

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of its subsidiaries and jointly controlled entities are set out in notes 33 and 15 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

All significant intra-group transactions and balances have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Income from the production and distribution of films is recognised when the production is completed, released and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution and broadcasting rights over films and television series is recognised when the Company's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

Amounts received for pre-sales of the distribution and broadcasting rights over films and television series before completion of production are accounted for as receipts in advance and grouped under trade and other payables in the balance sheet.

Income from the provision of film processing services is recognised when the services are provided.

Advertising and promotional service income is recognised when the services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of the jointly controlled entities is included within the carrying amount of the relevant jointly controlled entities.

Property, plant and equipment

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

The leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method at the following rates per annum:

| | |
|--------------------------------|----------------------------|
| Leasehold land | Over the term of the lease |
| Buildings | 2.5% |
| Furniture and fixtures | 20% |
| Leasehold improvements | 20% |
| Motor vehicles | 20% – 30% |
| Plant, machinery and equipment | 20% |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment securities

Investment in securities are recognised on trade-date basis and are initially measured at cost.

Investment securities are held for an identified long-term strategic purpose, and are subsequently measured at cost as reduced by any impairment loss that is other than temporary.

Operating leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Film rights and production in progress

Film rights generated by the Group or perpetual rights acquired by the Group are stated at lower of cost less accumulated amortisation and impairment losses, and net realisable value. Costs of film rights, represent the carrying value transferred from film production in progress upon completion or the purchase price of the perpetual film rights, and are amortised over the period of two to twenty years.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress and are transferred to film rights upon completion.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations which are denominated in foreign currencies are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited 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.

4. TURNOVER

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| An analysis of turnover is as follows: | | |
| Film distribution and licensing income | 20,152 | 24,907 |
| Film processing income | 22,529 | 24,708 |
| Advertising and promotional service income | 10,511 | 8,920 |
| | <u>53,192</u> | <u>58,535</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions - film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2004

| | Film distribution and licensing HK\$'000 | Film processing HK\$'000 | Advertising and promotional services HK\$'000 | Other operations HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------|---|---------------------------------|-------------------------|-------------------|
| REVENUE | | | | | | |
| External revenue | 23,473 | 21,426 | 10,520 | - | - | 55,419 |
| Inter segment revenue | 1,930 | 1,551 | 523 | 216 | (4,220) | - |
| Total revenue | <u>25,403</u> | <u>22,977</u> | <u>11,043</u> | <u>216</u> | <u>(4,220)</u> | <u>55,419</u> |
| RESULT | | | | | | |
| Segment result | <u>(38,592)</u> | <u>(775)</u> | <u>18</u> | <u>(1,788)</u> | <u>-</u> | (41,137) |
| Finance costs | | | | | | (751) |
| Allowance on loan to a jointly controlled entity | | | | (10,927) | | (10,927) |
| Amortisation on goodwill of investment in jointly controlled entity | | | | (300) | | (300) |
| Impairment on goodwill of investment in jointly controlled entity | | | | (2,400) | | (2,400) |
| Share of results of jointly controlled entities | | | | (321) | | <u>(321)</u> |
| Loss before taxation | | | | | | (55,836) |
| Income tax expense | | | | | | <u>(507)</u> |
| Loss before minority interests | | | | | | <u>(56,343)</u> |

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2004

BALANCE SHEET

| | Film distribution and licensing HK\$'000 | Film processing HK\$'000 | Advertising and promotional services HK\$'000 | Others operations HK\$'000 | Total HK\$'000 |
|--|--|--------------------------------|---|----------------------------------|-------------------|
| ASSETS | | | | | |
| Segment assets | 60,862 | 24,679 | 4,508 | – | 90,049 |
| Interests in jointly controlled entities | | | | 16,284 | 16,284 |
| Unallocated corporate assets | | | | | 7,196 |
| Consolidated total assets | | | | | <u>113,529</u> |
| LIABILITIES | | | | | |
| Segment liabilities | 14,035 | 2,603 | 3,040 | – | 19,678 |
| Unallocated corporate liabilities | | | | | 23,791 |
| Consolidated total liabilities | | | | | <u>43,469</u> |
| OTHER INFORMATION | | | | | |
| Capital expenditure | 199 | 112 | 42 | – | 353 |
| Depreciation and amortisation | | | | | |
| – property, plant and equipment | 1,940 | 249 | 78 | 34 | 2,301 |
| – goodwill | – | – | – | 300 | 300 |
| – film rights | 720 | – | – | – | 720 |
| Impairment loss recognised in respect of film production in progress | 6,981 | – | – | – | 6,981 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2003

