

Notes to the Financial Statements

1 GENERAL INFORMATION

Mei Ah Entertainment Group Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in television operations, film exhibition, film rights licensing and sub-licensing, sale and distribution of films and programs and processing of audio visual products through its associated companies.

The Company is a limited liability company incorporated in Bermuda.

These consolidated financial statements are presented in thousands of units of HK dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26th July 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The adoption of new/revised HKFRS

During the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of the new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to prepaid land premium and land use rights. The up-front prepayments made for the prepaid land premium and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement as part of other gains. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the consolidated income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amounts of investment properties through use. In prior years, the carrying amounts of investment properties were expected to be recovered through sale.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment was resulted from this reassessment.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” in previous years. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st April 2005.
- HKAS 40 — since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st April 2005, including the reclassification of any amount held in revaluation reserve for investment properties.
- HKAS-Int 15 — does not require the recognition of incentives for leases for accounting periods beginning before 1st April 2005.
- HKFRS 3 — prospectively after 1st April 2005.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The adoption of revised HKAS 17 has resulted in

	2006 HK\$'000	2005 HK\$'000
Decrease in property, plant and equipment	(12,916)	(13,238)
Increase in prepaid land premium and land use rights	12,916	13,238

The adoption of HKAS 40 and HKAS-Int 21 has resulted in

	2006 HK\$'000	2005 HK\$'000
Increase in deferred tax liability	—	2,742
Increase in retained earnings	13,319	—
Decrease in investment properties revaluation reserve	(13,319)	(2,742)

The adoption of HKAS 39 has resulted in

	2006 HK\$'000
Increase in available-for-sale financial assets	3,343
Decrease in investment securities	(3,343)

The adoption of other HKAS and HKFRS has no material financial impact to the Group.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Standards, interpretation and amendments to be published that are not yet effective

The Group did not early adopt the following new standards or interpretations or amendments that have been issued but are not yet effective. The Group has commenced an assessment of the impact of these standards interpretations or amendments but is not yet in a position to state whether these new standards or amendments would have a significant impact on its results of operations and financial position.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st March.

(a) **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(d) Joint ventures

The Group's interests in jointly controlled entities are accounted for using equity method.

Equity accounting is discontinued from the date on which the Group ceases to have joint control over, or have significant influence in, a jointly controlled entity. When the carrying amount of the investment in the jointly controlled entity reaches zero, equity accounting is discontinued unless the Group has incurred or obligations or guaranteed obligations in respect of the jointly controlled entity.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

Unallocated costs mainly represent corporate expenses. Last year's unallocated costs included impairment and loss on disposal of investment securities. Unallocated income represents rental income, gain on disposal of associated companies, property, plant and equipment and net surplus on revaluation of investment properties and buildings. Segment assets comprise primarily of property, plant and equipment (exclude buildings and leasehold improvements), film rights, films in progress, film sub-licensing rights and deposits, inventories, trade and other receivables and operating cash. Unallocated assets mainly represent investment properties, prepaid land premium and land use rights, buildings, leasehold improvements and available-for-sale financial assets. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings and deferred tax liabilities. Capital expenditure comprises additions to property, plant and equipment, film rights, films in progress and film sub-licensing rights and deposits (*notes 15 and 17*).

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances *(Continued)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Buildings comprise mainly offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical costs less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset is expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs or revalued amounts to their residual values over their estimated useful lives. The principal annual rates are as follows:

— Buildings	2%
— Leasehold improvements	10% or lease term, whichever is the shorter
— Furniture, fixtures and equipment	20% to 25%
— Motor vehicles	25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as an investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by qualified external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties *(Continued)*

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2.7 Intangible assets — Film and sub-licensing rights

(i) *Film rights and perpetual film rights*

Film rights generated by the Group or perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Costs less provision for impairment losses represent the carrying value transferred from films in progress upon completion or the purchase price of the perpetual film rights, and are amortised at rates calculated to write-off the costs in proportion to the expected revenues from exhibition, the reproduction and distribution of audio visual products, the licensing of video rights and other broadcast rights following their release. Such rates are subject to annual review by the directors.

(ii) *Films in progress*

Films in progress are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of films. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production costs payable at year end are disclosed as commitments. Costs of films are transferred to film rights upon completion.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

Film and sub-licensing rights (Continued)

(iii) Film sub-licensing rights and deposits

Licence fees paid in advance and by instalments during the production of films under licensing agreements for the reproduction and distribution of audio visual products and sub-licensing of film titles, in specified geographical areas and time periods, are accounted for as film sub-licensing rights and deposits. The balance payable under the licensing agreements is disclosed as a commitment. Upon the release of the pre-recorded audio visual products and the materials, the relevant portion of licence fees of purchased film titles are charged to the income statement on a systematic basis, with reference to the projected revenue and the underlying licence periods. Provision for impairment loss is made against film sub-licensing rights and deposits to the extent that they are not expected to generate any future revenue for the Group.

In case where the Group is unable to exercise its rights under a licensing agreement because the film producer fails to complete the film, the Group writes-off the difference between the advances made and the estimated recoverable amount from the film producer.

(iv) At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that film rights, films in progress, film sub-licensing rights and deposits are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets

Prior to 1st April 2005:

The Group classified its investments in securities, other than subsidiaries, associated companies and jointly controlled entities, as investment securities.

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1st April 2005 onwards:

The Group classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (*Note 2.11*).

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities shorter than 12 months from the balance sheet date, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising, from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other gains or losses — net" in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale and analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The transaction differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(d) Available-for-sale financial assets *(Continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “gains and losses from available-for-sale securities”. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to the purchases of raw materials.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Trade and other receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity. The par value of the shares issued and fully paid is recognised in the share capital account. Any excess of proceeds from a new issue of shares (net of any incremental costs directly attributable to the new issue) over the par value of the shares issued is recognised in the share premium account.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the respective periods of the borrowings using the effective interest method.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Borrowings *(Continued)*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. The Group has a mandatory provident fund scheme and another defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Employee benefits *(Continued)*

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.18 Revenue recognition

- (a) Revenues from television operations mainly comprise sub-licensing of programme rights and channel supply revenues. Revenue from sub-licensing of programme rights is recognised on the basis as set out in note 2.18(c) below, and channel supply revenue is recognised on an accrual basis when the relevant channels are broadcasted.
- (b) Film exhibition income is recognised when the right to receive payment is established.
- (c) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon the delivery of pre-recorded audio visual products and materials for video features, including the master tapes to the customers.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Revenue recognition *(Continued)*

- (d) Revenue from the sale and distribution of films and programs in audio visual product format is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (e) Rental income is recognised on a straight-line basis over the period of the lease.
- (f) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (g) Distribution commission income from royalty rights is recognised on an accrual basis.
- (h) Dividend income is recognised when the right to receive payment is established.
- (i) Management fee income is recognised when services are rendered.

