NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st March 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Stock Exchange. In the opinion of the Directors, the Company's ultimate holding company is Sunni International Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The Company acts as an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 38 and 19 respectively to the consolidated financial statements.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st April 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, the consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of an associate have been changed. These changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

Goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group on 1st April 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,737,000 with a corresponding decrease in the cost of goodwill (see note 18). The Group has discontinued amortising such goodwill from 1st April 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1st April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated (see note 3 for the financial impact).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Business Combinations *(Continued)*

Goodwill (Continued)

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Share-based Payment

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to Directors and employees of the Group, determined at the date of grant of the share options, over the vesting period.

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. In relation to share options granted before 1st January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November 2002 and vested before 1st January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005. Because there were no unvested share options at 1st January 2005, comparative figures for 2005 have not been restated. As a result of this change in accounting policy, the Group has recognised the share-based payments in respect of options granted during the year ended 31st March 2006 of HK$22,541,000, of which HK$2,917,000 has been capitalised in CG animation pictures and HK$19,624,000 has been charged to the consolidated income statement, which has caused a corresponding increase to the Group's loss for the year (see note 3 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 32 and HKAS 39 are summarised below:

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial Instruments *(Continued)*

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. As a result of this change in accounting policy, the Company has recognised effective interest cost of HK$1,811,000 in relation to the convertible notes issued during the year, of which HK$399,000 has been capitalised in CG animation pictures and HK$1,412,000 has been charged to consolidated income statement, which has caused a corresponding increase to the Group's loss for the year. The adoption of HKAS 32 has had no effect on how the results for the prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March 2005, the Group classified and measured its investments in securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment loses (if any). From 1st April 2005 onwards, the Group has classified and measured its debt securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st April 2005, the Group classified and measured its investments in securities in accordance with the transitional provisions of HKAS 39. Club debentures previously accounted for as investments in securities classified under non-current assets with a carrying amount of HK$1,201,000 were reclassified to available-for-sale investments at 1st April 2005.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial Instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Financial liabilities at fair value through profit or loss" are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The adoption of HKAS 39 has had no material effect on the Group in the current and prior accounting periods.

The Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[4]
HK(IFRIC)-INT 8	Scope of HKFRS 2[5]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[6]

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st January 2006.
3 Effective for annual periods beginning on or after 1st December 2005.
4 Effective for annual periods beginning on or after 1st March 2006.
5 Effective for annual periods beginning on or after 1st May 2006.
6 Effective for annual periods beginning on or after 1st June 2006.

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

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill	**454**	–
Recognition of share-based payments as expenses	**(19,624)**	–
Increase in effective interest expense on the liability component of convertible notes	**(1,412)**	–
Increase in loss for the year	**(20,582)**	–

Analysis of the increase in loss for the year by line items presented according to their natures is as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in administrative and other operating expenses	**(19,170)**	–
Increase in finance costs	**(1,412)**	–
Increase in loss for the year	**(20,582)**	–

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

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

	At 31st March 2005 (originally stated)	Effect of HKAS 1	At 31st March 2005 (restated)	Effect of HKAS 39	At 1st April 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Investments in securities	1,201	–	1,201	(1,201)	–
Available-for-sale investments	–	–	–	1,201	1,201
Other assets and liabilities	199,267	–	199,267	–	199,267
Total effects on assets and liabilities	200,468	–	200,468	–	200,468
Share capital and reserves	183,507	–	183,507	–	183,507
Retained profits	16,865	–	16,865	–	16,865
Minority interests	–	96	96	–	96
Total effects on equity	200,372	96	200,468	–	200,468
Minority interests	96	(96)	–	–	–
	200,468	–	200,468	–	200,468

The application of the new HKFRSs has had no financial impact on the Group's equity on 1st April 2004.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with new HKFRSs, issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January 2005

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1st January 2005

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

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

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

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

Investments in associate

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

Sale of CG animation pictures is recognised when the film copy of the relevant productions is delivered and title has passed. Payments received prior to delivery of the film copy of the relevant productions are recorded as unearned revenue and are classified as current liabilities in the consolidated balance sheet.

Income from the licensing of the distribution and broadcasting rights over CG animation pictures is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the relevant tapes to the distributors.

Management consultancy income is recognised when the services are rendered.

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

Property, plant and equipment

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CG animation pictures

CG animation pictures, which represent CG animation pictures in which the Group retains ownership, consist of film rights of completed CG animation pictures and CG animation pictures of which the production is still in progress.

CG animation pictures in progress are stated at production costs incurred to date, including borrowing costs capitalised, less accumulated impairment losses. Upon completion and release of the CG animation pictures, the costs are amortised on a systematic basis over their estimated useful lives.

An item of CG animation pictures is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the sales proceeds and the carrying value of the item, is recognised in the consolidated income statement.

Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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

Inventories

Inventories represent CG animation pictures, in which the Group does not retain any ownership, produced under CG animation pictures production contracts with independent third parties and are stated at the lower of cost and net realisable value.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended uses or sales. Investment income, if any, earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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 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 profit or loss, 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme ("MPF"), which are required under the Hong Kong Mandatory Provident Fund Scheme Ordinance, are charged as expenses as they fall due.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair values are included in profit or loss for the period.

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into the following categories, including trade and other receivables, bank balances and cash and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Trade and other receivables and bank balances and cash

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. For available-for-sale debt investments (e.g. club debentures), impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities (other than convertible notes)

Financial liabilities including bank borrowings, obligations under finance leases and other payables are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

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

Equity-settled share-based payments transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity which is share option reserve.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill (see the accounting policies in respect of goodwill above))

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 amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management makes various estimates and judgments (other than involving estimates) based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgments that can significantly effect on the amounts recognised in the financial statements are disclosed below.

Impairment loss on CG animation pictures

Management regularly reviews the recoverability of the Group's CG animation pictures with reference to their intended uses and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the CG animation pictures are impaired.

