1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company acts as an investment holding. The principal activities of its subsidiaries are shown in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC) - INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entities are referred to as jointly controlled entities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Other property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

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

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

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to the consolidated income statement over the period of the lease on a straight-line basis.

Impairment losses

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses (continued)

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

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

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

Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and deposits paid, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

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

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

Other financial liabilities
Other financial liabilities including trade and other payables and deposits received, obligation under a finance lease and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

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

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Film rights and production in progress

Perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Costs of film rights, represent the purchase price of the perpetual film rights, and are amortised over the period of two to twenty years based on the expected income streams.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less accumulated amortisation and accumulated impairment losses. Such production costs are carried forward as production in progress.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment on trade and other receivables, amount due from a jointly controlled entity and amount due from a related company

Management regularly reviews the recoverability and/or aging of trade receivables, amount due from a jointly controlled entity and amount due from a related company. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows, aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Estimated impairment loss on film production in progress

Management regularly reviews the recoverability of the Group's film production in progress with reference to its intended use and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on film production in progress is required, the Group takes into consideration the intended use of the assets, the current market environment, the estimated market value of the assets and/or the present value of future cash flow expected to be received. Impairment is recognised based on the higher of estimated future cash flow and estimated market value.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits, bank balances, trade and other payables and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk through short term bank deposits and fixed and variable interest rates borrowings as disclosed in note 23 and 25, respectively. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Price risk

The Group is exposed to equity security price risk through its available-for-sale investments. The Group currently does not have a price risk hedging policy. However, management monitors price fluctuation exposure and will consider hedging significant price fluctuation exposure should the need arises.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the funds generated from its operations. The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. During the year, the Group has continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the Group. The directors believe that the Group will have sufficient working capital for its future operational requirements.

5. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group's concentration of credit risk by geographical locations is mainly concentrated in Hong Kong, which accounted for approximately 56% (2005: 52%) of the trade receivables for the year ended 31st December, 2006.

The largest customer accounted for approximately 3% (2005: 10%) of the trade receivables and the five largest customers in aggregate accounted for approximately 52% (2005: 75%) of the trade receivables for the year ended 31st December, 2006.

In addition, there is a concentrations of credit risk in the amount due from a related company.

In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtors and the amount due from a related company at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE

	2006 HK$'000	2005 HK$'000
An analysis of revenue is as follows:		
Film distribution and licensing income	**47,603**	17,838
Film processing income	**22,438**	18,117
Advertising and promotional service income	**7,124**	7,301
	77,165	43,256

7. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

Segment information about these businesses is presented below.

2006

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External revenue	47,603	22,438	7,124	–	77,165
Inter segment revenue	3,720	52	3,830	(7,602)	–
Total revenue	51,323	22,490	10,954	(7,602)	77,165
RESULT					
Segment result	11,712	5,609	(404)	–	16,917
Other income					7,945
Unallocated corporate expenses					(22,984)
Finance costs					(1,088)
Share of loss of jointly controlled entities					(6)
Profit before taxation					784
Taxation					889
Profit for the year					1,673

Inter segment revenue is charged at prevailing market rate.

7. SEGMENT INFORMATION (continued)

2006

BALANCE SHEET

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Unallocated HK$'000	Total HK$'000
ASSETS					
Segment assets	54,421	11,026	1,875	–	67,322
Interests in jointly controlled entities					20,820
Unallocated corporate assets					21,743
Consolidated total assets					109,885
LIABILITIES					
Segment liabilities	29,943	4,114	1,069	–	35,126
Unallocated corporate liabilities					20,070
Consolidated total liabilities					55,196
OTHER INFORMATION					
Capital expenditure	474	53	124	–	651
Impairment on trade and other receivables	2,716	–	–	–	2,716
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	209	1,575	76	15	1,875
Impairment loss recognised in respect of film production in progress	2,621	–	–	–	2,621

7. SEGMENT INFORMATION (continued)

2005

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External revenue	18,117	17,838	7,301	–	43,256
Inter segment revenue	227	2,531	2,427	(5,185)	–
Total revenue	18,344	20,369	9,728	(5,185)	43,256
RESULT					
Segment result	(2,904)	2,815	1,152	–	1,063
Other income					2,743
Unallocated corporate expenses					(22,952)
Finance costs					(804)
Share of profit of jointly controlled entities					87
Loss before taxation					(19,863)
Taxation					1,244
Loss for the year					(18,619)

Inter segment revenue is charged at prevailing market rate.