2.19 Leases (as the lessee)

(a) *Operating lease*

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

(b) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the leases' commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, particularly interest rate, currency, price, liquidity and credit risks. Where appropriate, the Group's risk management policies seek to minimise potential adverse effects of these risks on the financial performance of the Group. The policies for managing these risks are summarised below.

(a) Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions, which generate interest income for the Group. The Group manages its interest rate risk by placing such balances on various maturities and interest rate terms.

The Group's bank loans also expose it to interest rate risk. The Group manages the risk by setting roll-over periods of various duration on its revolving loans after due consideration of market conditions and expectation of future interest rate.

(b) Currency risk

The currency risk of the Group arises mainly from its revenues from its film rights licensing and sub-licensing and purchases of film rights denominated in currencies other than the functional currency.

The Group minimises its currency risk by denominating majority of its foreign currency transactions in United States dollar, which is pegged with Hong Kong dollar at a designated range such that the exposure on fluctuation of foreign currency rate is limited.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain a balance between the continuity and the flexibility of funding through the use of bank overdrafts, bank loans and finance lease contracts. In addition, sufficient banking facilities have been put in place for contingency purposes.

(d) Credit risk

The Group's credit risk arises mainly from its trade receivables.

The Group manages its credit risk associated with trade receivables through the application of credit approvals, credit ratings and monitoring procedures. The Group also obtains guarantees from certain customers.

Credit sales are only made to customers with appropriate credit history or high credit standing while sales to new customers or customers of low credit standing are usually made on an advance payment or cash on delivery basis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Impairment of film rights, films in progress, film sub-licensing rights and deposits*

As set out in note 2.7(iv), impairment assessments on film rights, films in progress, film sub-licensing rights and deposits are performed at each balance sheet date with reference to both internal and external market information. Based on management's cash flow projection with respect to individual titles of the Group's film rights, films in progress, film sub-licensing rights and deposits at 31st March 2006, an impairment loss of HK\$1,348,000 (2005: HK\$6,234,000) was recognised in the consolidated income statement to reduce the carrying amounts of certain titles to their recoverable amounts. If projected cash inflow from these films were to deteriorate, additional provision for impairment may be required. The carrying value of films in progress, film sub-licensing rights and deposits at 31st March 2006 amounted to approximately HK\$73,564,000 (2005: HK\$40,512,000).

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Provision for impairment of trade and other receivables

During the year, impairment losses of HK\$1,490,000 (2005: HK\$3,051,000) have been recognised in the consolidated income statement to write-down the carrying amounts of certain trade and other receivable balances of the Group to their recoverable amounts.

The provisioning policy for trade and other receivables of the Group is based on the evaluation of collectability of those receivables and on management's judgement. At the balance sheet date, the trade and other receivables, net of provision, amounted to HK\$54,525,000. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer, and the realisation of any repayment pattern promised. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

4.2 Critical judgements in applying the entity's accounting policies

(a) Distinction between investment properties and owner-occupied properties

The Group determine whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generated cash flows are attributable not only to property but also to other assets used in the production or supply process.

(b) Interest in a jointly controlled entity

The Group owns 70% interest in Guangdong Tung Ah Audio Video Production Company Limited ("Tung Ah"). The Group's control over Tung Ah is restricted by a provision in the joint venture agreement that require unanimous approval by all directors present for certain major decisions, notwithstanding the Group having a majority equity interest and the ability to appoint the majority of directors. The Group judges that there is no unilateral control over Tung Ah and accordingly it is accounted for as a jointly controlled entity.

(c) Income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Television operations	62,151	33,885
Film exhibition and film rights licensing and sub-licensing	41,958	30,849
Sale and distribution of films and programs in audio visual product format	49,285	82,587
	153,394	147,321
Other revenues		
Rental income from investment properties	3,482	2,077
Rental income from buildings	3,973	1,956
Distribution commission income	1,487	2,641
Management fee income	1,664	—
Dividend income	117	—
Interest income	300	5
	11,023	6,679
Total revenues	164,417	154,000

Primary report format — business segments

The Group and its associated companies are organised into four main business segments:

- Television operations
- Film exhibition and film rights licensing and sub-licensing
- Sale and distribution of films and programs in audio visual product format
- Processing of audio visual products through its associated companies

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

The segment results for the year by each principal activity are as follows:

	For the year ended 31st March 2006					Group HK\$'000
	Television operations HK\$'000	Film exhibition and film rights sub-licensing HK\$'000	Sale and distribution of films and programs in audio visual product format HK\$'000	Processing of audio visual products HK\$'000	Elimination HK\$'000	
External sales	62,151	41,958	49,285	—	—	153,394
Inter-segment sales	—	9,449	—	—	(9,449)	—
Total revenues	62,151	51,407	49,285	—	(9,449)	153,394
Segment results	17,940	4,667	(9,193)	—	713	14,127
Unallocated income						17,327
Unallocated costs						(6,546)
Operating profit						24,908
Finance costs						(2,909)
Share of profits less losses of associated companies	—	1,303	—	(1,305)	—	(2)
Profit before income tax						21,997
Income tax expense						(1,527)
Profit for the year						20,470
Property, plant and equipment						
— Additions	646	—	714	—	—	1,360
— Unallocated additions						77
						1,437
— Depreciation	109	44	688	—	—	841
— Unallocated depreciation						3,485
						4,326
Film rights, films sub-licensing rights and deposits						
— additions	30,342	52,081	11,634	—	(9,450)	84,607
— amortisation	19,447	25,123	14,996	—	(10,162)	49,404
— impairment	—	—	1,348	—	—	1,348
Impairment of trade and other receivables	1,490	—	—	—	—	1,490