In determining whether impairment on CG animation pictures exists, the Group takes into consideration the current market condition with reference to the existing operating plan and budget. Impairment is recognised based on the higher of estimated future cash flow and estimated market value. Where the recoverable amount of the CG animation pictures is less than expected as a result of an adverse change in market condition or an escalation of cost, impairment loss may result. At 31st March 2006, the carrying amount of CG animation pictures was HK$219,576,000. Details of the recoverable amount of CG animation pictures are disclosed in note 17.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. At 31st March 2006, the carrying amount of goodwill is HK$2,799,000. Details of the recoverable amount calculation are disclosed in note 18.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks and they are summarised below:

Currency risk

Certain trade receivables, bank balances and bank borrowings of the Group are denominated in foreign currencies. The Group's foreign exchange exposures arise mainly from the exchange rate movements of Euro, Japanese Yen and United States dollars. The Group currently does not have a foreign currency hedging policy. However, management monitors the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The Directors consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are having short maturity periods.

The Group has exposure of cash flow interest rate risk through the impact of the rate changes on bank borrowings. The Group does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31st March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In addition, the Group has concentration of credit risk by certain major customers. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivable is mainly in Asia Pacific (including Hong Kong) for the year ended 31st March 2006.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining flexibility in funding by arranging banking facilities and other external financing.

7. TURNOVER

Turnover represents the amounts received and receivable for goods sold or services rendered by the Group during the year and is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of CG animation pictures	**479**	86,355
Income from licensing of CG animation pictures	**–**	4,283
Management consultancy income	**6,167**	10,496
	6,646	101,134

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions during the year. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

CG animation pictures	–	Production, licensing and sales of CG animation pictures
Management consultancy services	–	Provision of management consultancy services

Subsequent to 31st March 2006, the Directors resolved to cease the Group's management consultancy services operation.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2006

	CG animation pictures	Management consultancy services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	**479**	**6,167**	**6,646**
RESULTS			
Segment results	**(26,086)**	**(27)**	**(26,113)**
Other income			**3,473**
Unallocated corporate expenses			**(47,476)**
Finance costs			**(1,419)**
Loss before taxation			**(71,535)**
Income tax expense			**(717)**
Loss for the year			**(72,252)**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

CONSOLIDATED BALANCE SHEET

At 31st March 2006

	CG animation pictures *HK$'000*	Management consultancy services *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	273,292	350	273,642
Interest in an associate			–
Unallocated corporate assets			119,580
Consolidated total assets			393,222
LIABILITIES			
Segment liabilities	7,561	–	7,561
Unallocated corporate liabilities			213,968
Consolidated total liabilities			221,529

OTHER INFORMATION

For the year ended 31st March 2006

	CG animation pictures *HK$'000*	Management consultancy services *HK$'000*	Unallocated items *HK$'000*	Consolidated *HK$'000*
Capital additions	182,532	–	2,276	184,808
Depreciation and amortisation	17,895	–	1,242	19,137
Impairment loss recognised in respect of CG animation pictures	19,394	–	–	19,394
Loss on disposal of property, plant and equipment	221	–	–	221

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2005

	CG animation pictures *HK$'000*	Management consultancy services *HK$'000*	Consolidated *HK$'000* *(restated)*
TURNOVER			
External sales	90,638	10,496	101,134
RESULTS			
Segment results	2,035	349	2,384
Other income			9,362
Unallocated corporate expenses			(49,699)
Finance costs			(34)
Share of loss of an associate			(21,806)
Loss before taxation			(59,793)
Income tax expense			(70,524)
Loss for the year			(130,317)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

CONSOLIDATED BALANCE SHEET

At 31st March 2005

	CG animation pictures *HK$'000*	Management consultancy services *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	128,269	1,586	129,855
Interest in an associate			–
Unallocated corporate assets			172,420
Consolidated total assets			302,275
LIABILITIES			
Segment liabilities	6,036	–	6,036
Unallocated corporate liabilities			95,771
Consolidated total liabilities			101,807

OTHER INFORMATION

For the year ended 31st March 2005

	CG animation pictures *HK$'000*	Management consultancy services *HK$'000*	Unallocated items *HK$'000*	Consolidated *HK$'000*
Capital additions	90,734	–	841	91,575
Depreciation and amortisation	22,158	–	1,577	23,735
Impairment loss recognised in respect of CG animation pictures	15,250	–	–	15,250
Loss on disposal of property, plant and equipment	5,417	–	–	5,417
Allowance for amount due from an associate	–	–	3,488	3,488

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	Total turnover	
	2006	2005
	HK$'000	*HK$'000*
North America	**–**	75,123
Asia Pacific	**6,646**	26,011
	6,646	101,134

Analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**280,264**	129,767	**171,949**	26,133
Japan	**1,243**	1,245	**–**	447
Malaysia	**42,368**	126,721	**8,818**	64,571
United States of America	**62,803**	3,072	**4,041**	424
Others	**6,477**	20,694	**–**	–
	393,155	281,499	**184,808**	91,575

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest wholly repayable within five years on:		
Bank borrowings	**2,930**	33
Obligations under finance leases	**7**	26
Effective interest expense on convertible notes *(note 27)*	**1,811**	–
	4,748	59
Less: amounts capitalised in CG animation pictures and inventories	**(3,329)**	(25)
	1,419	34

Borrowing costs capitalised during the year arose from the specific borrowings which bore interest at the rates from 4.34% to 9.28% per annum.

10. OTHER INCOME

Included in other income for the year ended 31st March 2006 is a tax refund of HK$2,078,000 from BIHL. On 23rd August 2002, the Group disposed of its Christmas festive products and leisure furniture businesses to BIHL (the "Disposal"). Immediately subsequent to the Disposal, the Group acquired an equity interest in BIHL and thereafter BIHL became an associate of the Group. Pursuant to the relevant Disposal agreements, in the event that BIHL or any of the disposed subsidiaries receives any tax relief or refund of any tax paid which is referable to the above disposed businesses and to any period prior to 23rd August 2002, BIHL or such respective subsidiary shall pay to the Group a sum equal to such tax relief or refund. During the year ended 31st March 2006, an aggregate amount of approximately HK$3,000,000 in respect of such refund of tax was received by the Group. An amount of HK$2,078,000 was recognised during the year ended 31st March 2006 and the remaining amount of HK$922,000 has been recognised during the year ended 31st March 2004.