7. SEGMENT INFORMATION (continued)

2005

BALANCE SHEET

	Film distribution and licensing HK$'000	**Film processing** HK$'000	**Advertising and promotional services** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
ASSETS					
Segment assets	71,823	9,011	1,538	–	82,372
Interests in jointly controlled entities					19,871
Unallocated corporate assets					20,371
Consolidated total assets					122,614
LIABILITIES					
Segment liabilities	40,733	2,514	883	–	44,130
Unallocated corporate liabilities					26,110
Consolidated total liabilities					70,240
OTHER INFORMATION					
Capital expenditure	20	124	39	–	183
Impairment on trade and other receivables	2,717	996	–	–	3,713
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	192	1,894	84	21	2,191
Impairment loss recognised in respect of film production in progress	7,795	–	–	–	7,795

7. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

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

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

2006

	Hong Kong HK$'000	**The PRC HK$'000**	**Japan HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue	**46,902**	**3,802**	**7,820**	**18,641**	**77,165**

	Hong Kong HK$'000	**The PRC HK$'000**	**Japan HK$'000**	**Others HK$'000**	**Total HK$'000**
Carrying amount of segment assets	**65,670**	**1,652**	**–**	**–**	**67,322**
Additions to property, plant and equipment	**651**	**–**	**–**	**–**	**651**

2005

	Hong Kong HK$'000	The PRC HK$'000	Japan HK$'000	Others HK$'000	Total HK$'000
Revenue	38,407	383	336	4,130	43,256

	Hong Kong HK$'000	The PRC HK$'000	Japan HK$'000	Others HK$'000	Total HK$'000
Carrying amount of segment assets	75,948	5,999	–	425	82,372
Additions to property, plant and equipment	183	–	–	–	183

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
– bank and other loans wholly repayable within five years	**1,071**	804
– finance leases	**17**	–
	1,088	804

9. TAXATION

	2006 HK$'000	2005 HK$'000
Hong Kong Profits Tax		
– provision for current year	**164**	143
– overprovision in prior years	**(847)**	(1,177)
	(683)	(1,034)
Deferred tax credit *(note 27)*	**(206)**	(210)
Taxation attributable to the Company and its subsidiaries	**(889)**	(1,244)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for both years.

No provision for tax in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

The taxation for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit (loss) before taxation	**784**	(19,863)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**137**	(3,476)
Tax effect of expenses not deductible for tax purpose	**989**	2,098
Tax effect of income not taxable for tax purpose	**(986)**	(26)
Overprovision in prior years	**(847)**	(1,177)
Tax effect of tax losses not recognised	**866**	1,387
Utilisation of tax losses previously not recognised	**(1,049)**	(36)
Tax effect on share of loss (profit) of jointly controlled entities	**1**	(14)
Tax credit for the year	**(889)**	(1,244)

10. PROFIT (LOSS) FOR THE YEAR

	2006	2005
	HK$'000	HK$'000
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments *(note 11)*	**4,050**	3,408
Other staff costs	**11,410**	11,003
Retirement benefit scheme contributions, excluding directors	**547**	489
Share-based payment expenses, excluding directors	**133**	–
Total staff costs	**16,140**	14,900
Auditor's remuneration	**1,085**	1,005
Depreciation of property, plant and equipment		
– owned assets	**1,790**	2,191
– finance lease	**85**	–
Release of prepaid lease payments	**75**	75
Impairment on trade and other receivables	**2,716**	3,713
Impairment loss recognised in respect of film production in progress (included in cost of sales)	**2,621**	7,795
Cost of inventories recognised as expenses	**46,815**	27,092
Share of tax of jointly controlled entities (included in share of (loss) profit of jointly controlled entities)	**50**	43
Loss on disposal of property, plant and equipment	**4**	–
and after crediting:		
Interest income	**325**	100
Gain on disposal of available-for-sale investments	**5,040**	–
Net foreign exchange gain (loss)	**43**	(2)