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

	For the year ended 31st March 2005					
	Television operations HK\$'000	Film exhibition and film rights licensing and sub-licensing HK\$'000	Sale and distribution of films and programs in audio visual product format HK\$'000	Processing of audio visual products HK\$'000	Elimination HK\$'000	Group HK\$'000
External sales	33,885	30,849	82,587	—	—	147,321
Inter-segment sales	—	15,475	—	—	(15,475)	—
Total revenues	33,885	46,324	82,587	—	(15,475)	147,321
Segment results	7,329	13,407	(18,283)	—	(8,333)	(5,880)
Unallocated income						19,617
Unallocated costs						(9,562)
Operating profit						4,175
Finance costs						(3,453)
Share of profits less losses of associated companies	—	(29,661)	—	17	—	(29,644)
Loss before income tax						(28,922)
Income tax expense						(285)
Loss for the year						(29,207)
Property, plant and equipment						
— Additions	1	1	471	—	—	473
— Unallocated additions						3,277
						3,750
— Depreciation	68	46	974	—	—	1,088
— Unallocated depreciation						3,565
						4,653
Film rights, films sub-licensing rights and deposits						
— additions	28,009	25,909	25,345	—	(15,545)	63,718
— amortisation	10,207	15,951	33,605	—	(7,142)	52,621
— impairment	—	1,325	4,909	—	—	6,234
Impairment of trade and other receivables	—	—	3,051	—	—	3,051

The amortisation of leasehold land and land use rights amounting to **HK\$322,000** (2005: HK\$322,000) is unallocated to the Group's business segments and the amortisation costs of non-current receivables amounting to **HK\$2,427,000** (2005: Nil) are under the segment of "Sale and distribution of films and programs in audio visual product format".

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

	As at 31st March 2006					Group HK\$'000
	Television operations HK\$'000	licensing and sub-licensing HK\$'000	Film exhibition and film rights HK\$'000	Sale and distribution of films and programs in audio visual product format HK\$'000	Processing of audio visual products HK\$'000	
Segment assets	30,029	51,194	67,627	—	(7,620)	141,230
Investment in a jointly controlled entity	—	—	—	—	—	—
Investments in associated companies	—	—	—	24,419	—	24,419
Unallocated assets						195,482
Total assets						361,131
Segment liabilities	(27,756)	(44,377)	(23,099)	—	—	(95,232)
Unallocated liabilities						(27,738)
Total liabilities						(122,970)

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

	As at 31st March 2005					
	Television operations <i>HK\$'000</i>	Film exhibition and rights licensing and sub-licensing <i>HK\$'000</i>	Sale and distribution of films and programs in audio visual product format <i>HK\$'000</i>	Processing of audio visual products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment assets	24,121	22,020	49,300	—	(8,333)	87,108
Investment in a jointly controlled entity	—	—	—	—	—	—
Investments in associated companies	—	(3,728)	—	45,780	—	42,052
Unallocated assets						192,263
Total assets						321,423
Segment liabilities	(9,681)	(22,282)	(32,665)	—	—	(64,628)
Unallocated liabilities						(39,564)
Total liabilities						(104,192)

Secondary report format — geographical segment

No geographical analysis is provided as less than 10% of the consolidated revenues and of the consolidated assets of the Group were attributable to markets outside Hong Kong.

6 OTHER GAINS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net surplus on revaluation of investment properties and buildings	6,394	—
Gain on disposal of an associated company	1,962	15,579
Gain on disposal of property, plant and equipment	35	—
	8,391	15,579

Notes to the Financial Statements

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing, administrative and other expenses are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Amortisation of film rights and film sub-licensing rights	49,404	52,621
Amortisation of leasehold land and land use rights	322	322
Amortisation costs of non-current receivables	2,427	—
Auditors' remuneration		
— current year	792	624
— underprovision in prior years	28	—
Cost of inventories	21,756	54,873
Deficit arising on revaluation of buildings not covered by previous revaluation surplus	—	235
Depreciation		
— owned property, plant and equipment	4,143	4,372
— leased property, plant and equipment	183	281
Impairment of film rights, films in progress, film sub-licensing rights and deposits (note 17)	1,348	6,234
Impairment of investment securities (note 21(b))	—	368
Loss on disposal of investment securities	—	2,957
Operating lease rentals in respect of land and buildings	—	2,400
Provision for impairment of trade and other receivables	1,490	3,051
Provision for amount due from a jointly controlled entity	339	—
Employee benefit expenses (including directors' emoluments) (note 13)	11,752	13,501
Direct operating expenses arising from investment properties that generate rental income	633	511

Notes to the Financial Statements

8 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank loans and overdrafts		
— Wholly repayable within five years	2,715	3,167
— Not wholly repayable within five years	165	131
	2,880	3,298
Interest element of finance leases	29	155
Total borrowing costs incurred	2,909	3,453

9 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

	2006 HK\$'000	2005 HK\$'000
Share of profits less (losses) of associated companies	(2)	(2,963)
Provision for obligations in and amounts due from associated companies (<i>note below</i>)	—	(26,681)
Total	(2)	(29,644)

Note: In the prior year, the Group provided financial support to an associated company and made a provision for obligations in this associated company to the extent of its net liabilities as at 31st March 2005.

10 INCOME TAX EXPENSE

No provision for Hong Kong profits tax and overseas taxation has been made for the year as the Group has available tax losses brought forward from prior years (2005: Nil).

The Group's jointly controlled entity in the People's Republic of China ("PRC") did not have any assessable income for the year for PRC tax purposes and accordingly no provision for PRC tax has been made in these financial statements (2005: Nil).

The amount of income tax expense charged to the consolidated income statement represents deferred income tax charge. (*note 29*).