| | Film distribution and licensing HK\$'000 | Film processing HK\$'000 | Advertising and promotional services HK\$'000 | Other operations HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------|---|---------------------------------|-------------------------|-------------------|
| REVENUE | | | | | | |
| External revenue | 26,103 | 26,211 | 8,922 | 281 | – | 61,517 |
| Inter segment revenue | 2,383 | 2,508 | 684 | 216 | (5,791) | – |
| Total revenue | <u>28,486</u> | <u>28,719</u> | <u>9,606</u> | <u>497</u> | <u>(5,791)</u> | <u>61,517</u> |
| RESULT | | | | | | |
| Segment result | <u>8,183</u> | <u>(1,699)</u> | <u>(31)</u> | <u>(1,180)</u> | <u>–</u> | 5,273 |
| Impairment loss recognised in respect of investment securities | | | | | | <u>(4,000)</u> |
| Profit from operations | | | | | | 1,273 |
| Finance costs | | | | | | (513) |
| Amortisation on goodwill of investment in jointly controlled entity | | | | (300) | | (300) |
| Share of results of jointly controlled entities | | | | 1,084 | | <u>1,084</u> |
| Profit before taxation | | | | | | 1,544 |
| Income tax expense | | | | | | <u>(1,011)</u> |
| Profit before minority interests | | | | | | <u>533</u> |

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2003

BALANCE SHEET

| | Film distribution and licensing HK\$'000 | Film processing HK\$'000 | Advertising and promotional services HK\$'000 | Others operations HK\$'000 | Total HK\$'000 |
|--|--|--------------------------------|---|----------------------------------|-------------------|
| ASSETS | | | | | |
| Segment assets | 107,230 | 31,208 | 3,514 | – | 141,952 |
| Interests in jointly controlled entities | – | – | – | 27,261 | 27,261 |
| Unallocated corporate assets | | | | | 5,372 |
| | | | | | <u>174,585</u> |
| LIABILITIES | | | | | |
| Segment liabilities | 15,148 | 6,261 | 1,292 | – | 22,701 |
| Unallocated corporate liabilities | | | | | 25,481 |
| | | | | | <u>48,182</u> |
| OTHER INFORMATION | | | | | |
| Capital expenditure | 57 | 689 | 34 | – | 780 |
| Depreciation and amortisation | | | | | |
| – property, plant and equipment | 270 | 1,933 | 71 | – | 2,274 |
| – goodwill | – | – | – | 300 | 300 |
| Impairment loss recognised in respect of film production in progress | 3,000 | – | – | – | 3,000 |
| Impairment loss recognised in respect of investment securities | – | – | – | 4,000 | 4,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

The Group's customers are located in Hong Kong, the People's Republic of China, other than Hong Kong (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution and licensing business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

An analysis of the Group's revenue by geographical market, based on the origin of the services and an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located, is presented below.