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

2006

	Wong Pak Ming HK$'000	Wong Kit Fong HK$'000	Wong Yee Kwan, Alvina HK$'000	Lai Voon Wai HK$'000	Wan Ngar Yin, David HK$'000	Ko Tin Chow HK$'000	Tang Kai-Kui, Terence HK$'000	Total HK$'000
Fees	–	–	–	120	240	–	120	480
Other emoluments:								
Salaries and other benefits	1,788	478	374	–	–	480	–	3,120
Retirement benefit scheme contributions	12	12	12	–	–	24	–	60
Share-based payment expenses	65	65	65	–	65	65	65	390
Total emoluments	1,865	555	451	120	305	569	185	4,050

2005

	Wong Pak Ming HK$'000	Wong Kit Fong HK$'000	Wong Yee Kwan, Alvina HK$'000	Lai Voon Wai HK$'000	Wan Ngar Yin, David HK$'000	Ko Tin Chow HK$'000	Tang Kai-Kui, Terence HK$'000	Woo, Alan* HK$'000	Total HK$'000
Fees	–	–	–	120	240	–	10	110	480
Other emoluments:									
Salaries and other benefits	1,788	526	536	–	–	40	–	–	2,890
Retirement benefit scheme contributions	12	12	12	–	–	2	–	–	38
Total emoluments	1,800	538	548	120	240	42	10	110	3,408

* Woo, Alan resigned on 1st December, 2005.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2005: four) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2005: one) highest paid individuals were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**876**	908
Retirement benefit scheme contributions	**24**	34
	900	942

All of their emoluments were less than HK$1,000,000 for both years.

(c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

12. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	HK$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	**1,673**	(18,619)

13. EARNINGS (LOSS) PER SHARE (continued)

Number of shares

	2006	2005
Number of ordinary shares for the purposes of basic earnings (loss) per share	**330,000,000**	330,000,000
Effect of dilutive potential ordinary shares: Share options issued by the Company	**399,000**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**330,399,000**	330,000,000

Diluted earnings per share is not presented for 2005 as the share options granted to directors and employees on 23rd June, 2006 are anti dilutive in terms of HKAS 33 "Earnings per share".

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
COST OR VALUATION						
At 1st January, 2005	1,614	5,389	3,068	525	20,684	31,280
Additions	–	102	–	–	81	183
Disposals	–	–	–	–	(80)	(80)
At 31st December, 2005	1,614	5,491	3,068	525	20,685	31,383
Additions	–	38	–	460	153	651
Disposals	–	–	–	(475)	–	(475)
At 31st December, 2006	1,614	5,529	3,068	510	20,838	31,559
Comprising:						
At cost	–	5,529	3,068	510	20,838	29,945
At valuation – 2005	1,614	–	–	–	–	1,614
	1,614	5,529	3,068	510	20,838	31,559
DEPRECIATION AND AMORTISATION						
At 1st January, 2005	441	4,550	2,309	444	17,334	25,078
Provided for the year	96	236	337	27	1,495	2,191
Eliminated on disposals	–	–	–	–	(80)	(80)
At 31st December, 2005	537	4,786	2,646	471	18,749	27,189
Provided for the year	96	270	208	85	1,216	1,875
Eliminated on disposals	–	–	–	(441)	–	(441)
At 31st December, 2006	633	5,056	2,854	115	19,965	28,623
CARRYING VALUES						
At 31st December, 2006	981	473	214	395	873	2,936
At 31st December, 2005	1,077	705	422	54	1,936	4,194

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% – 30%
Plant, machinery and equipment	20%

The Group's buildings were revalued at 31st December, 2005 by Messrs. RHL Appraisal Limited, on an open market value basis. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualification and recent experiences in valuation of similar properties. The valuation conforms to International Valuation Standards and was arrived at by reference to market evidence of transaction prices for similar properties. The directors consider that the impact of the change in the market value is not significant and accordingly, no adjustment has been made to reflect the market value of the buildings at the balance sheet date in the consolidated financial statements.

The net book value of motor vehicles of HK$395,000 (2005: Nil) is in respect of asset held under a finance lease.

