1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 principal activities of the Group are the publication of comics books, multimedia development and operation of restaurants in Hong Kong. On 30 April 2005, the Group has completed discontinuation of its restaurant operations.

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 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 ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005, other than HKFRS 3 "Business combination", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets" that had been early adopted by the Group for the year ended 31 March 2005. The application of the other HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and the results of discontinued operations have been changed. The changes in presentation have been applied retrospectively and the consolidated income statement of the comparative period have been represented in respect of the discontinued operation. The application of these other 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 or prior accounting periods are prepared and presented:

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

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 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 39 has no significant impact to the Group's financial position and results. The principal effects resulting from the implementation of HKAS 32 are summarised below:

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company during the year ended 31 March 2005 that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. 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. Because HKAS 32 requires retrospective application, comparative figures for 2005 have been restated. Comparative profit for 2005 has been restated in order to reflect the increase in effective interest on the liability component (see Note 3 for the financial impact).

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

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options, 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. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and vested before 1 April 2005 in accordance with the relevant transitional provisions. Because all the share options outstanding as at 1 April 2005 were vested before 1 April 2005, the application of HKFRS 2 has had no impact on the Group's result for the current or prior accounting periods.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

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 periods are as follows:

	2006	2005
	HK$'000	HK$'000
Increase in interest on the liability component of convertible loan notes and decrease in profit for the year attributable to the equity holder of the parent (included in finance costs)	**50**	41

The cumulative effects of the application of the new HKFRSs on the balance sheet as at 31 March 2005 are summarised below:

	As at 31 March 2005 (originally stated)	**Adjustments**	**As at 31 March 2005** (restated)
	HK$'000	HK$'000	HK$'000
Impact of HKAS 17:			
Property, plant and equipment	16,248	(8,880)	7,368
Prepaid lease payments	–	8,880	8,880
Impact of HKAS 32:			
Convertible notes	(65,333)	241	(65,092)
Capital reserve – equity component of convertible notes	–	282	282
Accumulated profits	98,995	(41)	98,954

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

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or 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 accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.
5 Effective for accounting periods beginning on or after 1 May 2006.
6 Effective for accounting periods beginning on or after 1 June 2006.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

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

Goodwill

Goodwill arising on acquisitions after 1 April 2004

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 April 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less accumulated impairment loss.

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

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

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

Revenue recognition

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

Sale of goods are recognised when goods are delivered.

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

Revenue recognition *(Continued)*

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement.

Online comics viewing income are recognised on a basis that reflects the timing, nature and value of the benefits provided.

Service fees are recognised when services are provided.

Advertising income for advertisements on comics books is recognised on the relevant publication date of the Group's comics books.

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 subsequent 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 and after taking into account of their estimated residual value, using the straight-line method.

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

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

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

Impairment (other than goodwill)

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

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

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

Leasing

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

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

Inventories

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

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.

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

Foreign currencies *(Continued)*

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement 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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at 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.

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

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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 (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 capital and share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Share options granted to consultants, advisors, customers, shareholders and business associates

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and other schemes managed by the Government of the People's Republic of China ("PRC") are charged as expenses as they fall due.

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

Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables and the accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including trade debtors, other debtors, deposits and bank balances) 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.

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

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by an 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 Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade creditors, other creditors, accrued charges and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Group 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 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 (capital 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 capital reserve until the embedded option is exercised (in which case the balance stated in capital reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes (Continued)

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.

Derecognition

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation that may have a significant risk of causing material adjustment in the next financial year are disclosed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2006, the carrying amount of goodwill is HK$124,539,000. Details of the recoverable amount calculation are disclosed in note 22.

Deferred tax

As at 31 March 2006, a deferred tax asset of HK$3,092,000 in relation to unused tax losses has been recognised in the Group's consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Based on the taxable profit and loss projection of the relevant subsidiaries, it is probable the Group can fully utilise deferred tax assets recognised within the utilisation period. In cases where the actual future profits generated are less than expected, a material deferred tax assets may be derecognised, which would be charged to the consolidated income statement for the year in which such a reversal takes place.

Allowances for inventories

The management of the Group reviews the inventory list at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. In particular, work-in-progress represents the production costs of certain comics films. The management estimates the net realisable value for such inventories based primarily on the expected future market conditions as to whether the revenue associated with these comics films is sufficient to cover the costs of productions. The Group carries out an inventory review at each balance sheet date and makes allowance if the net realisable value below the cost.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to and pledged bank deposits and convertible notes due to fluctuation of prevailing market rates. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors consider the Group's exposure to interest rate risk is not significant as the pledged bank deposits are within short maturity period and majority of the convertible notes were already converted into the shares of the Company.