Notes to the Financial Statements

10 INCOME TAX EXPENSE (Continued)

The income tax expense on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of the home countries in which the Group operates as follows:

	2006 HK\$'000	2005 HK\$'000
Profit/(loss) before income tax	21,997	(28,922)
Calculated at a tax rate of 17.5% (2005: 17.5%)	3,850	(5,061)
Income not subject to tax	(1,615)	(3,342)
Expenses not deductible for tax purposes	613	5,393
Tax losses which no deferred income tax assets were recognised	2,042	4,561
Utilisation of previously unrecognised tax losses	(3,363)	(1,266)
Income tax expense	1,527	285

11 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$38,913,000 (2005: loss of HK\$67,764,000).

12 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to equity holders of the Company of HK\$20,378,000 (2005: loss of HK\$29,100,000) and on 771,000,000 (2005: 771,000,000) ordinary shares in issue during the year.

The events as set out in note 38 would have changed significantly the number of ordinary shares outstanding as at 31st March 2006 if those transactions occurred or were completed before the balance sheet date.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK\$'000	2005 HK\$'000
Wages and salaries	11,456	13,137
Pension costs — defined contribution plans	296	364
	11,752	13,501

(a) Directors' emoluments

The remuneration of directors for the year ended 31st March 2006 is set out below:

	2006				2005			
	Other emoluments — basic salaries, allowances and other benefits			Pension costs — defined contribution plans	Other emoluments — basic salaries, allowances and other benefits			Pension costs — defined contribution plans
	Fees	in kind		Total	Fees	in kind		Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors								
Li Kuo Hsing	—	2,550	12	2,562	—	2,328	12	2,340
Tong Hing Chi	—	1,025	12	1,037	—	975	12	987
Chau Kei Leung	—	550	12	562	—	500	12	512
Non-executive directors								
Chan Ngan Piu	96	—	—	96	96	—	—	96
You Jing Feng	—	—	—	—	50	—	—	50
Independent non-executive directors								
Cheung Yui Kai, Warren	100	—	—	100	50	—	—	50
Wang Huarong	50	—	—	50	25	—	—	25
Cheung Ming Man	50	—	—	50	30	—	—	30
	296	4,125	36	4,457	251	3,803	36	4,090

(a) None of the directors has waived any of their emoluments in respect of the years ended 31st March 2006 and 2005.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2005: two) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, allowances and other benefits in kind	1,052	1,105
Pension costs — defined contribution plans	24	24
	1,076	1,129

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
HK\$Nil — HK\$1,000,000	2	2

During the years ended 31st March 2006 and 31st March 2005, no emoluments have been paid by the Group to the three (2005: three) directors or the two (2005: two) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

(c) Emolument policy

The Group's emoluments (including the directors' emoluments) are determined by the board of directors with reference to their contributions in terms of time, effort and their expertise and will be reviewed on an annual basis.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(d) Pension scheme arrangement

The Group provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong under the requirement of the Hong Kong Mandatory Provident Fund Scheme Ordinance ("MPF Scheme Ordinance"). Under the MPF scheme, the Group's contributions are calculated at 5% of the employees' relevant income as defined in the MPF Scheme Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$5,000 per month. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The assets of the MPF scheme are held separately from those of the Group in independently administered funds. The accrued benefits of an employee, which are derived from the Group's mandatory and voluntary contributions under the MPF Scheme, can be used to offset any long service payments or severance payments payable to that employee. The total contribution to the MPF Scheme paid by the Group during the year amounted to HK\$233,000 (2005: HK\$233,000).

The Group also contributes to a defined contribution retirement scheme (the "Retirement Scheme") which provides retirement benefits to its employees who joined the Group prior to the adoption of the MPF Scheme and chose not to join the MPF Scheme after its adoption. The Retirement Scheme's assets are held in a provident fund (the "Fund") managed by an independent administrator. Under the Retirement Scheme, both the employer and the employees are required to contribute 5% of the basic salary of the employees (up to a maximum of HK\$1,000 per employee) on a monthly basis. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20% and 90% after completion of 2 to 9 years of service, in which case the forfeited contributions and the related accrued interest are to be used to reduce the employer's contributions.

The aggregate employer's contributions, net of forfeited contributions and their accrued interest, which have been dealt with in the consolidated income statement for the year ended 31st March 2006 amounted to:

	2006 HK\$'000	2005 HK\$'000
Gross employer's contributions	81	145
Less: Forfeited contributions and their accrued interest utilised to offset employer's contributions for the year	(18)	(14)
Net employer's contributions charged to the consolidated income statement	63	131

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(d) Pension scheme arrangement *(Continued)*

As at 31st March 2006, there is no forfeited contributions available to reduce future contributions under the Retirement Scheme (2005: HK\$14,000) and contributions totalling HK\$34,000 (2005: HK\$40,00) and HK\$12,000 (2005: HK\$8,000) payable to the MPF Scheme and the Retirement Scheme respectively were included in current liabilities in the consolidated balance sheet.

14 PREPAID LAND PREMIUM AND LAND USE RIGHTS — GROUP

The Group's interests in prepaid land premium and land use rights are located in Hong Kong and held on leases of between 10 to 50 years. Details of which are set out in note 15(a).

	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Beginning of the year	13,238	13,560
Amortisation	(322)	(322)
End of the year	12,916	13,238

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
	(Restated)				(Restated)
At 1st April 2004					
Cost or valuation	96,440	11,310	11,459	5,052	124,261
Accumulated depreciation	—	(2,099)	(8,769)	(4,770)	(15,638)
Net book amount	96,440	9,211	2,690	282	108,623
Year ended 31st March 2005					
Opening net book amount	96,440	9,211	2,690	282	108,623
Additions	2,700	532	69	449	3,750
Depreciation	(2,143)	(1,213)	(936)	(361)	(4,653)
Revaluation	(235)	—	—	—	(235)
Closing net book amount	96,762	8,530	1,823	370	107,485
At 31st March 2005					
Cost or valuation	96,762	11,842	10,299	5,501	124,404
Accumulated depreciation	—	(3,312)	(8,476)	(5,131)	(16,919)
Net book amount	96,762	8,530	1,823	370	107,485
Year ended 31st March 2006					
Opening net book amount	96,762	8,530	1,823	370	107,485
Additions	—	228	594	615	1,437
Depreciation	(2,122)	(1,181)	(832)	(191)	(4,326)
Acquisition of a subsidiary	—	—	15	—	15
Revaluation	(56)	—	—	—	(56)
Closing net book amount	94,584	7,577	1,600	794	104,555
At 31st March 2006					
Cost or valuation	94,584	12,070	11,099	5,628	123,381
Accumulated depreciation	—	(4,493)	(9,499)	(4,834)	(18,826)
Net book amount	94,584	7,577	1,600	794	104,555