The buildings of the Group are situated in Hong Kong.

At 31st December, 2006, had all of the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation and accumulated impairment losses, their carrying values would have been HK$981,000 (2005: HK$1,077,000).

15. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise medium-term leasehold land in Hong Kong	**2,578**	2,653
Analysed for reporting purpose as:		
Current assets	**75**	75
Non-current assets	**2,503**	2,578
	2,578	2,653

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent:

	2006	2005
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**3,796**	7,221

The equity securities are stated at fair value, which have been determined by reference to bid prices quoted in active markets.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006	2005
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**24,456**	23,501
Share of post-acquisition losses	**(3,636)**	(3,630)
	20,820	19,871
Loan to a jointly controlled entity	**10,927**	10,927
Impairment loss recognised on loan to a jointly controlled entity	**(10,927)**	(10,927)
	–	–

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

At 31st December, 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation/ operations	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company %	Nature of business
Prosper China Limited ("PCL")	Incorporated	British Virgin Islands ("BVI")/ Hong Kong	40	Investment holding
北京東方新青年文化發展有限公司	Incorporated	PRC/PRC *(Note)*	40	Provision of cultural education courses
浙江東方國際發展有限公司	Incorporated	PRC/PRC *(Note)*	37.5	Hotel operations
東方橫店影視後期製作有限公司("橫店影視製作")	Incorporated	PRC/PRC *(Note)*	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited ("Dong Tian")	Incorporated	British Virgin Island ("BVI")/ Hong Kong	40	Investment holding

Note: These Companies are sino-foreign equity joint ventures established in the PRC.

During the year, the Group injected an amount of HK$955,000 as capital injection in Dong Tian.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2006	2005
	HK$'000	HK$'000
Non-current assets	**92,371**	92,620
Current assets	**125,216**	61,454
Current liabilities	**76,982**	19,243
Non-current liabilities	**100,000**	96,154
Income	**36,620**	34,624
Expenses	**37,455**	34,819
Loss for the year	**970**	195

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	HK$'000
Unrecognised share of losses of jointly controlled entities for the year	**(315)**	(171)
Accumulated unrecognised share of losses of jointly controlled entities	**(486)**	(171)

18. PLEDGED BANK DEPOSITS

At 31st December, 2006, the amount of HK$1,556,000 (2005: HK$506,000) represents deposits pledged to banks to secure banking facilities granted to the Group. These deposits have been pledged to secure bank overdrafts and are therefore classified as current assets.

At 31st December, 2005, there were deposits amounting to HK$1,005,000 pledged to secure long-term borrowings and were therefore classified as non-current assets.

The deposits carry fixed interest rate ranging from 2.8% to 3.3% (2005: 2.75% to 3.03%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

19. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**1,672**	1,898
Work in progress	**8**	109
	1,680	2,007

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables and deposits paid are trade receivables of HK$6,296,000 (2005: HK$5,598,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	HK$'000
0 – 90 days	**3,982**	3,690
91– 180 days	**1,077**	821
181 – 365 days	**700**	362
Over 1 year	**537**	725
	6,296	5,598

21. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand.

22. AMOUNT DUE FROM A RELATED COMPANY

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

	2006	2005
	HK$'000	HK$'000
廣州東影影視出品有限公司 ("Tung Ying") *(Note)*	**5,042**	5,814

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

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

23. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 2% to 3% (2005: 2% to 3%) per annum and have original maturity of three months or less.

Included in the bank balances and cash as at 31st December, 2006, was an amount in Renminbi of RMB899,000 (2005: RMB154,000). Renminbi is not freely convertible into other currencies.

24. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK$2,520,000 (2005: HK$2,204,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	HK$'000
0 - 90 days	**1,941**	1,690
91- 180 days	**579**	514
	2,520	2,204

25. BANK AND OTHER BORROWINGS

	2006	2005
	HK$'000	HK$'000
Bank loans	**5,527**	13,640
Bank overdraft	**416**	384
Other loan	**13,046**	11,121
	18,989	25,145
Secured	**5,943**	6,719
Unsecured	**13,046**	18,426
	18,989	25,145

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

On demand or within one year	**5,362**	10,501
More than one year, but not exceeding two years	**13,421**	14,064
More than two years, but not exceeding five years	**206**	580
	18,989	25,145
Less: Amount due within one year shown under current liabilities	**(5,362)**	(10,501)
Amount due after one year	**13,627**	14,644

Bank borrowings carry interest at rates from 3% to 9% (2005: 3% to 8%) per annum. Interest is repriced every month.