11. LOSS BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Directors' emoluments *(note 12)*	**23,966**	15,516
Other staff costs	**67,101**	61,840
Equity-settled share-based payments expenses to employees	**15,410**	–
Total staff costs	**106,477**	77,356
Less: amounts capitalised in CG animation pictures and inventories	**(69,547)**	(46,757)
	36,930	30,599
Depreciation of property, plant and equipment	**13,518**	9,795
Less: amounts capitalised in CG animation pictures and inventories	**(12,341)**	(8,711)
	1,177	1,084
Rentals in respect of premises under operating leases	**5,934**	4,379
Less: amounts capitalised in CG animation pictures and inventories	**(5,049)**	(3,645)
	885	734
Auditors' remuneration:		
Current year	**938**	750
(Over)underprovision in previous year	**(10)**	20
Amortisation of goodwill (included in administrative and other operating expenses)	**–**	454
Amortisation of CG animation pictures (included in cost of sales)	**5,619**	13,486
Allowance for amount due from an associate	**–**	3,488
Loss on disposal of property, plant and equipment	**221**	5,417
Cost of inventories recognised as expenses	**918**	56,140
Tax surcharge *(note 13)*	**–**	19,683
Net foreign exchange losses	**123**	1,030
Share of tax of an associate (included in share of loss of an associate)	**–**	1,071
and after crediting:		
Bank interest income	**1,375**	1,451
Gain on disposal of investment in securities	**–**	7,818

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2005: 11) Directors were as follows:

	Mr. Kao Cheung Chong, Michael	Mr. Kao Wai Ho, Francis	Mr. Tse Chi Man, Terry	Mr. Yip Kar Hang, Raymond	Mr. Lam Pak Kin, Philip	Mr. Lai Chi Kin, Lawrence	Mr. Ng See Yuen	Mr. Oh Kok Chi	Total 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	140	–	–	–	200	240	240	240	1,060
Other emoluments:									
Salaries and other benefits	2,359	4,794	2,995	1,958	3,500	40	40	40	15,726
Equity-settled share-based payments expenses	2,851	2,851	1,429	–	–	–	–	–	7,131
Contributions to retirement benefit scheme	5	12	12	8	12	–	–	–	49
Total emoluments	5,355	7,657	4,436	1,966	3,712	280	280	280	23,966

	Mr. Kao Cheung Chong, Michael	Mr. Kao Wai Ho, Francis	Mr. Tse Chi Man, Terry	Mr. Lam Pak Kin, Philip	Mr. Zhang Liping	Mr. Alexander Reid Hamilton	Mr. Lai Chi Kin, Lawrence	Mr. Ng See Yuen	Mr. Oh Kok Chi	Mr. Randy Harris	Mr. Zhuo Fu Min	Total 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	90	180	20	180	180	165	–	815
Other emoluments:												
Salaries and other benefits	3,688	2,194	1,582	3,046	3,998	40	3	23	40	37	–	14,651
Contributions to retirement benefit scheme	12	12	8	12	6	–	–	–	–	–	–	50
Total emoluments	3,700	2,206	1,590	3,058	4,094	220	23	203	220	202	–	15,516

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) **Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, all (2005: three) were Directors of the Company whose emoluments were set out above. Of these Directors, one of them (2005: none) was appointed during the year. His emoluments of HK$2,263,000 for the period before his appointment as a Director were excluded from the amounts disclosed in (a) above. His emoluments (2005: the remaining two individuals) before his appointment as Director were as follows:

	2006 **HK$'000**	2005 *HK$'000*
Salaries and other benefits	**2,259**	5,819
Contributions to retirement benefit scheme	**4**	–
	2,263	5,819

For the year ended 31st March 2006, the emoluments of the above employee in his role as an employee (2005: two employees) were within the following bands:

	2006 **Number of employee**	2005 Number of employee
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1

13. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
		(restated)
The charge comprises:		
Hong Kong Profits Tax		
The Company and its subsidiaries		
– Current tax	**–**	44
– Under(over)provision in prior year	**3**	(3,417)
– (Over)underprovision in prior years *(note)*	**(191)**	73,917
	(188)	70,544
Overseas tax		
The Company and its subsidiaries		
– Current tax	**1,164**	115
– Overprovision in prior year	**(259)**	(135)
	905	(20)
Total	**717**	70,524

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years.

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

The movement in deferred taxation is set out in note 28.

13. INCOME TAX EXPENSE *(Continued)*

The tax charge for the year can be reconciled to the loss before taxation as set out in the consolidated income statement as follows:

	2006 **HK$'000**	2005 HK$'000 (restated)
Loss before taxation	**(71,535)**	(59,793)
Tax at the Hong Kong Profits Tax rate of 17.5%	**(12,519)**	(10,464)
Tax effect of expenses not deductible for tax purposes	**10,567**	20,561
Tax effect of income not taxable for tax purposes	**(603)**	(17,418)
Tax effect of tax losses not recognised	**2,980**	3,617
(Over)underprovision for Hong Kong Profits Tax in prior years, net	**(188)**	70,500
Overprovision for overseas tax in prior year	**(259)**	(135)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**739**	46
Tax effect of share of result of an associate	**–**	3,817
Tax charge for the year	**717**	70,524

13. INCOME TAX EXPENSE *(Continued)*

Note: For the year ended 31st March 2005, certain overseas subsidiaries and a former overseas subsidiary of the Company (collectively the "Subsidiaries") were under a tax audit by the Hong Kong Inland Revenue Department (the "IRD"). The Company's management had been of the opinion that the profits of the Subsidiaries should not be subject to Hong Kong Profits Tax as these profits were not derived from or arising in Hong Kong, and the management was prepared to take all necessary actions, including legal proceedings, to defend the Subsidiaries' position in this regard.

However, having taken into account the precious effort and time of its senior management and the overall interest of the Company and its shareholders, the Company's management was inclined to negotiate a compromised settlement of the tax audit with the IRD. After various detailed discussions between the Group's tax advisors and senior tax officers of the IRD, an offer was made to the IRD in early July 2005 for a compromised settlement of the tax audit on the terms that the Subsidiaries would be subject to additional tax liabilities of HK$73,917,000 for the years of assessments 1994/95 to 2002/03 and a compound penalty of HK$12,800,000 (the "Offer"). The Offer was being considered by the Commissioner of the IRD (the "Commissioner") during the year ended 31st March 2006.

In addition, interest on the tax previously held over under the estimated assessments amounting to approximately HK$6,883,000 would also be payable upon settlement.

Based on the progress of negotiation with the IRD on the tax audit as mentioned above, a full provision for additional tax liabilities of HK$73,917,000 was made at 31st March 2005 for settling the tax audit. The aggregate amount of compound penalty and interest of HK$19,683,000 was accrued as tax surcharge and was included in the administrative and other operating expenses for the year ended 31st March 2005.

