are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, allowances and benefits in kind	692	677
Discretionary bonuses	–	–
Retirement benefit scheme contributions	24	24
	<u>716</u>	<u>701</u>

The emoluments of the two (2005: two) individuals with the highest emoluments are within the following band:

	Number of employees	
	2006	2005
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to any of the individuals with highest emoluments as an inducement to join the Group or as compensation for loss of office.

Notes to the Financial Statements

Year ended 31 December 2006

14. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with employees when contributed into the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations.

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

15. DIVIDEND

No dividends have been paid or declared by the Company during the year (2005: Nil).

16. LOSS PER SHARE

Basic loss per share is calculated based on the Group’s loss attributable to equity holders of the Company for the year of approximately HK\$12,076,000 (2005: HK\$6,874,000) and the weighted average number of 320,000,000 shares for the years ended 31 December 2006 and 2005.

No diluted loss per share figures have been presented as the Company did not have any dilutive potential shares for the years ended 31 December 2006 and 2005.

Notes to the Financial Statements

Year ended 31 December 2006

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Computers HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2005	3,737	3,372	3,146	644	10,899
Additions	–	58	3	–	61
Exchange difference	–	2	10	–	12
At 31 December 2005	3,737	3,432	3,159	644	10,972
Additions	255	87	29	–	371
Disposals	–	(53)	–	–	(53)
Exchange difference	–	5	23	–	28
At 31 December 2006	3,992	3,471	3,211	644	11,318
Accumulated depreciation					
At 1 January 2005	3,729	2,986	2,446	644	9,805
Charge for the year	5	87	185	–	277
Exchange difference	–	–	1	–	1
At 31 December 2005	3,734	3,073	2,632	644	10,083
Charge for the year	12	66	161	–	239
Disposals	–	(28)	–	–	(28)
Exchange difference	–	1	11	–	12
At 31 December 2006	3,746	3,112	2,804	644	10,306

Notes to the Financial Statements

Year ended 31 December 2006

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

	Leasehold improvements HK\$'000	Computers HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Impairment losses					
At 1 January 2005 and 31 December 2005	–	200	–	–	200
Disposals	–	(25)	–	–	(25)
At 31 December 2006	–	175	–	–	175
Carrying amount					
At 31 December 2006	<u>246</u>	<u>184</u>	<u>407</u>	<u>–</u>	<u>837</u>
At 31 December 2005	<u>3</u>	<u>159</u>	<u>527</u>	<u>–</u>	<u>689</u>

18. INTEREST IN AN ASSOCIATE

	2006 HK\$'000	2005 HK\$'000
Share of net assets	<u>–</u>	<u>–</u>

Particulars of the associate are as follows:

Name	Place of incorporation and operation	Class of shares	Attributable equity interest held by the Group	Principal activities
Winning Scope Sdn. Bhd.	Malaysia	Ordinary	22.73%	Investment holding

Notes to the Financial Statements

Year ended 31 December 2006

19. CLUB MEMBERSHIP

	2006 HK\$'000	2005 HK\$'000
Club membership, at cost	1,150	1,150
Impairment loss	(500)	(500)
	<u>650</u>	<u>650</u>

Club membership represents the corporate membership for Chung Shan Hot Spring Golf Club in the PRC.

20. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2005	(13)	1,328	1,315
Charged to the income statement for the year (<i>note 10</i>)	<u>5</u>	<u>(693)</u>	<u>(688)</u>
At 31 December 2005 and at 1 January 2006	(8)	635	627
Charged to the income statement for the year (<i>note 10</i>)	<u>–</u>	<u>(300)</u>	<u>(300)</u>
At 31 December 2006	<u>(8)</u>	<u>335</u>	<u>327</u>

Notes to the Financial Statements

Year ended 31 December 2006

20. DEFERRED TAX ASSETS (continued)

The principal components of the Group's deferred tax asset position not recognised in the financial statements are as follows:

	2006 HK\$'000	2005 HK\$'000
Decelerated depreciation allowances	246	271
Tax losses	<u>12,250</u>	<u>9,588</u>
	<u><u>12,496</u></u>	<u><u>9,859</u></u>

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. Included in unrecognised tax losses are losses of approximately HK\$2,471,000, HK\$1,608,000 and HK\$4,541,000 that will expire in 2011, 2010 and 2009 respectively. The remaining unrecognised tax losses may be carried forward indefinitely.

21. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Finished goods	<u><u>3,273</u></u>	<u><u>4,724</u></u>

Notes to the Financial Statements

Year ended 31 December 2006

22. FILM RIGHTS

HK\$'000

Cost

At 1 January 2005	78,012
Additions	33,622
Write off	(39,028)
Exchange difference	36
	<hr/>
At 31 December 2005	72,642
	<hr/>
At 1 January 2006	72,642
Additions	29,050
Write off	(24,966)
Exchange difference	75
	<hr/>
At 31 December 2006	76,801
	<hr/>

Accumulated amortisation

At 1 January 2005	65,792
Charge for the year	35,123
Write off	(38,897)
Exchange difference	7
	<hr/>
At 31 December 2005	62,025
	<hr/>
At 1 January 2006	62,025
Charge for the year	31,384
Write off	(23,774)
Exchange difference	15
	<hr/>
At 31 December 2006	69,650
	<hr/>



Notes to the Financial Statements

Year ended 31 December 2006

22. FILM RIGHTS (continued)

	HK\$'000
Impairment losses	
At 1 January 2005	4,898
Recognise for the year	415
Reversal	(2,752)
	2,561
At 31 December 2005	2,561
At 1 January 2006	2,561
Recognise for the year	191
Reversal/write off	(857)
	1,895
At 31 December 2006	1,895
Carrying amount	
At 31 December 2006	5,256
At 31 December 2005	8,056

23. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade receivables	20,618	19,097
Allowance for doubtful debts	(1,996)	(1,911)
	18,622	17,186
Trade receivables, net	18,622	17,186
Other receivables	402	814
	19,024	18,000
	19,024	18,000

Notes to the Financial Statements

Year ended 31 December 2006

23. TRADE AND OTHER RECEIVABLES *(continued)*

General credit terms of the Group range from 30 days to 90 days. The aged analysis of trade receivables is as follows:

	2006 HK\$'000	2005 HK\$'000
Current – 30 days	4,370	7,040
31 – 60 days	5,894	5,589
61 – 90 days	3,179	2,027
91 – 180 days	1,969	2,081
181 – 365 days	2,840	365
Over 1 year	370	84
	<u>18,622</u>	<u>17,186</u>

24. PLEDGED BANK DEPOSITS/BANKING FACILITIES

The amounts represent time deposits pledged to banks in respect of banking facilities granted to the Group.

As at 31 December 2006 the Group had banking facilities of approximately HK\$3 million (2005: HK\$3 million) which were secured by the Group's bank deposits and corporate guarantees executed by the Company and certain subsidiaries of the Company.

The deposits are at interest rate of 3.39% per annum (2005: 3.6% per annum) and therefore are subject to fair value interest rate risk.

25. BANK AND CASH BALANCES

Included in the bank and cash balances of the Group is an amount of approximately HK\$1.6 million as at 31 December 2006 (2005: HK\$0.8 million) denominated in Renminbi ("RMB"). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.



Notes to the Financial Statements

Year ended 31 December 2006

26. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
320,000,000 ordinary shares of HK\$0.01 each	<u>3,200</u>	<u>3,200</u>

27. BALANCE SHEET OF THE COMPANY

	2006 HK\$'000	2005 HK\$'000
Investments in subsidiaries	26,306	34,072
Prepayment and deposits	143	142
Pledged bank deposits	2,128	2,059
Bank and cash balances	195	4,310
Other payables	<u>(961)</u>	<u>(685)</u>
Net Assets	<u>27,811</u>	<u>39,898</u>
Share capital	3,200	3,200
Reserves	<u>24,611</u>	<u>36,698</u>
Total Equity	<u>27,811</u>	<u>39,898</u>

Notes to the Financial Statements

Year ended 31 December 2006

28. RESERVES

(a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of recognised income and expense.

(b) **Company**

	Share premium	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	84,553	(40,992)	43,561
Loss for the year	—	(6,863)	(6,863)
	<hr/>	<hr/>	<hr/>
At 31 December 2005 and at 1 January 2006	84,553	(47,855)	36,698
Loss for the year	—	(12,087)	(12,087)
	<hr/>	<hr/>	<hr/>
At 31 December 2006	<u>84,553</u>	<u>(59,942)</u>	<u>24,611</u>

(c) **Nature and purpose of reserves**

(i) *Share premium account*

The share premium account of the Group includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation scheme completed in 2001, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 3(c) to the financial statements.



Notes to the Financial Statements

Year ended 31 December 2006

29. TRADE AND OTHER PAYABLES

	2006 HK\$'000	2005 HK\$'000
Trade payables	5,373	8,754
Film right payables	3,876	4,374
Other payables	7,756	6,930
Due to related parties	46	161
Due to a minority equity holder of a subsidiary	–	784
	<u>17,051</u>	<u>21,003</u>

The aged analysis of trade payables is as follows:

	2006 HK\$'000	2005 HK\$'000
Current – 30 days	1,010	2,028
31 – 60 days	1,368	1,595
61 – 90 days	1,148	1,764
91 – 180 days	710	1,847
181 – 365 days	119	316
Over 1 year	1,018	1,204
	<u>5,373</u>	<u>8,754</u>

The aged analysis of film right payables is as follows:

	2006 HK\$'000	2005 HK\$'000
Current – 30 days	1,621	256
91 – 180 days	–	68
181 – 365 days	329	183
Over 1 year	1,926	3,867
	<u>3,876</u>	<u>4,374</u>

Notes to the Financial Statements

Year ended 31 December 2006

29. TRADE AND OTHER PAYABLES *(continued)*

The carrying amounts of trade payables and film right payables are denominated in either Hong Kong dollars, United States dollars or Renminbi.

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

30. SHARE OPTION SCHEME

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, two share option schemes, namely Pre-IPO Share Option Scheme and Share Option Scheme were adopted by the Company with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of the Company's shares on GEM on 28 June 2001.