2004

| | Hong Kong HK\$'000 | The PRC HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|------------------------------|----------------------------|---------------------------|--------------------------|
| REVENUE | | | | |
| Turnover | 38,712 | 7,982 | 6,498 | 53,192 |
| Other operating income | 2,222 | 5 | – | 2,227 |
| Total revenue | <u>40,934</u> | <u>7,987</u> | <u>6,498</u> | <u>55,419</u> |
| | Hong Kong HK\$'000 | The PRC HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Carrying amount of segment assets | <u>75,679</u> | <u>23,350</u> | <u>14,500</u> | <u>113,529</u> |
| Additions to property, plant and equipment | <u>337</u> | <u>16</u> | <u>–</u> | <u>353</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS (continued)

2003

| | Hong Kong HK\$'000 | The PRC HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|------------------------------|----------------------------|---------------------------|--------------------------|
| REVENUE | | | | |
| Turnover | 40,825 | 3,725 | 13,985 | 58,535 |
| Other operating income | 2,382 | 600 | – | 2,982 |
| Total revenue | <u>43,207</u> | <u>4,325</u> | <u>13,985</u> | <u>61,517</u> |
| | Hong Kong HK\$'000 | The PRC HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Carrying amount of segment assets | <u>133,610</u> | <u>35,171</u> | <u>5,804</u> | <u>174,585</u> |
| Additions to property, plant and equipment | <u>760</u> | <u>20</u> | <u>–</u> | <u>780</u> |

6. (LOSS) PROFIT FROM OPERATIONS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------------------------|------------------|
| (Loss) profit from operations has been arrived at after charging: | | |
| Directors' emoluments (<i>note 8</i>) | 3,146 | 4,274 |
| Other staff costs | 11,492 | 11,318 |
| Total staff costs | 14,638 | 15,592 |
| Auditors' remuneration | 878 | 820 |
| Depreciation and amortisation | | |
| – property, plant and equipment | 2,301 | 2,274 |
| – goodwill | 300 | 300 |
| – film rights | 720 | – |
| Impairment loss recognised in respect of film production in progress (included in cost of sales) | 6,981 | 3,000 |
| and after crediting: | | |
| Interest income | 36 | 36 |

Included in total staff costs is an aggregate amount of approximately HK\$607,000 (2003: HK\$545,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

7. FINANCE COSTS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Interest on bank and other borrowing: | | |
| – wholly repayable within five years | 732 | 492 |
| – not wholly repayable within five years | 19 | 21 |
| | <u>751</u> | <u>513</u> |

8. DIRECTORS' AND EMPLOYEES EMOLUMENTS

The emoluments of the directors and the five highest paid individuals are summarised as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| (a) Directors' emoluments | | |
| Fees | | |
| – Executive directors | – | – |
| – Independent non-executive directors | 480 | 320 |
| | <u>480</u> | 320 |
| Other emoluments | | |
| – Executive directors | | |
| Salaries and allowances | 2,630 | 3,855 |
| Retirement benefits scheme contributions | 36 | 99 |
| | <u>3,146</u> | <u>4,274</u> |

The emoluments of the directors were within the following bands:

| | 2004 Number of Directors | 2003 Number of Directors |
|--------------------------------|--------------------------------|--------------------------------|
| Nil to HK\$1,000,000 | 6 | 8 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| | <u>7</u> | <u>9</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

8. DIRECTORS' AND EMPLOYEES EMOLUMENTS (continued)

(a) Directors' remuneration (continued)

No emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived any emoluments in both years.

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2003: three directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining two individuals (2003: two individuals) were as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Salaries and allowances | 1,017 | 1,080 |
| Retirement benefits scheme contributions | 50 | 51 |
| | <u>1,067</u> | <u>1,131</u> |

The emoluments of each individual for both years were less than HK\$1,000,000.

9. INCOME TAX EXPENSE

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Hong Kong Profits Tax | | |
| – provision for current year | 342 | 160 |
| – underprovision of Hong Kong Profits Tax in prior years | 197 | – |
| | <u>539</u> | <u>160</u> |
| Deferred tax (credit) charge (<i>note 22</i>) | | |
| Current year | (73) | 192 |
| Attributable to a change in tax rate | – | 68 |
| | <u>(73)</u> | <u>260</u> |
| Taxation attributable to the Company and its subsidiaries | 466 | 420 |
| Taxation attributable to the jointly controlled entities | 41 | 591 |
| | <u>507</u> | <u>1,011</u> |