For the year ended 31st March 2006, the Commissioner issued final additional and/or revised tax assessments were issued to the Subsidiaries and the additional tax liabilities of HK$73,726,000 was offset by (i) the cash amount of HK$5,000,000 deposited with the IRD, (ii) the tax reserve certificates of HK$15,730,000 purchased by the Company, (iii) pledged bank deposit of HK$23,814,000 and (iv) the cash amount of HK$29,182,000. In addition, final penalty and interest on the tax previously held over under the estimated assessments amounting to approximately HK$19,683,000 was paid upon settlement. The overprovision of tax liabilities of HK$191,000 was adjusted to the income statement for the current year.

14. DIVIDENDS

The Directors do not recommend the payment of a dividend for the years ended 31st March 2006 and 2005. No dividend was paid in both years.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the year of HK$72,214,000 (2005: HK$130,270,000) and on the weighted average number of 234,882,435 (2005: 220,364,919) shares in issue during the year.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for 2005 has been adjusted for the effect of the rights issue of the Company on 6th May 2004, details of which are set out in note 29.

No diluted loss per share is presented as the exercise of share options and the conversion of convertible notes for the year ended 31st March 2006 (2005: the exercise of share options) would result in a decrease in loss per share.

The following table summarises the impact on basic loss per share as a result of the adoption of the new HKFRSs referred to note 2, and on the weighted average number of shares detailed above:

	Impact on basic loss per share	
	2006	2005
	HK$	*HK$*
Reported figures before adjustments	**(0.219)**	(0.591)
Adjustments arising from changes in accounting policies *(note 3)*	**(0.088)**	–
Reported figures after adjustments	**(0.307)**	(0.591)

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st April 2004	5,818	36,863	2,847	45,528
Additions	8,988	17,681	–	26,669
Disposals	(5,063)	(4,368)	–	(9,431)
At 31st March 2005	9,743	50,176	2,847	62,766
Exchange realignment	(2)	(40)	–	(42)
Additions	3,832	21,377	1,206	26,415
Disposals	–	(1,353)	(1,143)	(2,496)
At 31st March 2006	**13,573**	**70,160**	**2,910**	**86,643**
DEPRECIATION				
At 1st April 2004	1,270	10,100	487	11,857
Provided for the year	1,579	7,700	516	9,795
Eliminated on disposals	(1,679)	(2,330)	–	(4,009)
At 31st March 2005	1,170	15,470	1,003	17,643
Exchange realignment	(1)	(3)	–	(4)
Provided for the year	2,264	10,741	513	13,518
Eliminated on disposals	–	(1,045)	(660)	(1,705)
At 31st March 2006	**3,433**	**25,163**	**856**	**29,452**
CARRYING VALUES				
At 31st March 2006	**10,140**	**44,997**	**2,054**	**57,191**
At 31st March 2005	8,573	34,706	1,844	45,123

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual values, on a straight line basis over their estimated useful lives as follows:

Leasehold improvements	Over a period of 5 years
Furniture, fixtures and equipment	Over a period of 5 years
Motor vehicles	Over a period of 5 years

At 31st March 2006, the carrying values of property, plant and equipment of the Group included an amount of approximately HK$442,000 (2005: HK$575,000) in respect of motor vehicles held under finance leases.

17. CG ANIMATION PICTURES

	Completed CG animation pictures	**CG animation pictures in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1st April 2004	40,457	30,921	71,378
Additions	–	64,906	64,906
At 31st March 2005	40,457	95,827	136,284
Additions	–	158,393	158,393
At 31st March 2006	**40,457**	**254,220**	**294,677**
AMORTISATION AND IMPAIRMENT			
At 1st April 2004	21,352	–	21,352
Provided for the year	13,486	–	13,486
Impairment loss recognised	–	15,250	15,250
At 31st March 2005	34,838	15,250	50,088
Provided for the year	5,619	–	5,619
Impairment loss recognised	–	19,394	19,394
At 31st March 2006	**40,457**	**34,644**	**75,101**
CARRYING VALUES			
At 31st March 2006	**–**	**219,576**	**219,576**
At 31st March 2005	5,619	80,577	86,196

17. CG ANIMATION PICTURES *(Continued)*

Completed CG animation pictures and CG animation pictures in progress are internally generated.

Completed CG animation pictures have definite useful lives and are amortised on a straight line basis over a period of 3 years.

CG animation pictures in progress are stated at production costs incurred to date, including borrowing costs capitalised, less accumulated impairment losses. Upon completion and release of the CG animation pictures, the costs are amortised on a systematic basis over their estimated useful lives.

During the year, the Directors conducted a review of the Group's CG animation pictures in light of the current market condition with reference to the existing operating plan and budget. The Directors of the Company, have resolved to cease the production of certain CG animation picture and are of the view that the costs incurred to-date have no future economic value. Accordingly, an aggregate impairment loss of HK$19,394,000 (2005: HK$15,250,000) has been identified and recognised in the consolidated income statement.

18. GOODWILL

	HK$'000
COST	
At 1st April 2004 and 31st March 2005	4,536
Elimination of accumulated amortisation upon the application of HKFRS 3 *(note 2)*	(1,737)
At 31st March 2006	**2,799**
AMORTISATION	
At 1st April 2004	1,283
Provided for the year	454
At 31st March 2005	1,737
Elimination of accumulated amortisation upon the application of HKFRS 3 *(note 2)*	(1,737)
At 31st March 2006	**–**
CARRYING VALUES	
At 31st March 2006	**2,799**
At 31st March 2005	2,799

18. GOODWILL *(Continued)*

Up to 31st March 2005, goodwill had been amortised over its estimated useful life of 5 years.

For the purpose of impairment testing, goodwill has been allocated to a CGU comprising a Group's principal subsidiary, Imagi Production Limited, which is engaged in the production and licensing of CG animation pictures.

During the year ended 31st March 2006, management of the Group determined that there was no impairment of the CGU containing goodwill.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a ten-year period and discount rate of 17%. The cash flows beyond 5th year period are extrapolated by assuming a declining rate. Management estimate discount rates using risk-free rate, equity risk premium and the risks specified to the CGUs. This declining rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

19. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE

	2006 ***HK$'000***	2005 *HK$'000*
Cost of investment in an associate	**86,593**	86,593
Less: Share of post-acquisition losses	**(29,373)**	(29,373)
Unrealised gain on disposal of businesses	**(57,220)**	(57,220)
	–	–

19. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

Particulars of the Group's associate at 31st March 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital held by the Company indirectly	Principal activity
BIHL	Incorporated	British Virgin Islands/ Hong Kong	Ordinary	22.5%	Manufacture and sales of artificial Christmas trees and leisure furniture

The amount due from an associate is unsecured, interest-free and repayable on demand. The fair value of the amount due from an associate approximates its corresponding carrying value.