Cash flow interest rate risk

The Group's interest rate risk relates primarily to bank balances and bank borrowings. Bank balances and bank loans at variable market rates expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps in order to mitigate its exposure associated with the cash flow interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. Details of the Group's bank borrowings have been disclosed in note 31.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has monitored the credit status of customers and performed necessary 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 made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's exposure to bad debts is minimal. The Group's concentration of credit risk by geographical locations is mainly in Hong Kong.

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

Credit risk *(Continued)*

The Group's bank balances are deposited with banks of high credit rating and the Group has limited exposure to any single financial institution.

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers less returns and allowances and services rendered in the restaurants for the year. An analysis of the Group's turnover for the year, for both continuing and discontinued operations, is as follows:

	2006	2005
	HK$'000	HK$'000
Continuing operations		
Sale of comics books	**95,964**	98,440
Royalty income	**4,468**	5,590
Sale of merchandised goods	**872**	2,064
Online comics viewing income	**717**	1,027
Sale of comics scripts	**193**	186
	102,214	107,307
Discontinued operations		
Sale of goods in restaurants	**615**	14,742
Services rendered (Note)	**54**	951
	102,883	123,000

Note: Services rendered represent surcharge for services provided in the restaurants.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two main operating divisions, namely, publication and distribution of comics books and multimedia development. These divisions are the basis on which the Group reports its primary segment information. On 30 April 2005, the Group completed the discontinuation of its restaurant operations.

Income statement

	Continuing operations						Discontinued operations			
	Publication and distribution of comics books		Multimedia development		Total		Restaurant operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
Revenue	**101,414**	106,556	**800**	751	**102,214**	107,307	**669**	15,693	**102,883**	123,000
Segment result	**22,404**	20,393	**613**	170	**23,017**	20,563	**(89)**	(1,302)	**22,928**	19,261
Unallocated corporate expenses					**(6,232)**	(5,303)	**–**	–	**(6,232)**	(5,303)
Finance costs					**(1,527)**	(1,433)	**–**	–	**(1,527)**	(1,433)
Profit (loss) before tax					**15,258**	13,827	**(89)**	(1,302)	**15,169**	12,525
Income tax (expense) credit					**(1,631)**	1,617	**–**	–	**(1,631)**	1,617
Gain on disposal of subsidiaries					**–**	–	**–**	547	**–**	547
Profit (loss) for the year					**13,627**	15,444	**(89)**	(755)	**13,538**	14,689

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Balance sheet

	Continuing operations				Discontinued operations			
	Publication and distribution of comics books		Multimedia development		Restaurant operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
ASSETS								
Segment assets	**177,797**	173,895	**47,339**	24,883	**–**	2,488	**225,136**	201,266
Unallocated corporate assets							**10,133**	9,443
Consolidated total assets							**235,269**	210,709
LIABILITIES								
Segment liabilities	**13,318**	15,842	**2,277**	3,071	**–**	785	**15,595**	19,698
Unallocated corporate liabilities							**31,511**	74,515
Consolidated total liabilities							**47,106**	94,213

Other information

	Continuing operations						Discontinued operations			
	Publication and distribution of comics books		Multimedia development		Total		Restaurant operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
Goodwill arising from acquisition of subsidiaries	**–**	124,539	**–**	–	**–**	124,539	**–**	–	**–**	125,439
Additions of property, plant and equipment	**179**	456	**47**	–	**226**	456	**–**	22	**226**	478
Additions of intangible assets on acquisition of subsidiaries	**–**	3,364	**–**	–	**–**	3,364	**–**	–	**–**	3,364
Additions of property, plant and equipment on acquisition of subsidiaries	**–**	7,987	**–**	24	**–**	8,011	**–**	–	**–**	8,011
Gain on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	–	**100**	–	**100**	–
Depreciation and amortisation	**1,510**	1,900	**–**	–	**1,510**	1,900	**34**	854	**1,544**	2,754
Impairment loss recognised in respect of property, plant and equipment	**–**	–	**–**	–	**–**	–	**–**	139	**–**	139
Intangible assets written off	**–**	–	**–**	–	**–**	–	**–**	117	**–**	117

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's turnover and profit before tax for both years are substantially derived from Hong Kong. The Group's assets and liabilities are also substantially located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

9. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Continuing operations		
Advertising income	385	788
Bank interest income	116	28
Others	720	797
	1,221	1,613
Discontinued operations		
Others	–	1
	1,221	1,614

10. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
		(restated)
Interest on		
– Bank loans wholly repayable within five years	810	805
– Effective interest expense on convertible notes	717	628
	1,527	1,433

11. INCOME TAX (EXPENSE) CREDIT

	2006 HK$'000	2005 HK$'000
Hong Kong:		
Provision for current year	(1,410)	(1,691)
Overprovision(underprovision) in prior year	9	(14)
Deferred tax (charge) credit (note 23)	(230)	3,322
	(1,631)	1,617