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

9. INCOME TAX EXPENSE (continued)

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| (Loss) profit before taxation | <u>(55,836)</u> | <u>1,544</u> |
| Tax at the domestic income tax rate of 17.5% | (9,771) | 270 |
| Tax effect of expenses not deductible for tax purpose | 4,047 | 1,224 |
| Tax effect of income not taxable for tax purpose | (5) | (856) |
| Underprovision in respect of prior year | 197 | – |
| Tax effect of additional tax losses not recognised | 5,930 | 6 |
| Utilisation of tax losses previously not recognised | (33) | (102) |
| Utilisation of deferred tax assets previously not recognised | (230) | – |
| Tax effect on share of results of jointly controlled entities | 372 | 401 |
| Increase in opening deferred tax liabilities from an increase in tax rate | – | 68 |
| Tax charge for the year | <u>507</u> | <u>1,011</u> |

10. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31st December, 2004.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the net loss for the year of HK\$56,269,000 (2003: net profit of HK\$551,000) and on 330,000,000 shares in issue during both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Furniture and fixtures HK\$'000 | Leasehold improvements HK\$'000 | Motor vehicles HK\$'000 | Plant, machinery and equipment HK\$'000 | Total HK\$'000 |
|-------------------------------|-----------------------------------|--|---------------------------------------|-------------------------------|---|-------------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1st January, 2004 | 4,500 | 5,349 | 3,068 | 525 | 20,371 | 33,813 |
| Additions | – | 40 | – | – | 313 | 353 |
| At 31st December, 2004 | 4,500 | 5,389 | 3,068 | 525 | 20,684 | 34,166 |
| Comprising: | | | | | | |
| At cost | – | 5,389 | 3,068 | 525 | 20,684 | 29,666 |
| At valuation – 2001 | 4,500 | – | – | – | – | 4,500 |
| | <u>4,500</u> | <u>5,389</u> | <u>3,068</u> | <u>525</u> | <u>20,684</u> | <u>34,166</u> |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1st January, 2004 | 428 | 4,219 | 2,044 | 409 | 15,835 | 22,935 |
| Provided for the year | 171 | 331 | 265 | 35 | 1,499 | 2,301 |
| At 31st December, 2004 | 599 | 4,550 | 2,309 | 444 | 17,334 | 25,236 |
| NET BOOK VALUES | | | | | | |
| At 31st December, 2004 | 3,901 | 839 | 759 | 81 | 3,350 | 8,930 |
| At 31st December, 2003 | 4,072 | 1,130 | 1,024 | 116 | 4,536 | 10,878 |

The Group's leasehold land and buildings was revalued at 30th June, 2001 by Vigers Hong Kong Limited, an independent firm of qualified professional valuers, on an open market value basis. In the opinion of directors, the carrying value of the Group's leasehold land and buildings as at 31st December, 2004 is not significantly different to the fair value at 31st December, 2004.

The leasehold land and buildings of the Group are situated in Hong Kong and are held under medium term leases.

At 31st December, 2004, had all of the land and buildings of the Group been carried at historical cost less accumulated depreciation and amortisation, their carrying amount would have been approximately HK\$5,504,000 (2003: HK\$5,675,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

13. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|----------------|----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares | 44,172 | 44,172 |
| Amounts due from subsidiaries | 64,988 | 66,645 |
| | 109,160 | 110,817 |
| Less: Impairment loss | (46,000) | – |
| | 63,160 | 110,817 |

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of Grimston Limited and its subsidiaries at the time these subsidiaries were acquired by the Company pursuant to the Group Reorganisation in 2001.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts are repayable within one year from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.

During the year, an impairment loss has been recognised in respect of the investment in and advances to subsidiaries to their recoverable amounts.