The following details are extracted from the financial statements of the Group's associate, BIHL, and its subsidiaries (hereinafter collectively referred to as the "BIHL Group").

	2006	2005
	HK$'000	*HK$'000*
RESULTS		
Turnover	**699,251**	1,010,529
Loss for the year	**(74,068)**	(232,032)
Loss for the year attributable to the Group *(note)*	**(16,665)**	(52,207)

19. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

Consolidated financial position of the BIHL Group at 31st March 2006 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**900,223**	989,373
Total liabilities	**(853,813)**	(870,178)
Net assets	**46,410**	119,195
Net assets attributable to the Group *(Note)*	**10,442**	26,819

Note: The Group's share of the post-acquisition losses of BIHL, to the extent that it exceeds the carrying amount of its equity investment in that company, has been provided for to the extent that the Group has incurred obligations or made payments to satisfy obligations of the associate that the Group has guaranteed.

During the year, the Group has discontinued recognition of its share of loss of BIHL. The amounts of unrecognised share of loss of BIHL, extracted from the relevant audited financial statements of BIHL, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of loss of BIHL for the year	**(16,665)**	(30,401)
Accumulated urecognised share of loss of BIHL	**(46,778)**	(30,113)

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments at 31st March 2006 represent:

	2006
	HK$'000
Club debentures	**1,201**

At the balance sheet date, all available-for-sale investments are stated at fair value. Fair value of those investments have been determined by reference to bid prices quoted in active markets.

21. INVESTMENTS IN SECURITIES

Investments in securities at 31st March 2005 are set out below. Upon the application of HKAS 39 on 1st April 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details).

	2005
	HK$'000
Club debentures, at cost	1,201

22. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 30 days to 90 days.

The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Total trade receivables		
– Over 60 days	**39**	1,123
Other receivables	**6,843**	4,175
	6,882	5,298

The fair values of the Group's trade and other receivables at 31st March 2005 and 2006 approximate their corresponding carrying values.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

At 31st March 2005, the amounts represented bank deposits pledged to a bank for the issue of bank guarantees in favour of the IRD for the conditional holdover of the taxes demanded as detailed in note 13 and in favour of a contracted party in respect of CG animation production project undertaken by the Group. The pledged bank deposits were released during the year upon the full settlement of taxes to the IRD and the completion of the relevant CG animation production project.

Bank balances and cash

The Group's bank balances carry interest rate at ranges from 1.18% to 4.04% per annum.

The fair values of the Group's bank balances and cash at 31st March 2005 and 2006 approximate their corresponding carrying values.

24. OTHER PAYABLES

The fair values of the Group's other payables at 31st March 2005 and 2006 approximate their corresponding carrying values.

25. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance lease:				
Within one year	**123**	246	**122**	238
In the second to fifth years inclusive	**–**	123	**–**	122
	123	369	**122**	360
Less: future finance charges	**(1)**	(9)	**N/A**	N/A
Present value of lease obligations	**122**	360	**122**	360
Less: Amount due within one year and shown under current liabilities			**(122)**	(238)
Amount due after one year			**–**	122

It is the Group's policy to lease certain of its property, plant and equipment under finance lease. The average lease term is two years and the average effective interest rate was 3.05% (2005: 2.74%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximate their carrying values.

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

26. BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans:		
Secured	**94,463**	–
Unsecured	**50,000**	–
	144,463	–
Carrying amount repayable:		
On demand or within one year	**50,000**	–
More than one year, but not more than two years	**94,463**	–
	144,463	–
Less: Amounts due within one year and shown under current liabilities	**(50,000)**	–
Amount due after one year	**94,463**	–

All the above bank borrowings are variable-rate borrowings. The unsecured bank borrowings carry interest at the range of HIBOR plus 1% to HIBOR plus 1.15% and the secured bank borrowings carry interest at LIBOR plus 1%.

The ranges of the effective interest rates (which are also equal to contracted interest rates) of the variable-rate borrowings are from 4.34% to 6.54%.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	US$'000
At 31st March 2006	12,110

The fair values of the bank borrowings at 31st March 2006 approximates their corresponding carrying value.

27. CONVERTIBLE NOTES

The Company issued two 3% unsecured convertible notes to certain shareholders of the Company, with principal amounts of HK$50,000,000 and HK$20,000,000 on 30th November 2005 and 5th January 2006, respectively. The convertible notes are denominated in Hong Kong dollars. The notes entitle the holders to convert them into ordinary shares of the Company at one month before their settlement dates on 29th November 2008 and 4th January 2009, respectively, at the initial conversion price of HK$1.68 per share (subject to adjustment but not less than the par value of the share of the Company). If the notes are not converted, they will be redeemed at par on 29th November 2008 and 4th January 2009, respectively. Interest of 3% per annum will be paid semi-annually up until the settlement dates.

The convertible notes contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation" (see note 2 for details), the convertible notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity with the heading "convertible notes equity reserve". The effective interest rates of the liability components of the convertible notes with principal amounts of HK$50,000,000 and HK$20,000,000 are 9.58% and 9.28% respectively.

The movement of the liability component of the convertible notes for the year is set out below:

	2006	2005
	HK$'000	*HK$'000*
Nominal value of convertible notes issued	**70,000**	–
Equity component	**(11,930)**	–
Liability component at date of issue	**58,070**	–
Interest charge *(note 9)*	**1,811**	–
Interest paid	**(133)**	–
Liability at the end of the year	**59,748**	–

The fair value of the liability component of the convertible notes at 31st March 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible note at the balance sheet date, was approximately HK$58,901,000.

28. DEFERRED TAXATION

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

	Accelerated tax depreciation	**Recognised tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st April 2004	(4,707)	4,707	–
(Charge) credit to consolidated income statement	(468)	468	–
At 31st March 2005	(5,175)	5,175	–
(Charge) credit to consolidated income statement	(1,588)	1,588	–
At 31st March 2006	(6,763)	6,763	–

At the balance sheet date, the Group had unused tax losses of approximately HK$107,326,000 (2005: HK$81,218,000) available to offsetting against future assessable profits. A deferred tax asset has been recognised of approximately HK$38,646,000 (2005: HK$29,571,000) in respect of such losses. No deferred tax has been recognised in respect of the remaining HK$68,680,000 (2005: HK$51,647,000) due to the unpredictability of future profit streams, which can be carried forward indefinitely.