25. BANK AND OTHER BORROWINGS (continued)

Included in the other loan at 31st December, 2006 is an amount in Renminbi of HK$2,885,000 (2005: HK$2,885,000). The loan is a fixed rate borrowing which carries interest ranging from 1% to 3% (2005: 1% to 3%) per annum.

26. OBLIGATIONS UNDER A FINANCE LEASE

It is the Group's policy to lease certain of its motor vehicle under finance leases. The lease term is five years. Interest rate underlying all obligations under a finance leases is fixed at contract date of 4%. This lease has no terms of renewal or purchase option and escalation clauses. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease				
Within one year	**110**	–	**92**	–
In more than one year but not more than two years	**110**	–	**92**	–
In more than two years but not more than three years	**110**	–	**92**	–
In more than three years but not more than four years	**110**	–	**92**	–
In more than four years but not more than five years	**11**	–	**8**	–
	451	–	**376**	–
Less: future finance charges	**(75)**	–	**–**	–
Present value of lease obligations	**376**	–	**376**	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(92)**	–
Amount due for settlement after 12 months			**284**	–

27. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$'000
At 1st January, 2005	887
Credit to consolidated income statement for the year	(210)
At 31st December, 2005	677
Credit to consolidated income statement for the year	(206)
At 31st December, 2006	471

At 31st December, 2006, the Group has unused tax losses of approximately HK$38,099,000 (2005: HK$39,145,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	330,000,000	33,000

29. SHARE-BASED PAYMENT TRANSACTIONS

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

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

Details of the share options granted under the Scheme to directors of the Company and certain employees of the Group under the Scheme during the year and movement in such holding during the year are as follows:

	Date of grant	Vesting date	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2006	Granted during the year	Outstanding as at 31.12.2006
Directors	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	–	1,968,000	1,968,000
Employees	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	–	656,000	656,000
					–	2,624,000	2,624,000

The closing price of the shares of the Company on 23rd June, 2006 was HK$0.93 per share.

No share option were cancelled or lapsed during the year.

29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

During the year ended 31st December, 2006, options were granted on 23rd June. The estimated fair values of the options granted for the year is HK$523,000.

These fair values were calculated using the Black-Scholes Option Pricing (the "Model"). The inputs into the Model were as follows:

Closing share price at the date of grant	HK$0.93
Exercise price	HK$0.938
Expected volatility	23.28%
Expected life	3 years
Risk-free rate	4.7%
Expected dividend yield	N/A
Fair value per share option	HK$0.2

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

There is no consideration received during the year for taking up the options granted.

The Group recognised the total expense of HK$523,000 for the year ended 31st December, 2006 (2005: Nil) in relation to share options granted the Company.

The fair values were calculated by Greater China Appraisal Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

30. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2006 **HK$'000**	2005 HK$'000
Premises	**1,357**	1,295

30. OPERATING LEASE COMMITMENTS (continued)

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within one year	**214**	1,152
In the second year inclusive	**–**	214
	214	1,366

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

31. CAPITAL COMMITMENTS

At 31st December, 2006, the Group had capital commitment of HK$20,058,000 (2005: HK$20,058,000) which is contracted for the investment in a joint venture in the PRC.

32. OTHER COMMITMENTS

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

	2006	2005
	HK$'000	HK$'000
Production of a film	**157**	–
Artists' fees	**16,783**	3,578
	16,940	3,578

33. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2006, the Group's banking facilities are secured by the following:

(1) the unlimited corporate guarantee given by the Company;

(2) the personal guarantee given by a director of the Company;

(3) the legal charge over the copyright of one film with a carrying value of HK$4,200,000, included in film production in progress at 31st December, 2006 (2005: HK$33,175,000);

(4) the assignment of income receivables to be derived from the licensing of the film "Dragon Tiger Gate" in all territories throughout the world;

33. BANKING FACILITIES AND PLEDGE OF ASSETS (continued)

(5) certain of its prepaid lease payments and buildings with a carrying value of HK$3,559,000 (2005: HK$3,730,000 together with plant and machinery of HK$1,292,000); and

(6) bank deposits as set out in note 18.