Details of the Company's subsidiaries at 31st December, 2004 are set out in note 33.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

14. INVESTMENT SECURITIES

| | THE GROUP | |
|-----------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Equity securities in Hong Kong | | |
| Listed shares, at cost | 6,100 | – |
| Unlisted shares, at cost | – | 7,000 |
| Less: accumulated impairment loss | – | (4,000) |
| | <u>6,100</u> | <u>3,000</u> |
| Market value of listed shares | <u>7,128</u> | <u>–</u> |

During the year, the Group exchanges its interests in unlisted shares with a carrying value of HK\$3,000,000 for the interests in listed shares at the same amount.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|--|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 16,284 | 16,646 |
| Goodwill on acquisition | – | 2,700 |
| | <u>16,284</u> | <u>19,346</u> |
| Loan to a jointly controlled entity | 10,927 | 7,915 |
| Allowance on loan to jointly controlled entity | (10,927) | – |
| | <u>16,284</u> | <u>27,261</u> |

The loan advanced to a jointly controlled entity is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, this amount will not be repaid within the next twelve months from the balance sheet date and accordingly, the amount is classified as non-current in the balance sheet.

The goodwill on acquisition of the jointly controlled entities is amortised on a straight line basis over 10 years starting from year of commencement of operation, i.e. 2003 and the amount of HK\$300,000 has been charged in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

As at 31st December, 2004, the Group had interests in the following jointly controlled entities:

| Name of entity | Place of incorporation/ operation | Proportion of nominal value of issued capital/ registered capital held indirectly by the Company % | Nature of business |
|---------------------------------------|---|--|--|
| Prosper China Limited ("PCL") | British Virgin Islands ("BVI")/ Hong Kong | 40 | Investment holding |
| 北京東方新青年文化發展 有限公司 ("Beijing Youth") | PRC | 40 | Provision of cultural education courses |
| 浙江東方國際發展有限公司 ("浙江東方") | PRC | 37.5 | Hotel operation |

During the year ended 31st December, 2004, an indirect wholly-owned subsidiary of the Company, entered into a conditional agreement with an independent third party to subscribe for a 40% interest in a joint venture established in the PRC, which will be satisfied by assignment of trade receivables arising on the assignment of the interests in a batch of films and television series in 2004. The co-investor agreed to inject a piece of land in the PRC as their capital contribution.

Up to the date of this report, the formation of the joint venture has not yet been completed as the co-investor has not yet injected the piece of land to the joint venture. Accordingly, the Group did not recognise any income from the assignment of the interests in that batch of films and television series and the proposed formation of the joint venture.

16. INVENTORIES, AT COST

| | THE GROUP | |
|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Raw materials | 1,927 | 2,087 |
| Work in progress | 22 | 537 |
| | <u>1,949</u> | <u>2,624</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

17. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$9,318,000 (2003: HK\$19,734,000) and their aged analysis is as follows:

| | THE GROUP | |
|----------------|--------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| 0 – 90 days | 5,951 | 14,190 |
| 91 – 180 days | 1,890 | 2,264 |
| 181 – 365 days | 547 | 2,874 |
| Over 1 year | 930 | 406 |
| | <u>9,318</u> | <u>19,734</u> |

18. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company are as follows:

| | THE GROUP | | |
|----------------------|----------------|--------------|--------------------|
| | As at | | Maximum amount |
| | 31st December, | 2003 | outstanding during |
| | 2004 | | the year ended |
| | HK\$'000 | HK\$'000 | 31st December, |
| | | | 2004 |
| | | | HK\$'000 |
| 廣州東影影視出品有限公司 | | | |
| ("Tung Ying") (Note) | <u>6,147</u> | <u>6,385</u> | <u>6,385</u> |

Note: A brother of Mr. Wong Pak Ming ("Mr. Wong") has a beneficial interest in this company.

The amount is unsecured, non-interest bearing and is repayable on demand.

19. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, non-interest bearing and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

20. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$4,475,000 (2003: HK\$5,963,000) and their aged analysis is as follows:

| | THE GROUP | |
|---------------|------------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| 0 – 90 days | 4,222 | 5,529 |
| 91 – 180 days | 253 | 434 |
| | <u>4,475</u> | <u>5,963</u> |

21. BANK AND OTHER LOANS

| | THE GROUP | |
|-----------------|------------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Bank loans | 12,084 | 14,325 |
| Other loan | 8,290 | 10,000 |
| Bank overdrafts | 1,483 | 75 |
| | <u>21,857</u> | <u>24,400</u> |
| Secured | 4,084 | 6,325 |
| Unsecured | 17,773 | 18,075 |
| | <u>21,857</u> | <u>24,400</u> |

The maturity of the bank and other loans is as follows:

| | | |
|--|-----------------|-----------------|
| On demand or within one year | 17,777 | 14,996 |
| More than one year, but not exceeding two years | 3,691 | 5,922 |
| More than two years, but not exceeding five years | 294 | 3,286 |
| More than five years | 95 | 196 |
| | <u>21,857</u> | <u>24,400</u> |
| Less: Amount due within one year shown under current liabilities | <u>(17,777)</u> | <u>(14,996)</u> |
| Amount due after one year | <u>4,080</u> | <u>9,404</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

22. DEFERRED TAXATION

The followings are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods.

| | THE GROUP | | |
|---|--|---------------------------|-------------------|
| | Accelerated tax depreciation HK\$'000 | Tax losses HK\$'000 | Total HK\$'000 |
| | | | |
| At 1st January, 2003 | (1,200) | 500 | (700) |
| Charge (credit) to income statement for the year | 193 | (385) | (192) |
| Effect on change in tax rate | (113) | 45 | (68) |
| At 31st December, 2003 | (1,120) | 160 | (960) |
| Credit (charge) to income statement for the year | 233 | (160) | 73 |
| At 31st December, 2004 | (887) | – | (887) |

At the balance sheet date, the Group has unused tax losses of HK\$27,774,000 (2003: HK\$15,689,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

The Company has no significant provided or unprovided deferred taxation at the balance sheet dates or for the year.

23. SHARE CAPITAL

| | Number of shares | Amount HK\$'000 |
|--|---------------------|--------------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1st January, 2003, 31st December, 2003 and 31st December, 2004 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1st January, 2003, 31st December, 2003 and 31st December, 2004 | 330,000,000 | 33,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 21st August, 2001 for the purpose of recognising the contribution of the senior management and full-time employees of the Group. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 per each grant of option(s). Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of Company's shares as stated in the daily operations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant.

The Scheme will expire on 20th August, 2011.

No options were granted, exercised, lapsed or cancelled during the year ended 31st December, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

25. RESERVES

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Accumulated profits (losses) HK\$'000 | Total HK\$'000 |
|------------------------|------------------------------|------------------------------------|---|-------------------|
| THE COMPANY | | | | |
| At 1st January, 2003 | 34,653 | 44,072 | 507 | 79,232 |
| Net loss for the year | — | — | (1,393) | (1,393) |
| At 31st December, 2003 | 34,653 | 44,072 | (886) | 77,839 |
| Net loss for the year | — | — | (47,732) | (47,732) |
| At 31st December, 2004 | <u>34,653</u> | <u>44,072</u> | <u>(48,618)</u> | <u>30,107</u> |

The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange thereof at the time of the Group Reorganisation in 2001.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company did not have any distribution reserve as at 31st December, 2004.

The Company's reserves available for distribution to shareholders as at 31st December, 2003 were represented by its contributed surplus and accumulated losses, totalling approximately HK\$43,186,000.

26. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|----------|------------------|------------------|
| Premises | <u>1,427</u> | <u>1,513</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

26. OPERATING LEASE COMMITMENTS (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Operating leases which expire: | | |
| Within one year | 1,058 | 1,537 |
| In the second to fifth year inclusive | 864 | 200 |
| | <u>1,922</u> | <u>1,737</u> |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years with rental fixed throughout the year.

The Company had no significant operating lease commitments at the balance sheet date.

27. CAPITAL COMMITMENTS

As at 31st December, 2004, the Group had capital commitment of approximately HK\$23,030,000 (2003: nil) which is contracted for the investment in a joint venture in the PRC.

The Company had no capital commitments at the balance sheet dates.

