

2007 ANNUAL REPORT

二零零七年年報



邵氏兄弟(香港)有限公司
SHAW BROTHERS (HONG KONG) LIMITED
(Stock Code: 0080)

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CORPORATE INFORMATION

Executive Chairman

Sir Run Run Shaw, GBM

Deputy Chairperson and Managing Director

Mona Fong

Directors

Louis Page (resigned on 30th June 2006)

Jeremiah Rajakulendran

Dr. Chow Yei Ching*

Ng Julie Yuk Shun*

Nelson Hon Sang Chiu*

Audit Committee

Dr. Chow Yei Ching* (*Chairman*)

Ng Julie Yuk Shun*

Nelson Hon Sang Chiu*

Remuneration Committee

Dr. Chow Yei Ching* (*Chairman*)

Mona Fong

Ng Julie Yuk Shun*

* (*Independent Non-executive Directors*)

Company Secretary

Jeremiah Rajakulendran

Registered Office

Lot 220 Clear Water Bay Road, Kowloon,
Hong Kong.

Auditor

PricewaterhouseCoopers

Certified Public Accountants

Share Registrars Office

Computershare Hong Kong Investor Services Limited
Hopewell Centre, 46th Floor,
183 Queen's Road East,
Hong Kong.

Share Transfer Office

Computershare Hong Kong Investor Services Limited
Hopewell Centre, 17th Floor,
183 Queen's Road East,
Hong Kong.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Shareholders of the Company will be held at the Kowloon Room, Mezzanine Floor, Kowloon Shangri-La Hotel, on Wednesday, 5th September 2007 at 12:00 noon for the following purposes:

- (1) To receive and consider the Company's Financial Statements and the Reports of the Directors and Auditors for the year ended 31st March 2007.
- (2) To declare a final dividend for the year ended 31st March 2007.
- (3) To re-elect retiring Independent Non-executive Director for three years and to approve annual Directors' fee.
- (4) To re-appoint Auditors and to authorise the Directors to fix their remuneration.
- (5) As special business, to consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) of this resolution, the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to allot, issue or deal with additional shares in the share capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make and grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make and grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to Rights Issue, the exercise of the subscription rights or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company and from time to time outstanding, the exercise of any options granted under the share option scheme of the Company, or any shares allotted in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company from time to time shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the Shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by Directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangement as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or such stock exchange in, any territory outside Hong Kong).”

(6) As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

“**THAT** Article 88 of the Articles of Association of the Company be deleted in its entirety and substituted as follows:

Article 88. Except as otherwise provided in these Articles, all the Directors shall be subject to retirement by rotation. At every Annual General Meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.”

(7) To transact any other ordinary business of the Company.

By Order of the Board
Jeremiah Rajakulendran
Company Secretary

Hong Kong, 27th June 2007

NOTICE OF ANNUAL GENERAL MEETING

Notes:

Proxy Information

1. A member entitled to attend and vote at the annual general meeting to be held on 5th September 2007 (“Annual General Meeting”) convened by the Notice of Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead; a proxy need not also be a member of the Company. Such a proxy vote will only be used if a poll is called for, decisions at a General Meeting being normally decided on a show of hands of members present as provided under Article 60 of the Company’s Articles of Association.

To be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed, must be deposited at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, not later than 48 hours before the time appointed for holding the meeting. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, not later than 24 hours before, or by the Company Secretary or the Chairman on the day and at the place, but before the commencement, of the meeting.

Right to demand a poll

2. Pursuant to Article 60 of the Company’s Articles of Association, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded:
 - (i) by the Chairman of the meeting; or
 - (ii) by at least three members present in person or by proxy entitled to vote; or
 - (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
 - (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has been on a show of hands carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

Dividends

3. The Board has recommended a final dividend of HK\$0.40 per share for 398,390,400 issued shares in respect of the year ended 31st March 2007 payable to shareholders who are on the Register of Members on 5th September 2007. The final dividend, which is payable on 25th October 2007, is subject to shareholders’ approval at the Annual General Meeting.
4. The Register of Members of the Company will be closed from Friday, 31st August 2007 to Wednesday, 5th September 2007, both days inclusive, during which period, no transfer of shares will be effected. In order to qualify for the above final dividend, all transfers must be lodged with the Company’s Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 30th August 2007.

Directors

5. In relation to agenda item No. (3) in the Notice of Annual General Meeting regarding re-election of retiring Independent Non-Executive Director, Dr. Chow Yei Ching is retiring at the Annual General Meeting pursuant to Article 88 of the Company’s Articles of Association and, and being eligible, offers himself for re-election. The re-election of the retiring Director will be individually voted on by shareholders.
6. The biographical details of Dr. Chow Yei Ching, the Director who stands for re-election at the Annual General Meeting, as at 26th June 2007, being the latest practicable date prior to the release of the Notice of Annual General Meeting (“Latest Practicable Date”), are set out below to enable shareholders to make an informed decision on his re-election.

NOTICE OF ANNUAL GENERAL MEETING

Save for the information set out in this paragraph and in paragraphs 5, 7, and 8, there is no information to be disclosed pursuant to any of the requirements under Paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules and there are no other matters that need to be brought to the attention of the shareholders in respect of the Director who stands for re-election at the Annual General Meeting.

Particulars of Dr. Chow Yei Ching are as follows:-

Dr. Chow Yei Ching (aged 71)

Dr. Chow Yei Ching has been appointed Independent Non-executive Director since February 2001.

Dr. Chow has met the independence guidelines set out in Rule 3.13 of the Listing Rules and has submitted to the Stock Exchange a written confirmation concerning his independence to the Company. He has also given an annual confirmation of his independence to the Company. Dr. Chow has no financial or family relationship with any other Directors, Senior Management or substantial shareholders of the Company.

Dr. Chow is both the Chairman of the Audit Committee and the Remuneration Committee of the Board.

Dr. Chow is the founder and chairman of Chevalier Group that comprises two publicly listed companies in Hong Kong, namely, Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is a Non-executive Director of Television Broadcasts Limited and an Independent Non-executive Director of Van Shung Chong Holdings Limited and Towngas China Company Limited. Dr. Chow is the Honorary Consul of The Kingdom of Bahrain in Hong Kong and a standing committee member of the Chinese People's Political Consultative Conference, Shanghai. He also serves in a number of positions in various educational, charitable and trade organisations. He holds an Honorary Degree of Doctor of Laws from The University of Hong Kong and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University.

7. Dr. Chow's interests in shares within the meaning of Part XV of the Securities and Futures Ordinance are set out below and remain unchanged as at the Latest Practicable Date:

	No. of Ordinary shares of HK\$0.05 each in Television Broadcasts Limited				Percentage of issued capital (%)
	Personal interests	Family interests	Corporate interests	Total	
Dr. Chow Yei Ching	100,000	-	-	100,000	0.02%

The interests stated above represent long positions.