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Income tax (expense) credit for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000 (restated)
Profit (loss) before tax:		
Continuing operations	15,258	13,827
Discontinuing operations	(89)	(755)
	15,169	13,072
Tax at the Hong Kong Profits Tax rate of 17.5%	(2,655)	(2,288)
Tax effect of expenses not deductible for tax purpose	(183)	(523)
Tax effect of tax losses not recognised	(412)	(532)
Utilisation of tax losses previously not recognised	62	1,042
Tax effect of income not taxable for tax purpose	1,542	1,428
Recognition of tax losses previously not recognised	–	2,517
Overprovision(underprovision) in prior year	9	(14)
Others	6	(13)
Income tax (expense) credit for the year	(1,631)	1,617

12. DISCONTINUED OPERATIONS

In March 2005, the directors determined to phase out the Group's restaurant operations, which is located in Hong Kong. The Group's restaurant operations has permanently ceased in April 2005.

The results of the restaurant operations for the year were as follows:

	2006	2005
	HK$'000	HK$'000
Turnover	**669**	15,693
Cost of goods sold	**(208)**	(5,097)
Direct operating expenses	**(692)**	(11,203)
Other income	**142**	1
Selling and distribution costs	**–**	(148)
Administrative expenses	**–**	(548)
Loss before tax	**(89)**	(1,302)
Income tax	**–**	–
Loss from ordinary activities after tax	**(89)**	(1,302)
Gain on disposal of subsidiaries	**–**	547
	(89)	(755)

During the year, the restaurant operations had net cash outflow of HK$189,000 (2005: HK$99,000) in operating activities and net cash inflow of HK$100,000 (2005: HK$2,153,000) in respect of investing activities.

13. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
Profit for the year has been arrived at after charging:						
Amortisation of intangible assets (included in direct operating expenses)	**740**	849	**–**	–	**740**	849
Amortisation of prepaid lease payment	**174**	174	**–**	–	**174**	174
Auditors' remuneration	**700**	790	**–**	–	**700**	790
Cost of inventories recognised as expense	**2,258**	1,461	**208**	5,097	**2,466**	6,558
Depreciation	**770**	1,287	**34**	618	**804**	1,905
Gain of disposal of property, plant and equipment	**–**	–	**100**	–	**100**	–
Impairment loss recognised in respect of property, plant and equipment	**–**	–	**–**	139	**–**	139
Intangible assets written off	**–**	–	**–**	117	**–**	117
Operating lease payments in respect of rented premises	**968**	857	**40**	1,186	**1,008**	2,043
Staff costs, including directors' emoluments (Note 14) and retirement benefits scheme contributions (Note 16)	**37,035**	39,504	**341**	4,146	**37,376**	43,650

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2005: 12) directors were as follows:

	Directors' fee HK$'000	Salary and allowances HK$'000	Discretionary bonuses HK$'000 (Note)	Retirement benefit scheme contributions HK$'000	2006 Total HK$'000
Executive directors:					
Tong Kai Lap	**180**	**1,451**	**133**	**12**	**1,776**
Wan Siu Lun	**180**	**702**	**1,568**	**12**	**2,462**
Wong Chun Keung	**180**	**625**	**360**	**12**	**1,177**
Ko Chi Keung	**180**	**349**	**43**	**12**	**584**
Kwong Chi Tak	**180**	**444**	**50**	**12**	**686**
Non-executive directors:					
Zhang Lichen	**30**	**–**	**–**	**–**	**30**
Independent non-executive directors:					
Ho Yiu Ming	**180**	**–**	**–**	**–**	**180**
Kwong Chi Keung	**180**	**–**	**–**	**–**	**180**
Ma Fung Kwok	**180**	**–**	**–**	**–**	**180**
Total	**1,470**	**3,571**	**2,154**	**60**	**7,255**

14. DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fee HK$'000	Salary and allowances HK$'000	Discretionary bonuses HK$'000 (Note)	Retirement benefit scheme contributions HK$'000	2005 Total HK$'000
Executive directors:					
Tong Kai Lap	–	1,500	–	11	1,511
Wan Siu Lun	–	961	410	11	1,382
Wong Chun Keung	–	790	120	11	921
Ko Chi Keung	–	486	–	11	497
Kwong Chi Tak	–	559	–	11	570
Chan Kong Sang, Jackie	844	–	–	9	853
Chan Chee Kheong	338	–	–	9	347
Cheung Ting Kau, Vincent	202	–	–	–	202
So Che Hung, Solon	202	–	–	9	211
Independent non-executive directors:					
Ho Yiu Ming	210	–	–	–	210
Kwong Chi Keung	210	–	–	–	210
Ma Fung Kwok	90	–	–	–	90
Total	2,096	4,296	530	82	7,004

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss office. None of the directors has waived any emoluments during the year.