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT — GROUP (Continued)

- (a) The Group's leasehold land and land use rights (*note 14*) and buildings (collectively the "Properties") situated in Hong Kong are held by the Group under a lease agreement dated 25th August 1997 with the Hong Kong Industrial Estates Corporation ("HKIEC") which restricts the usage of the premise to the manufacture of optical discs and related business. The Group's interests in the Properties are transferable subject to the right of first refusal to purchase by HKIEC. Accordingly, the Properties were valued by Memfus Wong Surveyors Limited, an independent professional qualified valuer, on a depreciated replacement cost basis, which is the aggregate of the land value in its existing use and the estimated replacement costs of the buildings. HKIEC merged with two other corporations in 2001 and is presently known as Hong Kong Science and Technology Parks Corporation.
- (b) The carrying amount of Properties would have been HK\$107,561,000 (2005: HK\$110,239,000) had they been stated at cost less accumulated depreciation.
- (c) At 31st March 2006, the Properties were pledged as security for banking facilities granted to the Group (*note 28*).
- (d) The Group's buildings are stated at valuation and other components of property, plant and equipment are stated at cost.
- (e) At 31st March 2006, the carrying amount of furniture, fixtures and equipment and motor vehicles held under finance leases were HK\$138,000 (2005: HK\$486,000) and HK\$632,000 (2005: HK\$355,000) respectively.
- (f) Depreciation expense of HK\$4,326,000 (2005: HK\$4,653,000) has been included as part of the administrative expenses.

16 INVESTMENT PROPERTIES — GROUP

	2006 HK\$'000	2005 HK\$'000
Beginning of the year	55,000	40,850
Fair value gains (included in other gains — <i>note 6</i>)	6,450	14,150
End of the year	61,450	55,000

- (a) The investment properties of the Group were revalued at 31st March 2006 by Memfus Wong Surveyors Limited, an independent qualified valuer, on the basis of open market value.

Notes to the Financial Statements

16 INVESTMENT PROPERTIES — GROUP (Continued)

(b) The Group's interests in investment properties are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	5,750	5,180
Leases of between 10 to 50 years	45,750	40,070
Outside Hong Kong, held on:		
Leases of over 50 years	9,950	9,750
	61,450	55,000

(c) At 31st March 2006, certain investment properties with carrying amount of HK\$51,500,000 (2005: HK\$45,250,000) were pledged as security for banking facilities granted to the Group (note 28).

Notes to the Financial Statements

17 FILM RIGHTS, FILMS IN PROGRESS, FILM SUB-LICENSING RIGHTS AND DEPOSITS

	Group					Total HK\$'000
	Film rights HK\$'000	Perpetual film rights HK\$'000	Films in progress HK\$'000	Film royalty deposits HK\$'000	Non- perpetual film sub- licensing rights HK\$'000	
At 1st April 2004						
Cost	136,713	20,587	907	17,405	222,379	397,991
Accumulated amortisation and impairment	(134,163)	(13,877)	(778)	(8,648)	(204,876)	(362,342)
Net book amount	2,550	6,710	129	8,757	17,503	35,649
Year ended 31st March 2005						
Opening net book amount	2,550	6,710	129	8,757	17,503	35,649
Additions	—	328	22,631	25,786	14,973	63,718
Transfers	16,299	—	(16,299)	(25,646)	25,646	—
Amortisation charge	(13,771)	(2,150)	—	—	(36,700)	(52,621)
Impairment loss	—	(840)	—	(1,330)	(4,064)	(6,234)
Closing net book amount	5,078	4,048	6,461	7,567	17,358	40,512
At 31st March 2005						
Cost	153,012	20,915	7,239	17,545	262,998	461,709
Accumulated amortisation and impairment	(147,934)	(16,867)	(778)	(9,978)	(245,640)	(421,197)
Net book amount	5,078	4,048	6,461	7,567	17,358	40,512
Year ended 31st March 2006						
Opening net book amount	5,078	4,048	6,461	7,567	17,358	40,512
Additions	—	3,046	48,738	28,002	4,821	84,607
Disposals	(1,014)	—	—	—	—	(1,014)
Transfers	42,050	—	(41,037)	(26,991)	25,978	—
Acquisition of a subsidiary	161	—	50	—	—	211
Amortisation charge	(23,098)	(836)	—	—	(25,470)	(49,404)
Impairment loss	—	—	—	(97)	(1,251)	(1,348)
Closing net book amount	23,177	6,258	14,212	8,481	21,436	73,564
At 31st March 2006						
Cost	363,460	23,962	16,327	18,555	293,797	716,101
Accumulated amortisation and impairment	(340,283)	(17,704)	(2,115)	(10,074)	(272,361)	(642,537)
Net book amount	23,177	6,258	14,212	8,481	21,436	73,564

Notes to the Financial Statements

17 FILM RIGHTS, FILMS IN PROGRESS, FILM SUB-LICENSING RIGHTS AND DEPOSITS (Continued)

- (a) Amortisation charge of HK\$49,404,000 (2005: HK\$52,621,000) with respect to film rights, films in progress, film sub-licensing rights and deposits has been included in cost of sales in the consolidated income statement.
- (b) The carrying amounts of film rights, films in progress, film sub-licensing rights and deposits have been reduced to their recoverable amounts through the recognition of impairment losses of HK\$1,348,000 (2005: HK\$6,234,000) which have been included in other expenses in the consolidated income statement.