A report of the beneficial interests of all the Directors and chief executive in the shares of the Company and associated corporations as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance is set out in the Report of the Directors of the Company's 2007 Annual Report.

8. The amount of emoluments paid for the year ended 31st March 2007 to Dr. Chow, the Director who stands for re-election at the Annual General Meeting is set out in Note 10 to the Consolidated Financial Statements and the basis of determining such emoluments is set out under "Remuneration of Directors and Senior Management" in the Corporate Governance Report of the Company's 2007 Annual Report.

Amendment to the Articles of Association

9. In relation to agenda item No. (6) in the Notice of Annual General Meeting regarding the proposed amendment to Article 88 of the Company's Articles of Association, the Listing Rules have been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 with the new Code on Corporate Governance Practices (the "Code"). Subject to certain transitional arrangements, the amendments took effect on 1st January 2005.
10. Under the current Article 88 of the Company's Articles of Association, the Executive Chairman and the Managing Director are not subject to retirement by rotation and only one-third of the Directors for the time being, excluding the Executive Chairman and the Managing Director (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation at each annual general meeting of the Company. However, paragraph A.4.2 of the Code requires that all the Directors shall be subject to retirement and every Director, including those appointed for a specific term, should be subject to rotation at least once every three years.
11. The Directors therefore propose to put forward to the Shareholders for approval as a special resolution to amend Article 88 of the Company's Articles of Association at the Annual General Meeting to comply with paragraph A.4.2 of the Code.

CHAIRMAN'S STATEMENT



The Group profit attributable to shareholders for the year ended 31st March 2007 amounted to HK\$293,794,000 compared to HK\$297,404,000 for the previous year. There was no significant fluctuation in the Group's operating activities and in its profit during the year.

Your Directors will recommend a final dividend of HK\$0.40 per share at the Annual General Meeting to be held on 5th September 2007. Together with the interim dividend of HK\$0.05 per share paid on 25th January 2007, the total dividend for the year will be HK\$0.45 per share. This level of dividend represents a payment of 61% of earnings per share.

Contribution from our associated company, Television Broadcasts Limited, increased marginally while the total dividend declared increased by 10% from HK\$1.55 to HK\$1.70 per share. The final dividend proposed above takes into account the increased final dividend declared by Television Broadcasts Limited.

The land exchange application for the Clearwater Bay Site is being processed by the Lands Department, and subject to no further adverse comments being received prior to the District Lands Conference, we expect the first provisional basic terms (without quoting of premium) to be offered by end of Year 2007.

Finally, on behalf of the Board and the shareholders, I wish to thank all our staff for their loyalty and dedication to the Company.

Run Run Shaw
Executive Chairman

Hong Kong, 27th June 2007

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st March 2007.

GENERAL INFORMATION, PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is a limited company incorporated and publicly listed in the Hong Kong Special Administrative Region (“Hong Kong”).

The address of the registered office is Lot 220 Clear Water Bay Road, Kowloon, Hong Kong.

The financial statements are presented in thousands of units of Hong Kong dollars which are the same as the functional currency of the Company and the Group.

The principal activities of the Company during the year are investment holding and investments in the media and entertainment industries.

The activities and particulars of the subsidiaries and associated companies are shown in Note 13 and 14 to the consolidated financial statements respectively.

The analysis of the Group’s performance for the year by business and geographical segments is set out in Note 4 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31st March 2007 are set out in the consolidated income statement on page 31.

DIVIDENDS

The Directors have declared an interim dividend of HK\$0.05 per ordinary share, totalling HK\$19,919,520 which was paid on 25th January 2007.

The Directors will recommend at the Annual General Meeting to be held on Wednesday, 5th September 2007, a final dividend of HK\$0.40 per ordinary share to shareholders whose names appear on the Register of Members on that date. This, together with the interim dividend of HK\$0.05 per ordinary share amounts to a total distribution of HK\$0.45 per ordinary share for the year.

The Register of Members of the Company will be closed from Friday, 31st August 2007 to Wednesday, 5th September 2007, both days inclusive, during which period, no transfer of shares will be effected. In order to qualify for the above final dividend, all transfers must be lodged with the Company’s Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 30th August 2007. The final dividend, if approved, will be paid to shareholders on 25th October 2007.

REPORT OF THE DIRECTORS

SHARE CAPITAL

The Company did not issue any shares during the financial year. Details of the share capital of the Company are set out in Note 18 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 19 to the consolidated financial statements respectively.

Distributable reserves of the Company at 31st March 2007, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,590,289,000 (2006: HK\$1,579,259,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are shown in Note 11 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 25.

DIRECTORS

The Directors during the year were:

Executive Directors

Sir Run Run Shaw, GBM (*Executive Chairman*)
Mona Fong (*Deputy Chairperson and Managing Director*)
Louis Page (*resigned on 30th June 2006*)
Jeremiah Rajakulendran

Independent Non-executive Directors

Dr. Chow Yei Ching
Ng Julie Yuk Shun
Nelson Hon Sang Chiu

RE-ELECTION OF DIRECTOR

In accordance with Article 88 of the Company's Articles of Association, Dr. Chow Yei Ching retires by rotation, and being eligible, offers himself for re-election with the unanimous support of the other Directors.

Details of Dr. Chow, the Director standing for re-election are set out in the Notice of Annual General Meeting.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and Senior Management as at the date of this report are set out below:

Sir Run Run Shaw, GBM

Aged Ninety-nine, has been the Executive Chairman of the Company since its incorporation and is the President of the Shaw group of companies. He is also the Executive Chairman of Television Broadcasts Limited. Sir Run Run Shaw established The Shaw Foundation Hong Kong Limited in 1973 and is the Appointor of The Sir Run Run Shaw Charitable Trust. He is a Permanent Honorary Chairman of the Board of Trustees of United College of The Chinese University of Hong Kong and a Life Member of the Council of The Chinese University of Hong Kong. He is the husband of Ms. Mona Fong, the Deputy Chairperson and Managing Director of the Company.

Mona Fong

Aged Seventy-two, joined the Company in 1969 and was appointed a Director in 1981, Managing Director in 1996 and Deputy Chairperson in 2001. Ms. Fong is the Executive Chairperson of Shaw Holdings Inc., a substantial shareholder of the Company and Chairperson and Managing Director of the Shaw group of companies. She is the Deputy Chairperson and Acting Managing Director of Television Broadcasts Limited. She is also the Chairperson of The Shaw Foundation Hong Kong Limited, The Shaw Prize Foundation Limited and The Sir Run Run Shaw Charitable Trust and a member of the Board of Trustees of Shaw College of The Chinese University of Hong Kong. Ms. Fong is the wife of Sir Run Run Shaw, the Executive Chairman of the Company.