Note: The discretionary bonus are determined as a percentage of the results of business segments managed by respective directors.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The total emoluments of the remaining two (2005: two) highest paid individuals were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**9,247**	9,686
Retirement benefits scheme contributions	**24**	23
	9,271	9,709

Their emoluments were within the following bands:

	Number of individuals	
	2006	2005
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
	2	2

16. RETIREMENT BENEFITS SCHEME CONTRIBUTIONS

The Group operates three Mandatory Provident Fund Schemes ("MPF Schemes") for all qualifying employees. The assets of the MPF Schemes are held separately in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Schemes, which contribution is matched by employees (to the extent of HK$12,000 per annum).

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

Total contributions to retirements benefit schemes charged to consolidated income statement amounted to HK$1,005,000 (2005: HK$1,166,000).

17. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Ordinary shares:		
Interim dividend paid of HK0.2 cent per share	**1,582**	–

An interim dividend of HK0.2 cent per share (2005: nil) amounting to HK$1,582,000 (2005: nil) was paid on 25 January 2006 to the shareholders of the Company whose names appear in the Register of Members on 11 January 2006.

17. DIVIDENDS *(Continued)*

The directors have proposed that a final dividend of HK0.2 cent per share (2005: nil) amounting to HK$1,849,000 (2005: nil) be payable on 6 September 2006 to the shareholders of the Company whose names appear in the Register of Members on 23 August 2006 ("Book Close Date").

	2006	2005
	HK$'000	HK$'000
Final dividend to existing shareholders	**1,689**	–
Final dividend to other shareholders (Note)	**160**	–
	1,849	–

Note: Subsequent to the year end and up to the date of this report, an aggregate 80,003,732 ordinary shares ("Shares") were issued due to conversion of convertible notes, exercise of share options and allotment of 40,000,000 ordinary shares to Super Empire Investments Limited as set out in note 39. The holders of Shares also entitle equivalent amount of final dividend per share pursuant to the relevant provisions in the Company's Bye-laws. Accordingly, a final dividend of HK$160,000 will be paid to the holders of Shares. The number of shares entitled to final dividend is subject to future exercise/conversion of Company's share options and convertible notes prior to the Book Close Date.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the company is based on the following data:

	2006 HK$'000	2005 HK$'000 (restated)
For continuing and discontinued operations		
Earnings		
Earnings for the purposes of basic earnings per share	**13,538**	11,043
Effect on dilutive potential ordinary shares:		
Interest on convertible notes	**717**	628
Earnings for the purposes of diluted earnings per share	**14,255**	11,671
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share	**748,960,707**	696,334,317
Effect of dilutive potential ordinary shares:		
Share options	**6,457,525**	3,650,075
Convertible notes	**98,200,863**	58,710,502
Weighted average number of shares for the purpose of diluted earnings per share	**853,619,095**	758,694,894

18. EARNINGS PER SHARE *(Continued)*

From continuing operations

The calculation of the basic and diluted earning per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK$'000	2005 HK$'000
Earnings		
Earnings for the purposes of basic earnings per share	**13,538**	11,043
Add: Loss for the year from discontinued operations	**89**	755
Earnings for the purposes of basic earnings per share from continuing operations	**13,627**	11,798
Effect of dilutive potential ordinary shares: Interest on convertible notes	**717**	628
Earnings for the purposes of diluted earnings per share from continuing operations	**14,344**	12,426

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

18. EARNINGS PER SHARE *(Continued)*

From discontinued operations

Basic loss per share for discontinued operations for the year ended 31 March 2006 is HK0.01 cent (2005: HK0.11 cent), based on the calculation the loss for the year from the discontinued operations HK$89,000 (2005: HK$755,000) and the same denominators detailed above for the basic earnings per share.

Diluted loss per share for discontinued operations for both years are not presented because the exercise of the convertible notes and share options outstanding would result in a decrease in net loss per share for the year.

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in note 3. To the extent that those changes have had an impact on results reported for the year ended 31 March 2005 and 31 March 2006, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on basic earnings from continuing and discontinued operations per share:

	Impact on basic earnings per share	
	2006	2005
	HK cent	HK cent
Increase in finance costs as a result of fair value measurement of convertible notes	**0.007**	0.006