18 INTERESTS IN ASSOCIATED COMPANIES — GROUP

	2006 HK\$'000	2005 HK\$'000
Share of net assets/(liabilities)		
Beginning of the year	(23,930)	(16,185)
Share of associated companies' results	(2)	(2,963)
Disposal of interest in an associated company	1,962	(9,282)
Acquisition of further interest in an associated company, which became a subsidiary	27,750	—
Other equity movement	—	4,500
	5,780	(23,930)
Amounts due from associated companies	33,071	110,414
Provision for obligations in and amounts due from associated companies	(14,432)	(44,432)
	24,419	42,052

- (a) The Group's associated companies are unlisted shares.

At 31st March 2006, the Group held 45% interest in Silver Kent Technology Limited, its principal associated company which is incorporated in Hong Kong, with 10,000,000 ordinary shares of HK\$1 each and engaged in the trading of audio visual products. The financial information of Silver Kent Technology Limited is extracted as follows:

	HK\$'000
As at 31st March 2006	
Assets	71,227
Liabilities	58,070
For the year ended 31st March 2006	
Revenues	46,098
Loss for the year	1,394

- (b) The amounts due from associated companies are unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

19 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2006 HK\$'000	2005 HK\$'000
Interest in a jointly controlled entity, at cost	1,083	1,083
Share of losses	(1,083)	(1,083)
Net book amount	—	—
Amount due from a jointly controlled entity (note (b))	20,563	18,841
Provision for amount due from a jointly controlled entity (note (a))	(20,563)	(18,841)
	—	—

- (a) This represents the Group's 70% interest in Tung Ah. The Group's control over Tung Ah is restricted by a provision in the joint venture agreement that requires unanimous approval by all directors present for certain major decisions, notwithstanding the Group having a majority equity interest and the ability to appoint the majority of directors. Accordingly, in the opinion of the directors, the Group does not have unilateral control over Tung Ah and the equity method is used to account for its investment therein.

Particulars of Tung Ah are as follows:

Name	Country of establishment	Principal activity and place of operation	Percentage of interest in ownership/voting power/loss sharing held indirectly
廣東東亞音像制作有限公司 ("Guangdong Tung Ah Audio Video Production Company Limited")	PRC	Processing and distribution of audio visual products in the PRC	70%

- (b) The amount due from the jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.
- (c) At 31st March 2006, Tung Ah was in net liabilities position and the Group has shared its loss up to the extent of its investment cost of HK\$1,083,000 and the amount due from it of HK\$20,563,000.

Notes to the Financial Statements

20 INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost (note (a))	46,010	46,010
Amounts due from subsidiaries (note (b))	492,060	453,104
Amounts due to subsidiaries (note (b))	(34,793)	(34,773)
	503,277	464,341
Provision for amounts due from subsidiaries	(233,885)	(233,885)
	269,392	230,456

(a) Details of principal subsidiaries are set out in note 36 to the financial statements.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES — GROUP

(a) Available-for-sale financial assets — Group

	2006 HK\$'000
Beginning of the year (note 21(b))	3,343
Additions	881
Revaluation surplus transfer to equity	463
End of the year	4,687
Available-for-sale financial assets include the following:	
Equity securities listed in Hong Kong	3,535
Equity securities listed in Singapore	1,152
Market value of the listed securities	4,687

Notes to the Financial Statements

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES — GROUP *(Continued)*

(b) Investment securities — Group

	2005
	<i>HK\$'000</i>
Equity securities, at cost	
Listed in Hong Kong	2,384
Listed outside Hong Kong	1,184
	3,568
Unlisted equity securities, at cost	143
	3,711
Less: provision for impairment	(368)
	3,343
Market value of listed equity securities	3,004

22 INVENTORIES

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Films and programs in audio visual product format	8,423	9,298
Less: provision for obsolete inventories	(1,003)	(1,003)
	7,420	8,295

Notes to the Financial Statements

23 TRADE AND OTHER RECEIVABLES — GROUP

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade receivables	27,467	34,658
Less: provision for impairment of receivables	(3,814)	(4,179)
Trade receivables — net	23,653	30,479
Prepayments, deposits and other receivables	30,872	4,295
	54,525	34,774
Less: non-current portion of		
— trade receivables	(16,190)	—
— prepayments, deposits and other receivables	(13,793)	—
	(29,983)	—
	24,542	34,774

The ageing analysis of trade receivables is as follows:

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current to 3 months	7,190	15,463
4 to 6 months	3,255	6,966
Over 6 months	17,022	12,229
	27,467	34,658

The Group's credit terms to trade receivables generally ranges from 7 to 90 days. Credit terms for certain customers may be extended to over 12 months, after careful consideration of the credit history, credit standing or security in place for these customers. Balances with credit terms of more than 12 months are classified and presented in the consolidated balance sheet under the non-current portion of the receivables.

Notes to the Financial Statements

24 BANK BALANCES AND CASH

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank balances and cash	12,487	16,724	1	1
Short-term bank deposits	5,108	—	—	—
	17,595	16,724	1	1

The effective interest rate on short-term bank deposits was 3%; these deposits have an average maturity of 7-30 days.

25 SHARE CAPITAL

	Authorised Shares of HK\$0.1 each	
	No. of shares (Thousands)	HK\$'000
At 31st March 2005 and 31st March 2006	3,000,000	300,000
Issued and fully paid Shares of HK\$0.1 each		
	No. of shares (Thousands)	HK\$'000
At 31st March 2005 and 31st March 2006	771,000	77,100

- (a) Details of issue of shares subsequent to the balance sheet date are set out in note 38 to the financial statements.
- (b) The Company has a share option scheme as adopted by the shareholders on 30th August 2004. No option has been granted since its adoption.

Notes to the Financial Statements

26 RESERVES

(a)

	Group	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Share premium	—	222,791
Share redemption reserve	12	12
Contributed surplus	107,099	128,545
Exchange difference	(306)	(306)
Investment properties revaluation reserve	—	13,319
Available-for-sale financial assets reserve	463	—
Retained earnings/(accumulated losses)		
— Proposed final dividend	2,880	—
— Others	50,955	(224,099)
	53,835	(224,099)
	161,103	140,262

- (i) Movements of each component of the reserves are set out in the consolidated statement of changes in equity.
- (ii) The contributed surplus of the Group represents the credit arising from the reduction of share capital during the year ended 31st March 1999.