29. SHARE CAPITAL

	Number of shares	Values
		HK$'000
Authorised:		
Ordinary shares of HK$0.50 each at 31st March 2005 and 2006	500,000,000	250,000
Issued and fully paid:		
At 1st April 2004	137,873,000	68,937
Rights issue of shares *(note a)*	68,936,500	34,468
Exercise of share options *(note b)*	1,106,000	553
Placement of shares *(note c)*	26,000,000	13,000
At 31st March 2005	233,915,500	116,958
Exercise of share options *(note d)*	10,154,000	5,077
At 31st March 2006	244,069,500	122,035

The movements in the ordinary share capital for the year ended 31st March 2005 are as follows:

(a) On 6th May 2004, a rights issue on the basis of one share for every two existing shares then held by the shareholders on the register of members on 16th April 2004 was allotted at an issue price of HK$1.08 per rights share, resulting in the issue of 68,936,500 shares of HK$0.50 each at HK$1.08 per share for a total cash consideration, before shares issued expenses, of approximately HK$74.5 million.

(b) The Company issued 330,000, 276,000 and 500,000 ordinary shares of HK$0.50 each in the Company for cash at HK$0.945, HK$1.111 and HK$1.50 per share respectively, as a result of the exercise of share options.

(c) Pursuant to a placing agreement entered on 19th July 2004, the Company issued 26,000,000 ordinary shares of HK$0.50 each at a placing price of HK$1.58 per share. The placing price of HK$1.58 per share represents a discount of approximately 4.82% to the closing market price of the Company's shares on 15th July 2004. The net proceeds of the placing of approximately HK$39.7 million were used to fund the Group's CG animation pictures production activities. These new shares were issued under the general mandate granted to the Directors at the special general meeting of the Company held on 29th March 2004.

29. SHARE CAPITAL *(Continued)*

The movements in the ordinary share capital for the year ended 31st March 2006 are as follows:

(d) The Company issued 1,910,000, 2,944,000, 100,000, 3,600,000, 1,500,000, 100,000 ordinary shares of HK$0.50 each in the Company for cash at HK$0.945, HK$1.111, HK$1.50, HK$0.98, HK$1.00 and HK$2.675 per share respectively, as a result of the exercise of share options.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

30. SHARE-BASED PAYMENT TRANSACTIONS

On 16th August 2002, the Company adopted a share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to employees, Executives or Officers, Directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries (the "Participants") for their contribution to the Group. The 2002 Scheme will be ending on 15th August 2012. Under the 2002 Scheme, the Directors may grant options to the Participants to subscribe for shares in the Company for a consideration of HK$10 for each lot of share options granted. Options granted must be taken up within 28 days of date of grant. The exercise price is determined by the Directors and shall not be less than the highest of:

(a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of the grant which must be a business day;

(b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and

(c) the nominal value of a share.

Pursuant to the 2002 Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the issued share capital of the Company at 16th August 2002. Subject to the approval of the shareholders of the Company in general meeting and such other requirements prescribed under the Listing Rules from time to time, the Directors may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meetings. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

At 31st March 2006, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 19,556,000 (2005: 11,390,000), representing 8.01% (2005: 4.87%) of the total number of shares of the Company in issue at that date.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12-month period up to and including the date of grant exceeding 1% of total number of shares in issue at the date of grant. Any further grant of option in excess of this 1% limit shall be subject to the approval of the shareholders in general meetings, such Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or Independent Non-executive Directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Directors at their absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following tables disclose details of the Company's share options held by employees and Directors and movements in such holding during the current and prior years:

For the year ended 31st March 2006

Date of grant	Exercisable period	Exercise price per share prior to rights issue HK$ (note)	Exercise price per share after adjustment for the effect of rights issue HK$	Number of share options: At 1st April 2005	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	At 31st March 2006
Category 1: Employees								
11th February 2003	11th February 2003 to 10th February 2006	1.060 (i)	0.945	2,070,000	–	(1,820,000)	(250,000)	–
11th February 2003	11th February 2003 to 10th February 2008	1.060 (i)	0.945	150,000	–	(90,000)	(60,000)	–
13th August 2003	13th August 2003 to 12th August 2006	1.246 (ii)	1.111	6,270,000	–	(2,944,000)	(570,000)	2,756,000
19th April 2004	19th April 2004 to 18th April 2009	–	1.500	1,600,000	–	(100,000)	(1,300,000)	200,000
24th May 2005	24th May 2005 to 23rd May 2010	–	0.980	–	14,200,000	(2,600,000)	(5,100,000)	6,500,000
7th June 2005	7th June 2005 to 6th June 2010	–	0.974	–	2,000,000	–	–	2,000,000
13th February 2006	13th February 2006 to 12th February 2009	–	2.675	–	1,000,000	–	–	1,000,000
13th February 2006	13th February 2006 to 12th February 2011	–	2.675	–	500,000	(100,000)	–	400,000
				10,090,000	17,700,000	(7,654,000)	(7,280,000)	12,856,000
Category 2: Directors								
19th April 2004	19th April 2004 to 18th April 2009	–	1.500	1,300,000	–	–	–	1,300,000
24th May 2005	24th May 2005 to 23rd May 2010	–	0.980	–	2,300,000	(1,000,000)	–	1,300,000
27th July 2005	27th July 2005 to 26th July 2010	–	1.000	–	2,000,000	(1,500,000)	–	500,000
13th February 2006	13th February 2006 to 12th February 2009	–	2.675	–	3,600,000	–	–	3,600,000
				1,300,000	7,900,000	(2,500,000)	–	6,700,000
Total				11,390,000	25,600,000	(10,154,000)	(7,280,000)	19,556,000
Weighted average exercise price								
Category 1: Employees				1.136	1.123	1.051	1.082	1.200
Category 2: Directors				1.500	1.757	0.992	N/A	1.993

30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The closing prices of the Company's shares immediately before 24th May 2005, 7th June 2005, 27th July 2005 and 13th February 2006, the dates of grant of the options, were HK$0.97, HK$0.99, HK$1.00 and HK$2.725, respectively.