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000 (restated)	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Crockery, utensils, linens and uniforms HK$'000	Total HK$'000
COST					
At 1 April 2004	–	13,023	–	238	13,261
Additions	–	478	–	–	478
Acquired on acquisition of subsidiaries	6,227	1,257	527	–	8,011
Disposal of subsidiaries	–	(4,311)	–	(238)	(4,549)
Disposals/write-off	–	(4)	–	–	(4)
At 31 March 2005	6,227	10,443	527	–	17,197
Additions	–	226	–	–	226
Disposals	–	(8,733)	–	–	(8,733)
At 31 March 2006	6,227	1,936	527	–	8,690
DEPRECIATION					
At 1 April 2004	–	10,229	–	–	10,229
Provided for the year	113	1,484	308	–	1,905
Eliminated on disposal of subsidiaries	–	(2,440)	–	–	(2,440)
Eliminated on disposals/ write-off	–	(4)	–	–	(4)
Impairment loss recognised in the income statement	–	139	–	–	139
At 31 March 2005	113	9,408	308	–	9,829
Provided for the year	132	525	147	–	804
Eliminated on disposals	–	(8,733)	–	–	(8,733)
At 31 March 2006	245	1,200	455	–	1,900
CARRYING VALUES					
At 31 March 2006	5,982	736	72	–	6,790
At 31 March 2005	6,114	1,035	219	–	7,368

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

For the year ended 31 March 2005, leasehold land and buildings were presented together under a same column headed "leasehold land and buildings". The application of HKAS 17 has resulted the segregation of lease of land and buildings and this change in accounting policy has been applied retrospectively. The comparative figures of the movement in property, plant and equipment have been restated.

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

Buildings	Over the estimated useful lives of 50 years or over the term of the leases, if less than 50 years
Furniture and equipment	10 – $33^{1}/_{3}$%
Fixtures	10 – 20% or over the term of the leases, whichever is shorter
Motor vehicles	20 – 25%

The Group's buildings are situated in Hong Kong and are held under long leases.

For the year ended 31 March 2005, the impairment loss recognised of HK$139,000 represented the recognition of a decrease in the recoverable amount of furniture, fixtures and equipment of a subsidiary engaged in the restaurant operations as a result of the cessation of operations of this subsidiary subsequent to 31 March 2005.

The Group has pledged buildings of a carrying value of HK$5,982,000 (2005: HK$6,114,000) to secure general banking facilities granted to the Group.

20. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong under long lease	**8,706**	8,880
Analysed for reporting purposes as:		
Current asset	**174**	174
Non-current asset	**8,532**	8,706
	8,706	8,880

The Group has pledged prepaid lease payments of a carrying value of HK$8,706,000 (2005: HK$8,880,000) to secure banking facilities granted to the Group.

21. INTANGIBLE ASSETS

	Copyrights	**Trademarks**	**Other**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 April 2004	–	–	300	300
Acquired on acquisition of subsidiaries	3,213	151	–	3,364
Write-off	–	–	(300)	(300)
At 31 March 2005 and 31 March 2006	3,213	151	–	3,364
AMORTISATION				
At 1 April 2004	–	–	100	100
Charge for the year	710	56	83	849
Eliminated on write-off	–	–	(183)	(183)
At 31 March 2005	710	56	–	766
Charge for the year	680	60	–	740
At 31 March 2006	1,390	116	–	1,506
CARRYING VALUES				
At 31 March 2006	1,823	35	–	1,858
At 31 March 2005	2,503	95	–	2,598

21. INTANGIBLE ASSETS *(Continued)*

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following:

Copyrights	4 – 5 years
Trademarks	5 years

22. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries	41,025
Arising on acquisition of additional interests in subsidiaries	83,514
At 31 March 2005 and 31 March 2006	124,539

As explained in note 8, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill have been allocated to an individual cash generating unit ("CGU"), including subsidiaries engaged in publications and distributions of comics books.

For the year ended 31 March 2006, management of the Group determines that there is no impairment of goodwill.

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

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are discount rate and expected changes to selling prices and direct costs in the future. Management estimates discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The discount rate used is 7.2%. The growth rate is based on industry growth forecast. Selling prices and direct costs are based on past practices and expectations of future changes in the market.

22. GOODWILL *(Continued)*

The Group prepares cashflow forecast derived from the most recent financial budgets approved by management for the next five years and extrapolates cashflow for the following ten years at zero growth rate. After considering the relevant comics business has a history of over 30 years with a steady operating profits in the past, the directors considered the adoption of a 15-years forecast period is appropriate.

23. DEFERRED TAX ASSETS

The following is the major deferred tax asset recognised by the Group, and the movement thereon during the current and prior years:

	Tax losses
	HK$'000
At 1 April 2004	–
Credit to income statement (note 11)	3,322
At 31 March 2005	3,322
Charge to income statement (note 11)	(230)
At 31 March 2006	3,092

At the balance sheet date the Group has unused tax losses of HK$27,662,000 (2005: HK$26,976,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$17,669,000 (2005: HK$18,983,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$9,993,000 (2005: HK$7,993,000) due to the unpredictability of future profit streams of these subsidiaries. The tax loss can be carried forward indefinitely.

24. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials and consumables	**120**	84
Merchandised goods	**127**	246
Work-in-progress	**43,457**	21,054
	43,704	21,384

25. TRADE DEBTORS

The Group allows an average credit period of 90 days to its trade customers.