Pre-IPO Share Option Scheme

The shareholders adopted the Pre-IPO Share Option Scheme on 5 June 2001. Pursuant to the terms of the Pre-IPO Share Option Scheme, 8,260,000 options to subscribe for shares of the Company were granted to five Directors and certain employees, consultants and advisors of the Group on 5 June 2001 at an exercise price of HK\$1 per share. Each of the grantees is entitled to exercise (i) 50% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the date of the grant of the options, and (ii) the remaining 50% of the options granted to him/her (rounded down to the nearest whole number) at any time after 24 months from the date of the grant of the options, and in each case, not later than 10 years from the date of the grant of the options.

Movements in share options are as follows:

	Number of share options	
	2006	2005
At 1 January	5,270,000	6,520,000
Lapsed	(110,000)	(1,250,000)
At 31 December	<u>5,160,000</u>	<u>5,270,000</u>

Notes to the Financial Statements

Year ended 31 December 2006

30. SHARE OPTION SCHEME (*continued*)

Share Option Scheme

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of the Exchange on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price of the shares of the Company as stated in the Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant of the options. Subject to certain conditions, the maximum number of shares in respect of which options may be granted under the Scheme, together with other schemes, shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. HK\$1 is payable as consideration for each offer of share option granted. No option may be granted to any person which if exercised in full will result in such person's maximum entitlement exceeding 25% of the aggregate shares of the Company for the time being issued or issuable under the Share Option Scheme and any other share option scheme. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee. The Share Option Scheme became effective for a period of 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

No share options under the Share Option Scheme were granted up to 31 December 2006.



Notes to the Financial Statements

Year ended 31 December 2006

31. COMMITMENTS

As at 31 December 2006 the Group had the following commitments:

(a) **Operating lease commitments**

	2006 HK\$'000	2005 HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:		
Within one year	<u>368</u>	<u>116</u>

(b) **Other commitments**

	2006 HK\$'000	2005 HK\$'000
Unpaid purchase costs due to suppliers	1,764	3,589
Unpaid film rights due to licensors	<u>11,617</u>	<u>3,670</u>

Notes to the Financial Statements

Year ended 31 December 2006

32. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2006 HK\$'000	2005 HK\$'000
Consultancy fee paid to a former substantial shareholder, Mr. Chiu Fu Sheng (<i>note</i>)	–	240
Purchases from ERA Taiwan	–	267
	<u>–</u>	<u>267</u>

Note: ERA Taiwan is the Company's ultimate parent. Mr. Chiu Fu Sheng, a substantial shareholder of the Company up to 5 July 2005, is a major shareholder of ERA Taiwan. On 5 July 2005, Mr. Chiu Fu Sheng disposed of his entire equity interests in ERA Taiwan and ceased to be a related party of the Company.

Pursuant to a consultancy agreement dated 6 May 2003 entered into between Mr. Chiu Fu Sheng and the Group, the Group appointed Mr. Chiu as a consultant in respect of the entertainment-related business, including but not limited to the development and operation of cinema business and game business, for the period since 1 June 2003 at HK\$40,000 per month until terminated by either party giving not less than three months' notice in writing.

Pursuant to an intellectual property rights agreement entered into between ERA Taiwan and the Group, ERA Taiwan granted to the Group an exclusive license to use "Era" trademark in Hong Kong and the PRC commencing on 15 May 1998 for a period of 10 years and is subject to a renewal for a further 10 years. The Group is required to pay to ERA Taiwan an annual license fee of HK\$1.

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business.

Notes to the Financial Statements

Year ended 31 December 2006

33. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Era Information & Entertainment (BVI) Limited	British Virgin Islands	Ordinary US\$2,620	100%	–	Investment holding
Era Home Entertainment Limited	Hong Kong	Ordinary HK\$24,000,000	–	100%	Distribution of home video products
Era Films (HK) Limited	Hong Kong	Ordinary HK\$2	–	100%	Distribution of films in various formats and sub-licensing of film rights
Era Communications Limited	Hong Kong	Ordinary HK\$50,000	–	100%	Investment holding
Era Digital Media Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Games distribution and operation of entertainment related portals
Red River Agents Limited	Hong Kong	Ordinary HK\$2	–	100%	Advertising agent
*北京年恩長影文化傳播有限公司 (「年恩」)	PRC	Registered capital RMB5,000,000	–	75.92%	Film rights agent

Notes to the Financial Statements

Year ended 31 December 2006

33. PARTICULARS OF SUBSIDIARIES *(continued)*

- * 年恩 is a sino-foreign equity joint venture enterprise with an operating period of 20 years commencing from 2 April 2004. The statutory financial statements of 年恩, prepared in accordance with generally accepted accounting principles in the PRC, were audited by Shu Lun Pan Certified Public Accountants Co., Ltd. for tax filing purpose.

34. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date the Group has disposed of the entire interests of a subsidiary, which holds the club membership, at a consideration of HK\$480,000.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of deferred tax previously classified under other operating expenses to income tax expense. The new classification of the accounting items was considered to provide a more appropriate presentation of the results of the Group.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2007.