The closing prices of the Company's shares immediately before the various exercise dates and at the various exercise dates during the year ranged from HK$1.13 to HK$9.75 and the weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$6.03.

The options for the time being outstanding will be exercised in whole or in part at any time during the exercisable period.

For the year ended 31st March 2005

Date of grant	Exercisable period	Exercise price per share prior to rights issue HK$ (note)	Exercise price per share after adjustment for the effect of rights issue HK$	Number of share options: At 1st April 2004	Granted during the year	Effect of rights issue	Exercised during the year	Lapsed/ cancelled during the year	At 31st March 2005
Category 1: Employees									
11th February 2003	11th February 2003 to 10th February 2006	1.060 (i)	0.945	1,680,000	–	840,000	(330,000)	(120,000)	2,070,000
11th February 2003	11th February 2003 to 10th February 2008	1.060 (i)	0.945	140,000	–	70,000	–	(60,000)	150,000
13th August 2003	13th August 2003 to 12th August 2006	1.246 (ii)	1.111	4,844,000	–	2,422,000	(276,000)	(720,000)	6,270,000
19th April 2004	19th April 2004 to 18th April 2009	–	1.500	–	2,200,000	–	(500,000)	(100,000)	1,600,000
				6,664,000	2,200,000	3,332,000	(1,106,000)	(1,000,000)	10,090,000
Category 2: Directors									
19th April 2004	19th April 2004 to 18th April 2009	–	1.500	–	1,300,000	–	–	–	1,300,000
Total				6,664,000	3,500,000	3,332,000	(1,106,000)	(1,000,000)	11,390,000
Weighted average exercise price									
Category 1: Employees				1.066	1.500	1.066	1.237	1.120	1.136
Category 2: Directors				N/A	1.500	N/A	N/A	N/A	1.500

30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The closing price of the Company's shares immediately before 19th April 2004, the date of grant of the options, was HK$1.42.

The closing prices of the Company's shares immediately before the various exercise dates and at the various exercise dates during the year ranged from HK$1.36 to HK$1.66.

Note: Exercise price per share has been adjusted for the effect of the rights issue that took place on 6th May 2004, where appropriate, as follows:

(i) from HK$1.060 to HK$0.945; or

(ii) from HK$1.246 to HK$1.111

Total consideration received for the grant of options during the year was approximately HK$530 (2005: HK$60).

During the year ended 31st March 2006, 16,500,000, 2,000,000, 2,000,000 and 5,100,000 share options were granted on 24th May 2005, 7th June 2005, 27th July 2005 and 13th February 2006, respectively to the Group's employees and Directors. The estimated fair values of the options granted on 24th May 2005, 7th June 2005, 27th July 2005 and 13th February 2006 were approximately HK$11,526,000, HK$1,339,000, HK$1,429,000 and HK$8,247,000, respectively, and have been recognised in the consolidated financial statements for the current year.

During the year ended 31st March 2005, 3,500,000 share options were granted on 19th April 2004 to the Group's employees and Directors. The estimated fair value of the options granted on 19th April 2004, which has not been recognised, was approximately HK$1,085,000.

30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The fair values of the share options granted during the year ended 31st March 2006 were calculated using the Black-Scholes option pricing model. The inputs into the model are as follows:

	24th May 2005	7th June 2005	27th July 2005	13th February 2006	13th February 2006
Share price on 31st March 2006	HK$9.70	HK$9.70	HK$9.70	HK$9.70	HK$9.70
Weighted average share price	HK$0.96	HK$0.97	HK$1.03	HK$1.29	HK$1.29
Share price on date of grant	HK$0.98	HK$0.94	HK$1.00	HK$2.675	HK$2.675
Fair value per option	HK$0.70	HK$0.67	HK$0.71	HK$1.58	HK$1.92
Expected life	5 years	5 years	5 years	3 years	5 years
Expected volatility	62.92%	62.92%	62.92%	90%	90%
Expected dividend yield	0%	0%	0%	0%	0%
Risk free rate	3.986%	3.986%	3.986%	4.140%	4.200%

Expected volatility was determined by using the historical volatility of the Company's share price over five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$22,541,000 for the year ended 31st March 2006 (2005: Nil) in relation to the share options granted by the Company, of which approximately HK$15,410,000 (2005: Nil) was related to options granted to the Group's employees and shown as staff costs, and the remaining balance represents share option expense for Directors.

31. PLEDGE OF ASSETS

At 31st March 2006, a CG animation picture of the Group (the "Picture") and all rights associated with or relating to the Picture, with aggregate carrying value of HK$147,710,000 were pledged as securities to (i) a bank (the "Bank") for the credit facilities granted to the Group; (ii) an insurance company for the guarantee granted to the Bank in favour of the Group; and (iii) two independent third parties for their distribution of and exploitation in the Picture according to certain agreements.

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following commitments for capital expenditure in respect of CG animation pictures and property, plant and equipment:

	2006	2005
	HK$'000	*HK$'000*
Authorised but not contracted for	**138,791**	37,033
Contracted for but not provided in the consolidated financial statements	**173**	513
	138,964	37,546

33. OPERATING LEASE COMMITMENTS

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**3,962**	4,248
In the second to fifth years inclusive	**1,742**	1,844
	5,704	6,092

Operating lease payments represent rentals payable by the Group for office premises. Leases were negotiated for an average term of two years and rentals are fixed for an average term of two years.

34. CONTINGENT LIABILITIES

At 31st March 2006, the Group had no significant contingent liabilities.

At 31st March 2005, except for that disclosed in note 13, the Group had no other significant contingent liabilities.

35. RETIREMENT BENEFITS SCHEME

The Group participates in a MPF Scheme established under the Mandatory Provident Fund Scheme Ordinance for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the rules of the MPF Scheme. The assets of the scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year under review, the total amount contributed by the Group to the scheme was approximately HK$2,318,000 (2005: HK$1,989,000), of which HK$2,169,000 (2005: HK$1,662,000) was capitalised in CG animation pictures and HK$149,000 (2005: HK$327,000) has been charged to consolidated income statement and no contributions were forfeited.