Jeremiah Rajakulendran

Aged Sixty-one, is the Chief Financial Officer of the Company. He joined the Company in 1984 and was appointed Company Secretary in April 1998 which post he relinquished in February 2001. He was appointed a Director in February 2001 and Company Secretary in September 2002. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a former Fellow of the Chartered Institute of Management Accountants, United Kingdom.

Dr. Chow Yei Ching

Aged Seventy-one, was appointed a Non-executive Director of the Company in February 2001. He is the founder and chairman of Chevalier Group that comprises two publicly listed companies in Hong Kong, namely, Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is a Non-executive Director of Television Broadcasts Limited and an Independent Non-executive Director of Van Shung Chong Holdings Limited and Towngas China Company Limited. Dr. Chow is the Honorary Consul of The Kingdom of Bahrain in Hong Kong and a standing committee member of the Chinese People's Political Consultative Conference, Shanghai. He also serves in a number of positions in various educational, charitable and trade organisations. He holds an Honorary Degree of Doctor of Laws from The University of Hong Kong and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Ng Julie Yuk Shun

Aged Fifty-five, was appointed a Non-executive Director of the Company in February 2001. She has a MBA degree from New York University and has been managing her own shipping and trading companies in Hong Kong since 1973.

Nelson Hon Sang Chiu

Aged Sixty-one, was appointed a Non-executive Director of the Company in September 2004. He is the Chairman and Managing Director of SunTech Environmental Group Limited, a company listed in the Australian Stock Exchange since 1995. He is the founder of the group. He has more than 30 years of experience in business and financial management in Australia and Hong Kong, of which over 10 years have been in China businesses. He holds a Degree of Master of Business Administration from the University of Sydney, Australia and is a fellow of the Australian Institute of Management and Institute of Chartered Accountants in Australia. He is also a fellow of the Hong Kong Institute of Directors.

DIRECTORS' INTERESTS

None of the Directors has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The Company has an interest in an associated company developing the Shaw Studios in Tseung Kwan O, in which Shaw Property Holdings Limited is a major shareholder. Ms. Mona Fong has an indirect interest in Shaw Property Holdings Limited as she is a director of both Shaw Property Holdings Limited and its holding company, Shaw Holdings Inc..

Save as mentioned in the preceding paragraphs, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

As at 31st March 2007 the beneficial interests of the Directors and chief executive in the ordinary shares of the Company as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

	No. of Ordinary shares of HK\$0.25 each				Percentage of issued capital (%)
	Personal interests	Family interests	Corporate interests	Total	
Sir Run Run Shaw	–	1,378,000 ¹	297,106,872 ²	298,484,872	74.92%
Mona Fong	1,378,000 ¹	–	–	1,378,000	0.35%

Note: Duplication of shareholdings occurred between parties ⁽¹⁾ shown above and between parties ⁽²⁾ shown above and below under "Substantial shareholders".

² 263,610,872 shares were held by Shaw Holdings Inc.. 11,761,000 shares and 21,735,000 shares were held by its wholly owned subsidiaries, Double One Limited and The Shaw Foundation Hong Kong Limited respectively, in which companies Sir Run Run Shaw exerts 100% control through The Sir Run Run Shaw Charitable Trust.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (Continued)

As at 31st March 2007, the beneficial interests of the Directors and chief executive in the ordinary shares of the associated corporations (within the meaning of the SFO) of the Company as recorded in the register maintained under Section 352 of the SFO were as follows:

No. of Ordinary shares of HK\$0.05 each in Television Broadcasts Limited					
	Personal Interests	Family interests	Corporate interests	Total	Percentage of issued capital (%)
Sir Run Run Shaw	–	1,146,000 ¹	141,174,828 ²	142,320,828	32.49%
Mona Fong	1,146,000 ¹	–	–	1,146,000	0.26%
Dr. Chow Yei Ching	100,000	–	–	100,000	0.02%

Note: Duplication of shareholdings occurred between parties (!) shown.

² 113,888,628 shares were held by Shaw Brothers (Hong Kong) Limited and 27,286,200 shares were held by The Shaw Foundation Hong Kong Limited, in which companies Shaw Holdings Inc. holds 74.58% and 100% equity interests. Sir Run Run Shaw exerts 100% control over Shaw Holdings Inc. through The Sir Run Run Shaw Charitable Trust.

No. of Ordinary shares of US\$1.00 each in Goldway Holdings Limited					
	Personal Interests	Family interests	Corporate interests	Total	Percentage of issued capital (%)
Sir Run Run Shaw	–	–	2,500 ¹	2,500	100.00%

¹ 875 shares were held by Shaw Brothers (Hong Kong) Limited and 1,625 shares were held by Shaw Property Holdings Limited, in which companies Shaw Holdings Inc. holds 74.58% and 100% equity interests. Sir Run Run Shaw exerts 100% control over Shaw Holdings Inc. through The Sir Run Run Shaw Charitable Trust.

All the interests stated above represented long positions. The Company or its subsidiaries did not grant to the Directors or chief executive or their spouse or children under 18 years of age any rights to subscribe for shares, underlying shares or debentures of the Company or any other body corporate.

Apart from the above, no interests or short positions were held or deemed or taken (under the SFO) to be held by any Directors or chief executive of the Company in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the SFO) as at 31st March 2007.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of the SFO).

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2007, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests (all being beneficial interests), being 5% or more of the Company's issued share capital.

Name of shareholder	No. of ordinary shares of HK\$0.25 each	Percentage of issued capital (%)
Shaw Holdings Inc.	297,106,872 ¹	74.58%
Arnhold and S. Bleichroeder Advisers, LLC	45,960,390 ²	11.54%

Note: Duplication of shareholdings occurred between parties ⁽¹⁾ shown here and above under "Directors' Interests".

¹ 11,761,000 shares and 21,735,000 shares were held by its wholly owned subsidiaries, Double One Limited and The Shaw Foundation Hong Kong Limited respectively. Sir Run Run Shaw exerts 100% control over Shaw Holdings Inc., Double One Limited and The Shaw Foundation Hong Kong Limited through The Sir Run Run Shaw Charitable Trust.

² Interests were held in the capacity of investment adviser that maintains discretion to exercise voting powers and transact purchases and sales on behalf of its clients.

All the interests stated above represented long positions. Save for the interests referred to above, no other person was recorded in the register of substantial shareholders maintained under Section 336 of SFO as having any substantial shareholders' interests or short positions, being 5% or more of the issued share capital of the Company as at 31st March 2007.