34. MAJOR NON-CASH TRANSACTIONAS

During the year, the Group entered into a finance lease arrangement in respect of the asset with a total capital value at the inception of the lease of HK$460,000.

35. RETIREMENT BENEFITS PLANS

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

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

For members of the MPF Scheme, the Group contributes the lower of HK$1,000 or 5% of relevant payroll costs to the scheme, this contribution is matched by the employee.

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

36. CONTINGENT LIABILITIES

In April 2006, 上海華芮文化傳播有限公司 ("Shanghai City Glory"), one of the investors of "Seven Swords", initiated legal proceedings against Mandarin Films Distribution Co., Ltd. ("Mandarin Films Distribution"), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US$732,036 (equivalent to HK$5,680,233) arising from the filming of "Seven Swords".

Mandarin Films Distribution has vigorously defended the claims and the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group as the profit to be shared by Shanghai City Glory has been properly accounted for in accordance with the cooperation agreement entered on 25th June, 2004 and the supplementary agreement dated 4th March, 2005.

37. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	Notes	**2006** **HK$'000**	2005 HK$'000
Agency fees paid	(a)	874	100
Management fee income	(b)	–	150
Consultancy service fee paid	(c)	–	100

Notes:

(a) The agency fees are charged by Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

(b) The management fee income was charged to PCL, a jointly controlled entity.

(c) The consultancy service fee was paid to a brother of Mr. Wong Pak Ming.

(ii) Compensation of key management personnel

The remuneration of the key management personnel during the year was as follows:

	2006 **HK$'000**	2005 HK$'000
Short term benefits	**3,600**	3,370
Other long term benefits	**450**	38
	4,050	3,408

The remuneration of directors and other key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

(iii) Related party balances

Details of the balances with a jointly controlled entity, a related company and a loan from Mr. Zhang Xun, a substantial shareholder of the Company, as at the respective balance sheet dates are set out in the consolidated balance sheet and their respective notes.

38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company %	Principal activities
Chili Advertising & Promotions Limited	Hong Kong	HK$10,000 ordinary shares	100	Provision of advertising and promotional services
Grimston Limited	BVI/ Hong Kong	US$10,000 ordinary shares	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK$20 ordinary shares HK$10,000,000 non-voting deferred shares *(note)*	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd.	BVI	US$10,000 ordinary shares	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK$100 ordinary shares	100	Production and distribution of films
Mandarin Laboratory Limited	Hong Kong	HK$10,000 ordinary shares	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK$1,000,000 ordinary shares	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK$500,000 ordinary shares	100	Production of films
Walsbo Limited	Hong Kong	HK$2 ordinary shares HK$9,800 non-voting deferred shares *(note)*	100	Investment holding

38. PRINCIPAL SUBSIDIARIES (continued)

Note: The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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

39. BALANCE SHEET OF THE COMPANY

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

	2006	2005
	HK$'000	HK$'000
ASSETS		
Investment in subsidiaries	**6,172**	6,172
Amounts due from subsidiaries	**39,651**	40,778
Prepayment	**145**	145
Bank balances and cash	**66**	56
	46,034	47,151
LIABILITY		
Accrued charge	**408**	359
	45,626	46,792
CAPITAL AND RESERVES		
Share capital	**33,000**	33,000
Reserves *(note)*	**12,626**	13,792
	45,626	46,792

39. BALANCE SHEET OF THE COMPANY (continued)

Note:

Reserves

	Share premium	Contributed surplus	Share options reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	34,653	44,072	-	(48,618)	30,107
Loss for the year	–	–	–	(16,315)	(16,315)
At 31st December, 2005	34,653	44,072	–	(64,933)	13,792
Loss for the year	–	–	–	(1,689)	(1,689)
Recognition of equity–settled share-based payment expenses	–	–	523	–	523
At 31st December, 2006	34,653	44,072	523	(66,622)	12,626

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