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

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**15,748**	9,183
31 – 60 days	**7,337**	5,436
61 – 90 days	**2,567**	2,685
Over 90 days	**2,058**	4,339
	27,710	21,643

The fair value of the Group's trade debtors at 31 March 2006 approximates to the corresponding carrying amount.

26. OTHER FINANCIAL ASSETS

The fair value of the Group's other debtors and deposits approximates to the corresponding carrying amount.

27. PLEDGED BANK DEPOSITS

The deposits carry fixed interest rate ranging from 3.5% to 3.61%. The pledged bank deposits will be released upon the settlement of relevant banking borrowings. The fair value of pledged bank deposits at 31 March 2006 approximates to the corresponding carrying amount.

28. BANK BALANCES AND CASH

The bank balances carried interest at prevailing market interest rates of approximately 2.8%. The fair value of bank balances at 31 March 2006 approximates the corresponding carrying amount. At 31 March 2006, the bank balances and cash of approximately HK$254,000 (2005: HK$238,000) were denominated in Renminbi which is not freely convertible into other currencies.

29. TRADE CREDITORS

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

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**3,219**	2,636
31 – 60 days	**1,515**	1,610
61 – 90 days	**1,620**	1,413
Over 90 days	**1,524**	2,862
	7,878	8,521

The fair value of the Group's trade creditors at 31 March 2006 approximates to the corresponding carrying amount.

30. OTHER FINANCIAL LIABILITIES

The fair value of the Group's other creditors and accrued charges at 31 March 2006 approximates to the corresponding carrying amount.

31. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Secured bank loans repayable on demand or within one year	**14,610**	8,485

The effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are:

	2006	2005
Variable-rate borrowings	HIBOR + 2.5% Hong Kong Dollar Prime Rate – 2%	HIBOR + 1%

The Group's bank borrowings are denominated in Hong Kong dollars and their fair value as at 31 March 2006 approximates to the corresponding carrying amount.

32. SHARE CAPITAL

	Notes	Par value of ordinary share	Number of ordinary shares	Amount
		HK$		HK$'000
Authorised:				
At 1 April 2004, 31 March 2005 and 31 March 2006		0.002 each	250,000,000,000	500,000
Issued and fully paid:				
At 1 April 2004		0.002 each	559,663,466	1,119
Issued in consideration for the acquisition of the issued share capital of JDH		0.002 each	84,442,718	169
Placing of new shares		0.002 each	70,000,000	140
At 31 March 2005			714,106,184	1,428
Issue of new shares upon conversion of convertible notes	(1)	0.002 each	100,267,200	201
Issue of new shares upon exercise of share options	(2)	0.002 each	29,984,000	60
At 31 March 2006			844,357,384	1,689

Notes:

(1) During the year, convertible notes with an aggregate principal amount of HK$50,133,600 were converted into 100,267,200 shares at a conversion price of HK$0.5 per share.

(2) During the year, 29,984,000 share options were exercised at a subscription price ranging from HK$0.267 to HK$0.37 per share, resulting in the issue of 29,984,000 shares of HK$0.002 each for a total cash consideration of HK$9,703,732.

33. CONVERTIBLE NOTES

Convertible notes (the "Notes") of the Group were issued on 19 October 2004 upon completion of the agreement for the sale and purchase of 49% equity interests in JDH dated 17 August 2004. As at 31 March 2006, outstanding Notes with the principal amount of HK$15,291,000 are convertible into shares of the Company at a price of HK$0.5 (subject to adjustments) and will be matured on 18 October 2007 ("Maturity Date").

The Notes bear interest on the outstanding principal from the date of issue to the date of redemption or conversion at a rate of 2% per annum payable in arrears semi-annually.

The Group may elect to prepay the outstanding principal under the Notes prior to the Maturity Date provided that the amount of principal prepaid under each Notes shall not exceed (i) within the first year of issue, one-third of the original principal amount of such Notes and (ii) within the second year of issue, two-thirds of the original principal amount of such Notes. The fair value of early redemption right of the Notes is insignificant.

Unless converted by the noteholder or prepaid by the Group, the Group will repay the Notes in cash without premium representing the outstanding principal, accrued and unpaid interest in accordance with the aforesaid terms and conditions of the Notes.

The convertible notes contain two components, liability and equity elements. Upon the application of HKAS 32 Financial Instruments: Disclosure and Presentation (see Note 3 for details), the convertible notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "capital reserve". The effective interest rate of the liability component is 2.15%.