Notes to the Financial Statements

26 RESERVES (Continued)

(b)

	Company				Total HK\$'000
	Share premium HK\$'000	Share redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (accumulated Losses) HK\$'000	
At 1st April 2004	222,791	12	174,556	(176,473)	220,886
Loss for the year	—	—	—	(67,764)	(67,764)
At 31st March 2005	222,791	12	174,556	(244,237)	153,122
At 1st April 2005	222,791	12	174,556	(244,237)	153,122
Transfer from share premium	(222,791)	—	222,791	—	—
Set off against accumulated losses	—	—	(244,237)	244,237	—
Profit for the year	—	—	—	38,913	38,913
At 31st March 2006	—	12	153,110	38,913	192,035
Representing:					
Proposed final dividend	—	—	—	2,880	2,880
Others	—	12	153,110	36,033	189,155
	—	12	153,110	38,913	192,035

(i) The contributed surplus of the Company represents the difference between the par value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the credit arising from the reduction of share capital during the year ended 31st March 1999. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributable if these are reasonable grounds for believing that:

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

Notes to the Financial Statements

26 RESERVES (Continued)

(b) (Continued)

- (ii) On 16th September 2005, the Company's shareholders have approved the resolution to cancel the amount of HK\$222,791,000 standing to the credit of the share premium account as at 31st March 2005, transfer the amount to the contributed surplus account and then apply an amount of HK\$244,237,000 from the contributed surplus account to eliminate the accumulated losses of the Company as at 31st March 2005.

27 TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Current to 3 months	5,817	9,749
4 to 6 months	678	595
Over 6 months	2,393	6,587
	8,888	16,931

Notes to the Financial Statements

28 BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2006 HK\$'000	2005 HK\$'000
Bank overdrafts — secured	10,562	4,257
Bank loans		
— secured	27,997	34,351
— unsecured	2,800	2,800
Borrowings (<i>note 28(a)</i>)	41,359	41,408
Obligations under finance leases (<i>note 28(b)</i>)	339	357
	41,698	41,765

(a) Borrowings are repayable in the following periods:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	26,147	20,722
In the second year	5,338	5,757
In the third to fifth year	8,075	13,070
After the fifth year	1,799	1,859
	15,212	20,686
	41,359	41,408

Notes to the Financial Statements

28 BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES (Continued)

(a) (Continued)

At 31st March 2006, banking facilities amounting to HK\$52,791,000 (2005: HK\$65,144,000) granted by banks to the Group are secured by the following:

- (i) legal charges over certain of the Group's Properties (note 15) and certain investment properties (note 16);
- (ii) corporate guarantees executed by the Company (note 31);
- (iii) 30,000,000 shares of the Company held by Kuo Hsing Holdings Limited, which is beneficially controlled by Mr. Li Kuo Hsing, a director of the Company; and

(b) As at 31st March 2006, the Group's finance lease liabilities were repayable as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	171	359
In the second year	147	21
In the third to fifth year	50	—
	368	380
Future finance charges on finance leases	(29)	(23)
Present value of finance lease liabilities	339	357

The present value of finance lease liabilities were repayable in the following periods:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	157	337
In the second year	136	20
In the third to fifth year	46	—
	182	20
Present value of finance lease liabilities	339	357

Notes to the Financial Statements

29 DEFERRED INCOME TAX LIABILITIES

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement in the deferred tax liabilities account is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Beginning of the year	3,027	—
Charged to equity	—	2,742
Tax recognised in the consolidated income statement (<i>note 10</i>)	1,527	285
End of the year	4,554	3,027

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$226,512,000 (2005: HK\$168,550,000) to carry forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability. Such tax losses have no expiry date.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Group		Total HK\$'000
	Accelerated tax HK\$'000	Revaluation of investment properties HK\$'000	
At 1st April 2004,	2,223	—	2,223
Charged to the consolidated income statement	231	—	231
Charged to equity	—	2,742	2,742
At 31st March 2005	2,454	2,742	5,196
Charged to the consolidated income statement	335	1,119	1,454
At 31st March 2006	2,789	3,861	6,650

Notes to the Financial Statements

29 DEFERRED TAXATION (Continued)

Deferred tax assets

	Group	
	Tax losses	
	2006	2005
	HK\$'000	HK\$'000
Beginning of the year	(2,169)	(2,223)
Charged to the consolidated income statement	73	54
End of the year	(2,096)	(2,169)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Deferred tax assets	(2,096)	(2,169)
Deferred tax liabilities	6,650	5,196
End of the year	4,554	3,027

Notes to the Financial Statements

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) after taxation to cash generated from operations

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit/(loss) after taxation	20,470	(29,207)
Adjustments for:		
Income tax expense (<i>note 10</i>)	1,527	285
Share of profits less losses of associated companies	2	29,644
Provision for impairment of trade and other receivables	1,490	3,051
Provision for impairment of an amount due from a jointly controlled entity	339	—
Amortisation costs of non-current receivables	2,427	—
Dividend income	(117)	—
Interest income	(300)	(5)
Interest on bank loans and overdrafts	2,880	3,298
Interest element of finance leases	29	155
Deficit arising on revaluation of buildings not covered by previous revaluation surplus	—	235
Net surplus on revaluation of investment properties and buildings	(6,394)	—
Gain on disposal of property, plant and equipment	(35)	—
Gain on disposal of an associated company	(1,962)	(15,579)
Loss on disposal of investment securities	—	2,957
Impairment of investment securities	—	368
Depreciation of property, plant and equipment	4,326	4,653
Amortisation of prepaid land premium and land use rights	322	322
Amortisation of film rights, perpetual film rights, and non-perpetual film sub-licensing rights	49,404	52,621
Cost of film rights disposed of	1,014	—
Impairment of film rights, films in progress, film sub-licensing rights and deposits	1,348	6,234
Operating profit before working capital changes	76,770	59,032
Decrease in inventories	875	3,141
Increase in trade and other receivables	(4,306)	(4,768)
(Decrease)/increase in trade payables	(8,043)	3,791
Increase in receipts in advance and accruals	21,359	14,811
Increase/(decrease) in bills payable	1,498	(133)
Cash generated from operations	88,153	75,874

Notes to the Financial Statements

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank loans		Obligations under finance leases	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Beginning of the year	37,151	44,682	357	1,211
Acquisition of a subsidiary	1,235	—	—	—
Inception of finance lease (note (d))	—	—	413	470
Bank loans raised	—	4,800	—	—
Repayment of bank loans	(7,589)	(12,331)	—	—
Repayment of capital element of finance leases	—	—	(431)	(1,324)
End of the year	30,797	37,151	339	357

(c) Acquisition of a subsidiary

During the year, the Group acquired a further 45% interest in a 50% owned associated company and the company accordingly has become the Group's subsidiary (the "Sub").