36. RELATED PARTY DISCLOSURES

(a) During the year, the Group had the following transactions with related parties:

Name of related parties	*Notes*	**Nature of transactions**	**2006** ***HK$'000***	2005 *HK$'000*
Boko Glass Art Company Limited	*(i)*	Rental expense paid by the Group	**–**	880
Kayin Insurance Consultants Company	*(ii)*	Gross insurance premium paid by the Group	**–**	367
BIHL	*(iii)*	Management consultancy income received by the Group	**6,167**	10,496
BIHL	*(iv)*	Tax refund received by the Group	**2,078**	–

Notes:

(i) Mr. Kao Cheung Chong, Michael ("Mr. Kao"), a key management personnel of the Company, controls this company indirectly.

(ii) Mr. Lam Pak Kin, Philip, a key management personnel of the Company has direct beneficial interest in this company.

(iii) BIHL is an associate of the Group.

(iv) During the year ended 31st March 2006, an aggregate amount of approximately HK$3,000,000 in respect of tax refund was received by the Group. An amount of HK$2,078,000 was recognised during the year ended 31st March 2006 and the remaining amount of HK$922,000 was recognised during the year ended 31st March 2004 as set out in note 10.

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) On 8th November 2005, the Company entered into a subscription agreement with Mr. Kao, Chairman and an Executive Director of the Company, pursuant to which the Company agreed to issue and Mr. Kao agreed to subscribe for convertible note in an aggregate principal amount of HK$20,000,000.

The convertible note is convertible into ordinary shares with nominal value of HK$0.50 each in the capital of the Company upon conversion of the convertible note at the conversion price, which initially is equal to HK$1.68 per conversion share (subject to adjustments). Details of this transaction were set out in the Company's announcement and circular dated 10th November 2005 and 1st December 2005, respectively.

(c) Compensation of key management personnel

The remunerations of key management personnel during the current and prior years were as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**26,383**	23,762
Post-employment benefits	**114**	98
Equity-settled share-based payments expenses	**8,319**	–
	34,816	23,860

37. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company at 31st March 2006 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Non-current asset		
Interests in subsidiaries	**85,000**	186,525
Current assets		
Other receivables	**390**	230
Amount due from an associate	**350**	1,586
Amounts due from subsidiaries	**222,793**	–
Bank balances and cash	**33,689**	13,230
	257,222	15,046
Current liabilities		
Other payables	**2,170**	1,280
Amounts due to subsidiaries	**108,611**	–
	110,781	1,280
Net current assets	**146,441**	13,766
Total assets less current liabilities	**231,441**	200,291
Non-current liability		
Convertible notes	**59,748**	–
	171,693	200,291
Capital and reserves		
Share capital	**122,035**	116,958
Reserves *(note)*	**49,658**	83,333
	171,693	200,291

37. BALANCE SHEET OF THE COMPANY *(Continued)*

Note:

	Share premium	Share option reserve	Convertible notes equity reserve	Retained profits (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2004	327	–	–	136,180	136,507
Exercise of share options *(note 29(b))*	816	–	–	–	816
Rights issue of shares *(note 29(a))*	39,983	–	–	–	39,983
Shares issued at premium *(note 29(c))*	28,080	–	–	–	28,080
Shares issued expenses	(4,979)	–	–	–	(4,979)
Loss for the year	–	–	–	(117,074)	(117,074)
At 31st March 2005	64,227	–	–	19,106	83,333
Recognition of equity-settled share-based payments	–	22,541	–	–	22,541
Exercise of share options *(note 29 (d))*	9,222	(3,778)	–	–	5,444
Share options cancelled for the year	–	(3,562)	–	3,562	–
Recognition of equity component of convertible notes	–	–	11,930	–	11,930
Loss for the year	–	–	–	(73,590)	(73,590)
At 31st March 2006	**73,449**	**15,201**	**11,930**	**(50,922)**	**49,658**

38. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company at 31st March 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note i)*	Principal activities
Diamond Century International Limited	British Virgin Islands	US$4	100%	Investment holding
Freyner Limited	British Virgin Islands	US$1,000	100%	Inactive
Great Trend International Limited	British Virgin Islands	US$4	100%	Investment holding
Highland Fling Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
iDream Production Limited	Hong Kong	HK$2	100%	Provision of CG and special effects production services in respect of pictures
Imagi Animation Studios Limited	Hong Kong	HK$2	100%	Investment holding and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Licensing B.V.	Netherlands	EUR18,151	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Limited	Labuan	US$100	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note i)*	Principal activities
Imagi Global Distribution Inc.	United States of America	US$100	100%	Distribution and licensing of intellectual property rights in respect of CG animation pictures
Imagi Production Limited	Hong Kong	HK$28,572	100%	Production of CG animation pictures and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Production (FOTP) Limited	Hong Kong	HK$2	100%	Inactive
Imagi (IP) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi (Zentrix) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi International Japan Company Limited	Japan	JPY30,000,000	82.5%	Provision of marketing services on project licensing and acting as a full-service project management house in respect of CG animation pictures

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note i)*	Principal activities
Imagi Intellectual Properties Limited	Labuan	US$1,000	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi IP Holdings Pte. Limited	Labuan	US$100	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Services Limited	Hong Kong	HK$2	100%	Provision of administrative services
Imagi Services (USA) Limited	United States of America	US$100	100%	Marketing of CG animation pictures
Imagi Studios (USA) Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Imagi Trinity Limited	Labuan	US$100	100%	Inactive
King's Quest Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Magic Marble Investments Limited	British Virgin Islands	US$4	100%	Investment holding
Neo-Mad House Intellectual Properties Limited	Labuan	US$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note i)*	Principal activities
Neo-Mad House Intellectual Properties Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Neo-Mad House (X.S.I.) Limited	Labuan	US$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Top Bond Technology Limited	Hong Kong	HK$2	100%	Development of intellectual property rights in respect of CG games
Topway Asset Limited	British Virgin Islands	US$4	100%	Investment holding
Turbo Money Investments Limited	British Virgin Islands	US$4	100%	Financing of CG animation pictures
Rover's Trek Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Treasure Path Company Limited	Hong Kong	Ordinary shares HK$100 Non-voting 5% deferred shares HK$1,000,000 *(Note ii)*	100%	Inactive
Victory Gem International Limited	British Virgin Islands	US$4	100%	Investment holding

Notes:

(i) The Company directly holds the interests in Topway Asset Limited, Magic Marble Investments Limited, Great Trend International Limited and Victory Gem International Limited. All other interests shown above are indirectly held by the Company.

(ii) The non-voting 5% deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the respective subsidiary or to participate in any distribution on winding up.

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