33. CONVERTIBLE NOTES *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
Liability component at the beginning of the year	**65,092**	–
Issuance of convertible notes	**–**	65,051
Conversion to shares of the Company	**(49,917)**	–
Interest charge (Note 10)	**717**	629
Interest paid	**(667)**	(588)
Liability at the end of the year	**15,225**	65,092

The fair value of the liability component of the convertible notes at 31 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 loan at the balance sheet date approximates its carrying amount.

34. ACQUISITION OF SUBSIDIARIES

On 22 April 2004, the Group acquired 51% of the issued share capital of JDH and its subsidiaries (collectively the "JDH Group") for a consideration of approximately HK$54,338,000. The amount of goodwill arising as a result of the acquisition was HK$41,025,000.

	2005
	HK$'000
	(restated)
Net assets acquired:	
Property, plant and equipment	8,011
Prepaid lease payments	9,054
Intangible assets	3,364
Inventories	18,693
Trade debtors	18,549
Loan receivable	100
Amount due from a related company	25
Deposits and prepayments	1,627
Bank balances and cash	2,537
Tax recoverable	532
Trade creditors	(9,221)
Other creditors and accrued charges	(11,154)
Tax payable	(108)
Bank borrowings	(15,905)
Minority interests	(12,791)
	13,313
Goodwill	41,025
Total consideration	54,338
Satisfied by:	
Shares allotted	30,874
Cash	23,464
	54,338
Net cash outflow arising on acquisition:	
Cash consideration	23,464
Bank balances and cash acquired	(2,537)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	20,927

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

The JDH Group contributed HK$101,947,000 to the Group's turnover and HK$25,036,000 to the Group's profit before tax between the date of acquisition and 31 March 2005.

35. DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2005, the Group disposed of the entire interest in Pacific Glory Limited ("Pacific Glory") and Best Spread Limited ("Best Spread"). Pacific Glory and its subsidiaries and Best Spread were principally engaged in operating restaurants.

The net assets of Pacific Glory and Best Spread at the date of disposal were as follows:

	2005
	HK$'000
Net assets disposed of:	
Property, plant and equipment	(2,109)
Inventories	(285)
Trade debtors	(51)
Other debtors	(54)
Deposits and prepayments	(852)
Bank balances and cash	(2,825)
Trade creditors	972
Other creditors and accrued charges	642
	(4,562)
Gain on disposal	(547)
Total consideration	5,109
Satisfied by:	
Cash	5,000
Deferred consideration (included in other debtors)	109
	5,109
Net cash inflow arising on disposal:	
Cash consideration	5,000
Bank balances and cash disposed of	(2,825)
	2,175

The subsidiaries disposed of during the year ended 31 March 2005 contributed HK$7,759,000 to the Group's turnover and had a loss before tax of HK$69,000 for the year ended 31 March 2005.

36. OPERATING LEASES

The Group as lessee

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 HK$'000	2005 HK$'000
Within one year	**573**	223
In the second to fifth year inclusive	**132**	161
	705	384

Operating lease payments represent rentals payable by the Group for its staff quarters and office premises in Shenzhen, the PRC and Taiwan. Leases are mainly negotiated for an average term of one to two years.

37. SHARE BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company held on 7 October 2002 for the primary purpose of providing incentives to directors and eligible employees. The Scheme will expire on 6 October 2012. Under the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, suppliers, customers, advisers or consultants and joint venture partners or business alliances of the Company or any of its subsidiaries to subscribe for shares in the Company.

37. SHARE BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

At 31 March 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 31,808,000 (2005: 61,799,998), representing 3.8% (2005: 8.7%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholder 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.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per each grant of options. Options may be exercised from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company and will not be less than the highest of the closing price of the shares on the Stock Exchange on the date of grant, the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares.

37. SHARE BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The following table discloses details of the Company's share options held by the Company's directors and, the Group's employees and other registered holders and movements in such holdings during the both years.

					Number of share options						
	Option type	Date of grant	Exercisable period	Exercise price	At 1 April 2004	Granted during the year	Lapsed during the year	At 31 March 2005	Exercised during the year	Lapsed during the year	At 31 March 2006
Directors	2003	27.3.2003	28.3.2003 to 27.3.2006	0.267	11,199,998	–	–	11,199,998	(11,192,000)	(7,998)	–
	2004	2.4.2004	22.4.2004 to 21.4.2007	0.363	–	9,300,000	(6,000,000)	3,300,000	(1,096,000)	–	2,204,000
	2005	6.1.2005	21.1.2005 to 20.1.2008	0.370	–	5,800,000	–	5,800,000	(1,496,000)	–	4,304,000
					11,199,998	15,100,000	(6,000,000)	20,299,998	(13,784,000)	(7,998)	6,508,000
Employees	2003	27.3.2003	28.3.2003 to 27.3.2006	0.267	1,600,000	–	–	1,600,000	(1,600,000)	–	–
	2004	2.4.2004	22.4.2004 to 21.4.2007	0.363	–	600,000	–	600,000	(300,000)	–	300,000
	2005	6.1.2005	21.1.2005 to 20.1.2008	0.370	–	300,000	–	300,000	(300,000)	–	–
					1,600,000	900,000	–	2,500,000	(2,200,000)	–	300,000
Consultants, advisors, customers, shareholders and business associate	2004	2.4.2004	22.4.2004 to 21.4.2007	0.363	–	13,000,000	–	13,000,000	(9,000,000)	–	4,000,000
	2005	6.1.2005	21.1.2005 to 20.1.2008	0.370	–	26,000,000	–	26,000,000	(5,000,000)	–	21,000,000
					–	39,000,000	–	39,000,000	(14,000,000)	–	25,000,000
					12,799,998	55,000,000	(6,000,000)	61,799,998	(29,984,000)	(7,998)	31,808,000

The Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and vested before 1 April 2005 in accordance with the relevant transitional provisions. All the share options granted under the Scheme were vested on the date of grant. Because all the share options outstanding as at 1 April 2005 had vested before 1 April 2005, the application of HKFRS 2 has had no impact on the Group's result for the current or prior accounting periods.

37. SHARE BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

Accordingly, The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.60.

At the balance sheet date, the Company had outstanding HK$31,808,000 (2005: HK$61,799,998) share options. Exercise in full in such share options would result in the issue of HK$31,808,000 (2005: HK$61,799,998) additional shares.

38. RELATED PARTY TRANSACTIONS

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

	NOTES	**2006** **HK$'000**	2005 HK$'000
Payment of comics script fee and bonus to a shareholder	(a)	**5,484**	5,693
Interest expense on convertible notes paid to directors	(b)	**124**	56
Interest expense on convertible note to a shareholder	(b)	**384**	257

Notes:

(a) During the year, the Group paid comics script fee and bonus to Mr. Wong Chun Loong, in the capacity as chief creative officer in pursuance with relevant service agreements signed with the Group.

38. RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the year, the Group paid interest on convertible notes to directors and their associates and a shareholder and his associates. The interest is charged at 2% on the principal amount of the convertible notes. The corresponding finance costs based on the effective interest rate of 2.15% of the liability component is HK$144,000 (2005: HK$60,000).

(c) The directors of the Company considered they are also the key management of the Group. Details of their remuneration is set out in note 14.

39. POST BALANCE SHEET EVENT

On 10 May 2006, 40,000,000 ordinary shares of HK$0.002 each of the Company held by Super Empire Investments Limited ("Super Empire"), a company wholly owned by the major shareholder of the Company, were placed to independent professional investors at a price of HK$0.73 each and 40,000,000 new ordinary shares of HK$0.002 each of the Company were issued and allotted to Super Empire on 23 May 2006 under a placing and a subscription agreement up to 50,000,000 ordinary shares of HK$0.002 each of the Company entered into by the Company on 9 May 2006. These shares were issued under the general mandate granted to the directors of the Company on 22 August 2005. The issued price of HK$0.73 represented a discount of approximately 5.2% to the closing price of HK$0.77 on 9 May 2006. The net proceeds of approximately HK$28.5 million from the placing and subscription agreement were used for further development of multi-media business and general working capital.

Subsequent to the year end, an aggregate principal amount of HK$9,405,866 convertible notes were converted into 18,811,732 ordinary shares of HK$0.002 each at HK$0.5 per share.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY AT 31 MARCH 2006

Name of subsidiary	Place of incorporation/ registration	Class of share held	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Jade Dynasty Holdings Limited	British Virgin Islands	Ordinary	US$10,000	100%*	Investment holding
Jade Dynasty Publications Limited	Hong Kong	Ordinary	HK$30,000,000	100%	Publication of comic books and investment holding
KINGcomics.com Limited	Hong Kong	Ordinary	HK$2	100%	Provision of online comic viewing services and sales of related merchandised goods
Jade Dynasty Comics Development Limited (formerly known as "Rich Delight Limited")	Hong Kong	Ordinary	HK$2	100%	Publication of comics books
Rising Dragon Publications Limited	Hong Kong	Ordinary	HK$100	100%	Sale of merchandised goods
Yuk Long Animation Limited (formerly known as "Wide Creation Limited ")	Hong Kong	Ordinary	HK$2	100%	Development of animation and games
Yuk Long (Overseas) Limited	British Virgin Islands	Ordinary	US$1	100%	Provision of agency and promotion services
Yuk Long Publishing (International) Limited	Hong Kong	Ordinary	HK$10,000	100%	Publication of comics books
Yuk Long Cultural Development (Shenzhen) Limited	The PRC	Registered capital	HK$1,000,000	100%	Digital graphic design and software development

* Other than this subsidiary which is directly held by the Company, all other principal subsidiaries are indirectly held by the Company.

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

The above tale lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.