	HK\$'000
Property, plant and equipment	15
Film rights and films in progress	211
Bank balances and cash	41
Other receivables	3,103
Receipts in advance and accruals	(2,504)
Net amounts due to fellow subsidiaries	(56,429)
Bank loans	(1,235)
Net liabilities of the Sub at the time of acquisition	(56,798)
Share of liabilities previously recognised by the Group	27,750
Provision for obligations in and amounts due from the Sub	29,048
	—

Notes to the Financial Statements

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of a subsidiary (Continued)

Net cash inflow from the acquisition

	HK\$'000
Cash consideration (note)	—
Bank balances and cash acquired	41
	41

Note: The acquisition was at a consideration of HK\$1.

(d) Major non-cash transactions

During the year, the Group has entered into finance lease arrangements in respect of furniture, fixtures and equipment and motor vehicles with a total capital value at the inception of the leases of HK\$413,000 (2005: HK\$470,000).

31 CONTINGENT LIABILITIES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	64,375	64,144
Associated companies	—	5,250	—	5,250
	—	5,250	64,375	69,394

Notes to the Financial Statements

32 COMMITMENTS

- (a) At 31st March 2006, the Group had contracted commitments but not provided for in these financial statements as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Commitments in respect of		
— film production	3,379	4,540
— program licensing agreements	9,451	12,137
	12,830	16,677

- (b) At 31st March 2006, the Group did not have any commitments in relation to the jointly controlled entity and associated companies.

33 FUTURE OPERATING LEASE ARRANGEMENTS

As at 31st March 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Not later than one year	1,820	2,678
Later than one year and not later than five years	276	2,123
	2,096	4,801

Notes to the Financial Statements

34 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Replication fees paid to an associated company	18,693	15,672
Rental income received from the sub-letting of premises to associated companies	3,018	1,410
Pre-mastering service fees paid to an associated company	—	341
Film rights and film sub-licensing rights purchased from an associated company	—	8,500
Commission income received from an associated company	—	2,082
Playout and post-production service fees paid to an associated company	—	606

The above transactions were conducted in the normal course of business and are charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

35 DIVIDEND

A dividend in respect of the year ended 31st March 2006 of HK\$0.0035 (2005: Nil) per share, amounting to a total dividend of HK\$2,880,000 (2005: Nil) is to be proposed at the 2006 annual general meeting. This dividend will be reflected in the financial statements for the year ending 31st March 2007..

Notes to the Financial Statements

36 GROUP STRUCTURE — PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st March 2006:

Name	Place of incorporation	Principal activities	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held directly:				
Mei Ah Holdings Limited	British Virgin Islands	Investment holding	50,050 ordinary shares of US\$1 each	100
Shares held indirectly:				
Mei Ah (HK) Company Limited	Hong Kong	Distribution of audio visual products	10,000 ordinary shares of HK\$1 each	100
Mei Ah Film Production Company Limited	Hong Kong	Production of films and tele-features	2 ordinary shares of HK\$1 each	100
Brilliant Idea Group Limited	Hong Kong	Production of films and tele-features	10,000 ordinary shares of HK\$1 each	95
Mei Ah Investment Company Limited	Hong Kong	Investment and property holding	2 ordinary shares of HK\$1 each 500,000 non-voting deferred shares of HK\$1 each	100

Notes to the Financial Statements

36 GROUP STRUCTURE — PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Principal activities	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: <i>(Continued)</i>				
Mei Ah Trading Company Limited	British Virgin Islands	Sub-licensing of film rights	50,000 ordinary shares of US\$1 each	100
Mei Ah Development Company Limited	British Virgin Islands	Sub-licensing of film rights	50,000 ordinary shares of US\$1 each	100
MATV Limited	Hong Kong	Television operations	4 ordinary shares of HK\$1 each	100
MATV (Asia) Limited	Hong Kong	Television operations	20,000 ordinary shares of HK\$1 each	100

Note: Other than Mei Ah Trading Company Limited and Mei Ah Development Company Limited which operate in both Hong Kong and overseas, all subsidiaries operate primarily in Hong Kong.

37 ULTIMATE HOLDING COMPANY

The directors regard Kuo Hsing Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

Notes to the Financial Statements

38 SUBSEQUENT EVENTS

- (a) On 20th March 2006, the Company entered into a placing agreement with IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. (collectively the "Placees"), pursuant to which the Company has conditionally agreed to place 52,000,000 placing shares to the Placees at a price of HK\$0.315 per placing share. On 12 April 2006, the placing agreement was completed and the said shares were allotted to the Placees.

This share placing arrangement had no dilutive effect on the basic earnings per share for the year.

- (b) On 28th June 2006, the Company entered into three note subscription agreements with Hanny Holdings Limited and two other note subscribers, both being investment funds managed by the same investment manager, in relation to the subscription of convertible notes (the "Notes") in an aggregate principal amount of HK\$100 million. The initial conversion price, which is subject to anti-dilution adjustments in certain events and a reset mechanism as set out in the subscription agreements, is HK\$0.44 per share. Upon full conversion of the Notes at the initial conversion price, an aggregate of 227,272,726 new ordinary shares of the Company will be issued and allotted to the holders of the Notes. The interest rate of the Notes is 4% per annum and interest is payable semi-annually. The Notes will be matured at the third anniversary from the issue date. Other terms and conditions of the note subscription agreements are set out in the Company's announcement dated 29th June 2006. The note subscription agreements are pending approval from the Company's shareholders in a special general meeting to be held on 4th August 2006.