28. OTHER COMMITMENTS

At the balance sheet date, the Group had the commitments for the following expenditure in respect of:

| | THE GROUP | |
|--------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| The production of a film | 829 | – |
| Artists' fee | 7,506 | 9,091 |
| | <u>8,335</u> | <u>9,091</u> |

The Company had no other commitments at the balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

29. CONTINGENT LIABILITIES

| | THE COMPANY | |
|---|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Guarantees given to bank in respect of banking facilities utilised by a subsidiary | <u>12,995</u> | <u>12,400</u> |

The Group did not have any significant contingent liabilities at the balance sheet dates.

30. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2004, the Group's bank facilities are secured by the followings:

- (1) the unlimited corporate guarantee given by the Company;
- (2) the legal charge over the copyright of one film "Dating Death" with a carrying value of approximately HK\$669,000, included in film rights and production in progress, at 31st December, 2004 (2003: HK\$5,543,000);
- (3) the assignment of income receivables to be derived from the licensing of the film "Dating Death" in all territories throughout the world; and
- (4) certain of its leasehold land and buildings with a carrying value of HK\$3,901,000 (2003: HK\$4,072,000) and its plant and machinery of HK\$2,148,000 (2003: HK\$3,004,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

31. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee’s basic salary.

The employees of the Group’s subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

32. RELATED PARTY TRANSACTIONS

During year, the Group entered into the following significant transactions with related parties:

| Name of related party | Nature of transactions | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------|-------------------------------|-------|------------------|------------------|
| PCL | Management fee income | (i) | 600 | 600 |
| Tung Ying | Agency fees | (ii) | 163 | 81 |
| | Consultancy services fee paid | (iii) | 270 | 270 |

Notes:

- (i) The management fee income was charged by reference to the actual cost incurred.
- (ii) The agency fees are charged by Tung Ying at the agreed terms of 5-10% (2003: 10%) of the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (iii) The consultancy services fee paid to Tung Ying was determined by reference to the market prices for similar transactions.

33. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries of the Company as at 31st December, 2004 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued share capital/ registered capital held by Company % | Principal activities |
|---|---|---|--|--|
| Award Media Profits Limited | BVI/ Hong Kong | US\$1 ordinary share | 100 | Investment holding |
| Chili Advertising & Promotions Limited | Hong Kong | HK\$10,000 ordinary shares | 100 | Provision of advertising and promotional services |
| Film City Enterprises Limited | BVI/ Hong Kong | US\$1 ordinary share | 100 | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

33. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued share capital/ registered capital held by Company % | Principal activities |
|---|--------------------------------------|--|---|--|
| Grimston Limited | BVI/ Hong Kong | US\$10,000 ordinary shares | 100 | Investment holding |
| Mandarin Films Distribution Company Limited | Hong Kong | HK\$20 ordinary shares HK\$10,000,000 non-voting deferred shares (note 1) | 100 | Distribution of films produced or purchased by the Group |
| Mandarin Films Distribution Co., Ltd. (formerly known as Media Elite Enterprises Limited) | BVI | US\$10,000 ordinary shares | 100 | Distribution of films produced or purchased by the Group |
| Mandarin Films Limited | Hong Kong | HK\$100 ordinary shares | 100 | Production of films |
| Mandarin Laboratory Limited | Hong Kong | HK\$10,000 ordinary shares | 100 | Distribution of films produced by third parties |
| Mandarin Laboratory (International) Limited | Hong Kong | HK\$1,000,000 ordinary shares | 100 | Film processing and storage of films |
| Mandarin Motion Picture Limited | Hong Kong | HK\$500,000 ordinary shares | 100 | Production of films |
| Walsbo Limited | Hong Kong | HK\$2 ordinary shares HK\$9,800 non-voting deferred shares (note 1) | 100 | Investment holding |
| 廣州智理廣告有限公司 (note 2) | PRC | RMB1,000,000 | 70 | Provision of advertising and promotional services |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

33. PARTICULARS OF SUBSIDIARIES (continued)

Note:

1. The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
2. 廣州智理廣告有限公司 is a sino-foreign equity joint venture.

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

The Company directly holds the interest in Grimston Limited. All other interests shown above are indirectly held.