CONNECTED AND RELATED PARTY TRANSACTIONS

The Company has an interest in an associated company developing the Shaw Studios in Tseung Kwan O, in which Shaw Property Holdings Limited is a shareholder. Shaw Property Holdings Limited is a connected person of the Company by virtue of it being an associate of Shaw Holdings Inc., controlling shareholder of both the Company and Shaw Property Holdings Limited. As at the balance sheet date, the Company has provided a loan to the associated company amounting to HK\$399,181,000, of which HK\$332,500,000 is interest free and the remaining balance of HK\$66,681,000 is interest bearing at one month Hong Kong Inter-Bank Offered Rate plus 0.5% per annum, and the total amount of HK\$399,181,000 is secured and has no fixed terms of repayment.

Since November 2000, the Company has been providing financial assistance through a loan to a non-wholly owned subsidiary, Film Power Company Limited ("Film Power"), for financing its film productions. The loan was interest bearing at Hong Kong Dollar prime lending rate per annum up to 31st March 2006. The minority shareholder of Film Power was connected to the Company by virtue only of his substantial shareholding therein. No interest was charged to Film Power for the year ended 31st March 2007 as the Group acquired the remaining 40% interest in the subsidiary during the year, which then became a wholly owned subsidiary of the Group. As at the balance sheet date, the amount of the loan was HK\$26,564,000, which is unsecured, interest free and repayable on demand.

Details of related party transactions of the Group are set out in Note 26 to the consolidated financial statements. Note 26 constitutes connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") as disclosed above.

REPORT OF THE DIRECTORS

CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

All the Independent Non-executive Directors have reviewed the above transactions described in the above paragraphs and confirmed that these transactions have been entered into (i) in the ordinary and usual course of business, (ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties, (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditor has also reviewed the above transactions described in the above paragraphs and confirmed in its letter to the Directors that:

- (i) the transactions have been approved by the Company's Board of Directors: and
- (ii) the transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions.

AUDIT COMMITTEE

The responsibilities of the Audit Committee and the work done during the year are set out in the Corporate Governance Report on pages 18 to 24.

CORPORATE GOVERNANCE

The Company's corporate governance practices during the year are set out in the Corporate Governance Report on pages 18 to 24.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Hong Kong.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND SENIOR EMPLOYEES

Details of directors' remuneration and the five highest paid employees are set out in Note 10 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the turnover for the year attributable to the Group's major customers are as follows:

– the largest customer	53.49%
– five largest customers	71.01%

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	98.68%
– five largest suppliers	99.94%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the customers and suppliers noted above.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On Behalf of the Board

Mona Fong
Deputy Chairperson and Managing Director

Hong Kong, 27th June 2007

MANAGEMENT DISCUSSION AND ANALYSIS

FILMING FACILITIES SERVICES

Filming facilities services comprise Film Remastering and Film Processing Centres, and the contribution towards Group profits during the year was HK\$2.5 Million.

REDEVELOPMENT OF CLEARWATER BAY SITE

The land exchange application is being processed by the Lands Department. Preliminary comments from Government Departments have been received and are being dealt with. Subject to no further adverse comments being received prior to the District Lands Conference (“DLC”), we expect the first provisional basic terms (without quoting of premium) to be offered by end of Year 2007. Meanwhile, we are proceeding with the preparation of Master Landscape Plan, being a condition stipulated when the Master Layout Plan was approved.

ASSOCIATED COMPANIES

The contribution after taxation from Television Broadcasts Limited (“TVB”) to Group profits for the year increased slightly by 1%. TVB experienced a decline in Hong Kong advertising revenue of approximately 5% during the first half of 2006, due to substantial drop in spending on TV advertising from the local property, the slimming centres and the skin care categories. It regained some of the shortfall when the overall advertising market bounced back in the second half of 2006, resulting in just a marginal decline in the advertising revenue for the full year. The decrease in TVB’s share of losses of an associate, TVB Pay Vision Holdings Limited, has helped contributing to the 1% increase in the Group’s share of profits of TVB.

MOVIE CITY PROJECT (SHAW STUDIOS)

The Sound Stages have been soft launched since March 2006. Internal fitting-out works are expected to be substantially finished by the end of 2007.

FINANCIAL AND CAPITAL STRUCTURE

The Group had no external borrowing and consequently none of the Group’s assets are subject to any charge. There was no acquisition or disposal of material subsidiaries or associated companies in the course of the financial year.

CAPITAL COMMITMENTS

As at 31st March 2007, capital commitments of the Group amounted to HK\$91.8 Million (2006: HK\$29.6 Million), which would be funded by internal resources. The increased commitment is mainly in respect of the Movie City Project.

CONTINGENT LIABILITIES

As at 31st March 2007, the Group and the Company did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As the majority of the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong Dollars, the Group does not have significant risk in exposure to fluctuations in exchange rates.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2007, the Group employed a total of 181 full time employees, all in Hong Kong. During the year under review, there was no significant change in the Group's remuneration policies.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance.

During the year under review, the Company has been in compliance with the Code Provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) except for the following:

- (a) the Executive Chairman and the Managing Director are not subject to retirement by rotation pursuant to Article 88 of the Company’s Articles of Association. The Board considers that the Chairman and the Managing Director, the former being the founder of the Company and the latter who joined the Company since 1969, possess a wealth of experience which is essential to the Board and contributes to the continued stability of the Company’s business;
- (b) Non-executive Directors were not appointed for a specific term as required by the Code. However, they are subject to retirement by rotation and re-election at the Company’s annual general meetings pursuant to Article 88 of the Company’s Articles of Association;
- (c) Pursuant to Article 88 of the Company’s Articles of Association, one-third of the Directors for the time being, excluding the Executive Chairman and the Managing Director (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation at each annual general meeting of the Company, and consequently the Directors have retired by rotation at least once every three years.

Notwithstanding the aforesaid, steps are being taken to amend Article 88 of the Company’s Articles of Association with a view to ensuring full compliance with the requirements of the Code.

COMPLIANCE WITH MODEL CODE

The Board adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the “Model Code”) as the code for Directors and Senior Management in their dealings in the Company’s securities.

Mr. Louis Page, who resigned as Director of the Company on 30th June 2006, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1st April 2006 and 30th June 2006.

All other Directors and members of the Senior Management confirmed, following specific enquiry by the Company, that they had complied with the Model Code throughout the year ended 31st March 2007.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-executive Directors are independent.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board of Directors (“the Board”) is charged with promoting the success of the Company by directing and supervising its affairs in a responsible manner. The Board is the highest governing body of the Company.

The Board has 6 Directors as at 31st March 2007, and the list of Directors was as follows:

Sir Run Run Shaw, G.B.M.	Executive Chairman
Mona Fong	Deputy Chairperson and Managing Director
Jeremiah Rajakulendran	Executive Director
Dr. Chow Yei Ching	Independent Non-executive Director
Ng Julie Yuk Shun	Independent Non-executive Director
Nelson Hon Sang Chiu	Independent Non-executive Director

Mr. Louis Page resigned as Director of the Company on 30th June 2006.

Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

All Directors give sufficient time and attention to the Company’s affairs. Duties of the Board include:

- (a) planning the strategic direction of the Company; and
- (b) monitoring the performance of Management.

The Board exercises a number of reserved powers which include:

- (a) approving significant changes in accounting policies, or capital structure;
- (b) approving public announcements and the financial statements;
- (c) approving major acquisitions, disposals, major capital projects and corporate and operational issues that have significant impact on the Group;
- (d) approving material borrowings and any issuing, or buying back, of equity securities;
- (e) setting group remuneration policy and approving appointment or dismissal of senior management;
- (f) setting the dividend policy; and
- (g) approving treasury policy.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

The Board has formalised the functions delegated by the Board to the Management and reviews such arrangements on a periodic basis. The Management is charged with the following responsibilities:

- (a) implementing and reporting to the Board on the Company's strategies;
- (b) overseeing the realisation by the Company of the objectives set by the Board;
- (c) providing all such information to the Board as is necessary to enable the Board to monitor the performance of the Management; and
- (d) discharging duties and authority as may be delegated by the Board.

The Company has three Independent Non-executive Directors, at least one of whom has appropriate financial management expertise, which is in compliance with the Listing Rules. Each Independent Non-executive Director gives the Company an annual confirmation of his/her independence, and the Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Directors have no relationship (including financial, business, family or other relationship) among themselves, save for the following:

- (a) the husband-wife relationship between Sir Run Run Shaw and Ms. Mona Fong, as set out on page 10 of the Report of the Directors of this Annual Report;
- (b) The directorship of Sir Run Run Shaw, Ms. Mona Fong, and Dr. Chow Yei Ching in Television Broadcasts Limited, as set out on page 10 of the Report of the Directors of this Annual Report.

BOARD MEETINGS

The full Board met four times during the year under review. There is no Remuneration Committee meeting held during the year as the Board considers that no adjustment to the remuneration structure for each of the Directors is necessary. The attendance of Directors at the Board Meetings and the Audit Committee Meetings is set out in the table below:

Directors	Meetings Attended/Held	
	Board	Audit Committee
Executive Directors		
Sir Run Run Shaw	4/4	
Mona Fong	4/4	
Louis Page	1/1	
Jeremiah Rajakulendran	4/4	
Independent Non-executive Directors		
Dr. Chow Yei Ching	3/4	2/2
Ng Julie Yuk Shun	4/4	2/2
Nelson Hon Sang Chiu	2/4	2/2

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS *(Continued)*

Mr. Louis Page resigned as Director of the Company on 30th June 2006. One regular Board Meeting was held between 1st April 2006 and 30th June 2006.

At the Board Meetings, the Directors discussed and formulated overall strategies for the Company, monitored financial performance and discussed the annual and interim results, as well as other significant matters.

CHAIRMAN AND MANAGING DIRECTOR

Sir Run Run Shaw, the Chairman since incorporation, and Ms. Mona Fong, Managing Director since 1996, have segregated and clearly defined roles.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established on 30th September 2005. The majority of the members are Independent Non-executive Directors. The Committee is chaired by Independent Non-executive Director Dr. Chow Yei Ching and the other members are Ms. Mona Fong and Ms Ng Julie Yuk Shun.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee had its first meeting in March 2006 to review the remuneration paid to Executive Directors and the Senior Management for the year ended 31st March 2006 and to recommend the fees payable to Non-executive Directors for the year ended 31st March 2007. No adjustment to the basis of remuneration and fees payable are considered necessary for the current financial year.

Details of the Directors' and Senior Management's emoluments are set out on pages 53 and 54 of the Notes to the consolidated financial statements.

In line with our policy that no individual should determine his or her own remuneration, the proposed fees for Directors were recommended by the Board and approved by our shareholders at the annual general meetings.

No share options of the Company have been granted to Directors during the year.

None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

The notice of annual general meeting contains detailed information on election of Directors including detailed biography of all Directors standing for re-election to enable shareholders to make an informed decision on their election.

AUDITORS' REMUNERATION

Management performs a review of the remuneration to the Group's auditor on an annual basis. The fees for all audit services have been approved by the Audit Committee, and there were no fees paid or payable for non-audit services. A summary of fees for audit services, which are all payable to PricewaterhouseCoopers, the Group's auditor, is as follows:

	Fees for audit services	
	2007	2006
	HK\$'000	HK\$'000
Company	245	230
Subsidiaries	37	61
Total	282	291

FINANCIAL REPORTING AND AUDIT COMMITTEE

The Board is responsible for presenting financial information of the Group in a clear, balanced and timely manner in the form of financial statements that give a true and fair view of the Group's state of affairs. The Board also carries the responsibility to select the most appropriate accounting policies for the Group. In this regard, the Board has adopted the Hong Kong Financial Reporting Standards as promulgated by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements of the Group have been prepared on a going concern basis, assuming the continued operation of the business.

The Audit Committee was established on 1st April 1999 with all Independent Non-executive Directors being appointed as members. Membership of the Audit Committee is appointed by the Board, and the current composition consists of three Independent Non-executive Directors, namely, Dr. Chow Yei Ching (Chairman of the Audit Committee), Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu. They possess appropriate academic and professional qualifications or related financial management expertise. The Audit Committee is provided with sufficient resources to discharge its duties. The principal duties of the Audit Committee include review of the Group's financial reporting, the scope of audit services as well as the effectiveness of the system of internal control and compliance. It will also discuss matters raised by the external auditor and regulatory bodies to ensure that appropriate recommendations are implemented.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING AND AUDIT COMMITTEE *(Continued)*

The Audit Committee held two meetings during the year ended 31st March 2007. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and the effectiveness of the Group's system of internal control, and discussed financial reporting matters including a review of the interim financial statements and the annual consolidated financial statements for the year ended 31st March 2007 before such statements were presented to the Board of Directors for approval.

The reporting responsibilities of PricewaterhouseCoopers, the Company's auditor, are set out in the Independent Auditor's Report on pages 27 and 28 of this Annual Report.

INTERNAL CONTROLS

The Board has the overall responsibility for maintaining a sound and effective system of internal control to safeguard the Group's assets and shareholders' interests.

The system of internal control has been designed to safeguard assets from inappropriate use, maintain proper accounts and ensure effective operation of the Group's business and compliance with regulations. Management is directly responsible for implementing the strategies and policies adopted by the Board, and for managing all of the Group's activities including the operation of the internal control system. The system of internal control is, however, designed to provide reasonable, but not absolute, assurance against material mis-statement or loss, and manage, rather than eliminate, risks of failure in operational systems.

During the year ended 31st March 2007, Management has reviewed the internal controls of the Group, covering financial, operational and compliance aspects.

The review took the form of a self risk assessment questionnaire in view of the relatively simple business activities undertaken by the Group. The Chief Financial Officer has taken the lead to conduct the review with the involvement of the heads of business units where key risks are identified. The report of the review together with recommended actions for further improvement of the system of internal control was presented to the Audit Committee.

On behalf of the Board, the Audit Committee examined the report submitted by Management and was satisfied that:

1. The review of internal controls conducted by Management has covered all material controls, including financial, operational and compliance controls and risk management functions;
2. The Group's internal controls are adequate for the current operations and in safeguarding the assets of the Group; and
3. To further enhance the system of internal control in the light of the ever changing operating environments, certain areas for improvement, mainly concerning more formalized and structured procedures, have been identified and scheduled for implementation by Management.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS *(Continued)*

The Board will commission the Audit Committee to review the effectiveness of the Group's system of internal control on an ongoing basis, and to monitor the implementation of improvements that are considered appropriate for the Group.

On Behalf of the Board

Run Run Shaw
Executive Chairman

Hong Kong, 27th June 2007

FIVE-YEAR FINANCIAL REVIEW

(a) CONSOLIDATED INCOME STATEMENT

	2003	2004	2005	2006	2007
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Turnover	62,442	59,506	72,516	54,156	43,311
Profit before income tax	143,045	102,161	182,300	297,404	293,794
Income tax expense	–	(1,091)	–	–	–
Profit attributable to equity holders of the Company	<u>143,045</u>	<u>101,070</u>	<u>182,300</u>	<u>297,404</u>	<u>293,794</u>
Earnings per share (HK\$) ¹	<u>0.36</u>	<u>0.25</u>	<u>0.46</u>	<u>0.75</u>	<u>0.74</u>

¹ The earnings per share is calculated based on 398,390,400 ordinary shares in issue throughout the five years.

(b) CONSOLIDATED BALANCE SHEET

	2003	2004	2005	2006	2007
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Non-current assets					
Property, plant and equipment	206,875	192,232	174,622	159,715	142,466
Leasehold land	2,787	2,723	2,660	18,978	18,515
Interests in associates	926,365	1,069,648	1,280,939	1,493,348	1,646,749
Current assets	354,017	232,109	133,299	99,014	88,615
Current liabilities	<u>(21,055)</u>	<u>(27,182)</u>	<u>(17,785)</u>	<u>(13,810)</u>	<u>(12,716)</u>
Total assets less current liabilities	<u>1,468,989</u>	<u>1,469,530</u>	<u>1,573,735</u>	<u>1,757,245</u>	<u>1,883,629</u>
Financed by:					
Share capital	99,598	99,598	99,598	99,598	99,598
Reserves	<u>1,369,391</u>	<u>1,369,932</u>	<u>1,474,137</u>	<u>1,657,647</u>	<u>1,784,031</u>
Shareholders' funds	<u>1,468,989</u>	<u>1,469,530</u>	<u>1,573,735</u>	<u>1,757,245</u>	<u>1,883,629</u>

SCHEDULE OF PROPERTIES

Location	Term of lease	Use
Lot No. 220RP in D.D. 229 Sai Kung, New Territories Hong Kong	Medium term	Partially leased to third parties
Lot No. 219 and 224 in D.D. 229 Sai Kung, New Territories Hong Kong	Medium term	Self occupied
Lot No. 72RP, 73, 79, 81, 83RP, 84RP, 96RP, 99RP, 100 and 101 in D.D. 229 Sai Kung, New Territories Hong Kong	Medium term	Leased to a third party
Lot No. 75, 76, 77A, 77B, 77RP, 78, 80A, 80B, 80RP, 82, 97RP, 98, 102-110, 112, 121-124, 126-127, 129A, 129B, 129RP, 130, 132 and 133 in D.D. 229 Sai Kung, New Territories Hong Kong	Medium term	Leased to a third party

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF SHAW BROTHERS (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shaw Brothers (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 74, which comprise the consolidated and Company balance sheets as at 31st March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27th June 2007

CONSOLIDATED BALANCE SHEET

		AS AT 31ST MARCH	
		2007	2006
		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	142,466	159,715
Leasehold land	12	18,515	18,978
Interests in associates	14	1,646,749	1,493,348
		1,807,730	1,672,041
Current assets			
Inventories	15	7,728	8,093
Accounts receivable, prepayments, deposits and other receivables	16	30,176	25,510
Short term bank deposits	17	47,873	62,099
Bank and cash balances		2,838	3,312
		88,615	99,014
Total assets		1,896,345	1,771,055
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	99,598	99,598
Other reserves		21,938	29,819
Retained profits			
– Proposed final dividend	8	159,356	135,452
– Others		1,602,737	1,492,376
Total equity		1,883,629	1,757,245
LIABILITIES			
Current liabilities			
Accounts payable, other payables and accruals	20	10,973	12,032
Provision for staff long service payments	21	1,743	1,778
Total liabilities		12,716	13,810
Total equity and liabilities		1,896,345	1,771,055
Net current assets		75,899	85,204
Total assets less current liabilities		1,883,629	1,757,245

Approved by the Board of Directors on 27th June 2007

Run Run Shaw

Director

Mona Fong

Director

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

COMPANY BALANCE SHEET

		AS AT 31ST MARCH	
		2007	2006
		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	142,466	159,715
Leasehold land	12	18,515	18,978
Investments in subsidiaries	13	587	1,439
Interests in associates	14	1,452,438	1,414,393
		1,614,006	1,594,525
Current assets			
Inventories	15	7,504	6,400
Accounts receivable, prepayments, deposits and other receivables	16	30,079	25,189
Short term bank deposits	17	47,873	62,099
Bank and cash balances		2,662	3,097
		88,118	96,785
Total assets		1,702,124	1,691,310
EQUITY			
Capital and reserves attributable to the Company's equity holder			
Share capital	18	99,598	99,598
General reserve	19	557,394	557,394
Retained profits			
– Proposed final dividend	8, 19	159,356	135,452
– Others	19	873,539	886,413
Total equity		1,689,887	1,678,857
LIABILITIES			
Current liabilities			
Accounts payable, other payables and accruals	20	10,494	10,675
Provision for staff long service payments	21	1,743	1,778
Total liabilities		12,237	12,453
Total equity and liabilities		1,702,124	1,691,310
Net current assets		75,881	84,332
Total assets less current liabilities		1,689,887	1,678,857

Approved by the Board of Directors on 27th June 2007

Run Run Shaw

Director

Mona Fong

Director

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	Note	FOR THE YEAR ENDED 31ST MARCH	
		2007 HK\$'000	As restated 2006 HK\$'000
Turnover	4	43,311	54,156
Cost of sales		(25,002)	(28,642)
Gross profit		18,309	25,514
Other income	4	23,157	19,586
Selling and distribution expenses		(540)	(1,305)
General and administrative expenses		(29,952)	(29,161)
Other operating expenses		(21,101)	(20,137)
Share of profits less losses of associates		303,921	302,907
Profit before income tax	5	293,794	297,404
Income tax expense	6	–	–
Profit attributable to equity holders of the Company		293,794	297,404
Dividends	8	179,276	159,356
Earnings per share	9	HK\$0.74	HK\$0.75

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH 2007

	Attributable to equity holders of the Company					
	Share capital	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2005	99,598	2,404	32,902	(5,784)	1,444,615	1,573,735
Share of reserve movements of an associate	-	-	-	(2,345)	-	(2,345)
Net expense recognised directly in equity	-	-	-	(2,345)	-	(2,345)
Profit for the year	-	-	-	-	297,404	297,404
Total recognised (expense)/ income for 2005/2006	-	-	-	(2,345)	297,404	295,059
Share of reserve movements of an associate	-	2,642	-	-	(2,642)	-
Final dividend 2004/2005	-	-	-	-	(87,645)	(87,645)
Interim dividend 2005/2006 (Note 8)	-	-	-	-	(23,904)	(23,904)
	-	2,642	-	-	(114,191)	(111,549)
At 31st March 2006	99,598	5,046	32,902	(8,129)	1,627,828	1,757,245
At 1st April 2006	99,598	5,046	32,902	(8,129)	1,627,828	1,757,245
Share of reserve movements of an associate	-	-	-	(12,038)	-	(12,038)
Net expense recognised directly in equity	-	-	-	(12,038)	-	(12,038)
Profit for the year	-	-	-	-	293,794	293,794
Total recognised (expense)/ income for 2006/2007	-	-	-	(12,038)	293,794	281,756
Share of reserve movements of an associate	-	4,157	-	-	(4,157)	-
Final dividend 2005/2006 (Note 8)	-	-	-	-	(135,452)	(135,452)
Interim dividend 2006/2007 (Note 8)	-	-	-	-	(19,920)	(19,920)
	-	4,157	-	-	(159,529)	(155,372)
At 31st March 2007	99,598	9,203	32,902	(20,167)	1,762,093	1,883,629

Note:

Capital reserve includes a transfer from retained profits, which represents the excess of the Group's share of net assets at fair value of an associate over the Group's share of the associate's distributable reserves arising from the deemed disposal of interest in the associate.

In accordance with local laws of a subsidiary of an associate of the Group, that company is required to set aside 10% of annual net income less any accumulated deficit as legal reserve to the extent that the legal reserve amounts to total contributed share capital. The application of the legal reserve is restricted to covering operating losses and conversion into share capital of that subsidiary.

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

		FOR THE YEAR ENDED 31ST MARCH	
	Note	2007	2006
		HK\$'000	HK\$'000
Cash flows from operating activities			
Net cash generated from operating activities	25	4,347	5,880
Cash flows from investing activities			
Interest received	25(a)	5,071	3,985
Dividends received from an associate		176,527	119,583
Loan to an associate		(38,045)	(31,430)
Purchase of property, plant and equipment		(7,232)	(6,874)
Purchase of leasehold land		-	(15,181)
Disposal of property, plant and equipment	25(c)	4	294
Net cash generated from investing activities		136,325	70,377
Cash flows from financing activities			
Dividends paid		(155,372)	(111,549)
Net cash used in financing activities		(155,372)	(111,549)
Net decrease in cash and cash equivalents		(14,700)	(35,292)
Cash and cash equivalents at the beginning of the year		65,411	100,703
Cash and cash equivalents at the end of the year		50,711	65,411
Analysis of the balances of cash and cash equivalents			
Short term bank deposits with maturities less than three months		47,873	62,099
Bank and cash balances		2,838	3,312
		50,711	65,411

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted 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.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention.

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 Group’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 3.

Amendments to published standards and interpretation

In the current year, the Group adopted the following new amendments and interpretation of HKFRS and Hong Kong Accounting Standards (“HKAS”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the accounting periods beginning on or after 1st January 2006 and are relevant to its operations.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 and HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoptions of new/revised HKAS 19 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HKFRS-Int 4 did not result in substantial changes to the accounting policies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Standard, amendment and interpretation that are not effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31st March 2007 and have not been early adopted by the Group.

- | | |
|----------------------|--|
| • HKAS 1 (Amendment) | Presentation of Financial Statements:
Capital Disclosures |
| • HKFRS 7 | Financial instruments: Disclosures |
| • HKFRS 8 | Operating Segments |
| • HK(IFRIC)-Int 7 | Applying the Restatement Approach under
HKAS 29 Financial Reporting in
Hyperinflationary Economies |
| • HK(IFRIC)-Int 8 | Scope of IFRS 2 |
| • HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| • HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| • HK(IFRIC)-Int 11 | IFRS 2-Group and Treasury Share Transactions |
| • HK(IFRIC)-Int 12 | Service Concession Arrangements |

The Group has already commenced an assessment of the impact of the new standards, amendments or interpretations to existing standards but is not yet in a position to state whether these new standards, amendments or interpretations to existing standards would have a significant impact to its results of operations and financial position.

(b) Consolidation

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

Subsidiaries are all 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

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 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 investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Interests in associates

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.

Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost.

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 interests 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Interests in associates *(Continued)*

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

Where the associates have financial year ends other than 31st March, their latest audited financial statements made up to a date within three months before 31st March 2007 are used for equity accounting purposes.

(d) Property, plant and equipment

Property, plant and equipment, comprising buildings, furniture and fittings, equipment, motor vehicles and plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2% – 4%
Furniture and fittings	10%
Equipment	10% – 20%
Motor vehicles	25%
Plant and machinery	10% – 20%

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 (Note 1(e)).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other income in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Impairment of 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 indicated 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Inventories

Inventories comprise released films, unreleased films, raw materials and cost of processing works.

Released films are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of released films is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a period of three years. Unreleased films, raw materials and cost of processing works are valued at cost less provision for impairment losses.

Cost of released films and unreleased films comprise cost of services, facilities and raw materials consumed in the creation of a film. Raw materials and cost of processing works comprise raw films, chemicals, costs of film processing and film remastering works and direct overhead expenditure.

(g) Accounts receivable and other receivables

Accounts receivable 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 accounts receivable and other receivables are 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 general and administrative expenses.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash deposits with a maturity of three months or less from date of investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Share capital

Ordinary shares are classified as equity.

(j) Accounts payable and other payables

Accounts payable and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Pension obligations*

The Group has a Mandatory Provident Fund Scheme (“MPF Scheme”) in accordance with the Mandatory Provident Fund Schemes Ordinance, the assets of which are held in a separately administered fund.

All permanent staff located in Hong Kong whose employment period reaches 60 days or more must join the MPF Scheme. The contributions to the MPF Scheme made by the Group for permanent staff is calculated at 5% of the individual’s “relevant income” as prescribed in the Mandatory Provident Fund Schemes Ordinance with a maximum amount of HK\$1,000 per month.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(iv) Long service payment

The Group's net obligation in respect of long services amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the income statement so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlement accrued under the Group's defined contribution plan that is attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

(m) Foreign currency translation

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currency translation *(Continued)*

(ii) 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.

(iii) 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 operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(n) Leases (as the lessee for operating leases)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or 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 profit will be available against which the temporary differences can be utilised.

(p) Revenue recognition

- (i) Rental income from operating lease of land and buildings is recognised on a straight-line basis over the terms of the lease.
- (ii) Revenue from film distribution is recognised upon delivery of the films for royalty income and upon release of the films for theatrical income.
- (iii) Filming facilities services fees comprise studio service fees, film processing and film remastering income. Studio service fees are recognised when the facilities are used. Film processing income is recognised upon delivery of the films. Film remastering income is recognised on acceptance of film quality by the customer.
- (iv) Management fee income is recognised when the services are rendered.
- (v) Interest income is recognised on a time proportion basis using the effective interest method.

(q) 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 segments as the secondary reporting format.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Segment reporting *(Continued)*

Unallocated items consist primarily of management fee income and interest income less corporate expenses. Segment assets consist primarily of leasehold land, property, plant and equipment, inventories and receivables, and mainly exclude interests in associates, short term bank deposits and bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as provision for staff long service payments. Capital expenditure represents additions to leasehold land, property, plant and equipment.

In respect of geographical segment reporting, revenues are based on the countries in which the customers are located. Total assets and capital expenditure are where the assets are located.

(r) Related parties

A party is considered to be related to the Group if

- (i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with the Group; or (ii) has an interest in the Group that gives it significant influence over the Group;
- (ii) the party is an associate;
- (iii) the party is a member of the key management personnel of the Group;
- (iv) the party is a close member of the family of any individual referred to in (i) to (iii) above; or
- (v) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) and (iv) above.

(s) 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.

(t) Comparatives

Comparatives figures have been reclassified to conform with changes in presentation in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's major financial instruments include bank and cash balances, short term bank deposits, accounts receivable, other receivables, accounts payable and other payables. The risks associated with these financial instruments and policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Foreign exchange risk*

As the majority of the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong dollars, the Group does not have significant risk in exposure to fluctuations in exchange rates.

(ii) *Credit risk*

The Group has no significant concentrations of credit risk. The Group's short term bank deposits are deposited with banks of high credit quality in Hong Kong. For credit sales, the Group has stringent monitoring procedures to deal with the overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

(iii) *Interest rate risk*

The Group has no significant interest-bearing assets, except for the cash placed with banks. The Group's income and operating cash flow are substantially independent of changes in market interest rates.

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. The Group's principal interest bearing assets are bank balances and short term bank deposits which are on a floating rate basis with maturity of three months or less.

The effective interest rate on short term bank deposits was 4.1% (2006: 4.2%). These deposits have an average maturity of 26 days (2006: 39 days).

(iv) *Liquidity risk*

The Group is not exposed to significant liquidity risk. Management adopts a prudent liquidity risk management approach by maintaining sufficient cash and cash in short term bank deposit and the availability of funding from an adequate amount of committed credit facilities to meet all obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Fair value estimation

The nominal value less impairment provision of accounts receivable and other receivables, accounts payable and other payables approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

(i) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

(ii) Impairment of accounts receivable

The aged debt profile of accounts receivable is reviewed on a regular basis to ensure that the accounts receivable are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of accounts receivable is called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aging analysis of the accounts receivable and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the income statement. Changes in the collectibility of accounts receivable for which provisions are not made could affect the results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iii) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to their recoverable amounts.

The impairment assessment is performed based on either the discounted cash flow analysis to determine the value in use or with reference to the open market fair value less estimated costs to sell to determine the disposal value. The discounted cash flow analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-current assets may be required.

4 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries.

Turnover consists of rental income, film distribution income and filming facilities services fees.

Other income mainly consists of management fee income and interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT INFORMATION (Continued)

The amount of each significant category of revenue recognised during the year is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Rental income from buildings	3,663	6,606
Film distribution income	2,166	5,761
Filming facilities services fees	37,482	41,789
	<u>43,311</u>	<u>54,156</u>
Other income		
Management fee income	12,078	11,131
Interest income	7,803	4,069
Others	3,276	4,386
	<u>23,157</u>	<u>19,586</u>
Total revenue	<u>66,468</u>	<u>73,742</u>

Primary reporting format – business segments

As at 31st March 2007, the Group is organised into four main business segments:

Property rental	: Leases of properties for rentals
Film distribution	: Distribution of films for theatrical income and royalty income
Filming facilities services	: Provision of studio sites and filming facilities and services for income
Investment holding	: Investments in associates

The Group's inter-segment transactions mainly consist of film processing works, as well as provision of administration and accounting services. Film processing works were provided at similar terms as that contracted with third parties. Administration and accounting services were charged on a cost reimbursement basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

The segment results for the year ended 31st March 2007 and segment assets and liabilities at 31st March 2007 and capital expenditure for the year then ended are as follows:

	Property rental 2007 HK\$'000	Film distribution 2007 HK\$'000	Filming facilities services 2007 HK\$'000	Investment holding 2007 HK\$'000	Group total 2007 HK\$'000
Turnover (Note)	3,663	2,166	37,482	-	43,311
Segment results	1,616	(555)	2,506	(5,092)	(1,525)
Unallocated items					(8,602)
Share of profits less losses of associates (Note 14)	-	-	-	303,921	303,921
Profit before income tax					293,794
Income tax expense (Note 6)					-
Profit attributable to equity holders of the Company					293,794
Segment assets	50,219	321	141,588	-	192,128
Interests in associates	-	-	-	1,646,749	1,646,749
Unallocated assets					57,468
Total assets					1,896,345
Segment liabilities	1,187	1,666	4,717	-	7,570
Unallocated liabilities					5,146
Total liabilities					12,716
Capital expenditure	-	-	3,907	-	3,907
Depreciation charge (Note 5)	1,667	-	18,572	-	20,239
Amortisation of leasehold land (Note 12)	-	-	463	-	463
Amortisation of released films (Note 5)	-	1,469	-	-	1,469

Note: There are no sales between the business segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Property rental 2006 HK\$'000	Film distribution 2006 HK\$'000	Filming facilities services 2006 HK\$'000	Investment holding 2006 HK\$'000	Group total 2006 HK\$'000
Turnover (Note)	6,606	5,761	41,789	–	54,156
Segment results	4,986	(788)	3,600	(5,781)	2,017
Unallocated items					(7,520)
Share of profits less losses of associates (Note 14)	–	–	–	302,907	302,907
Profit before income tax					297,404
Income tax expense (Note 6)					–
Profit attributable to equity holders of the Company					297,404
Segment assets	46,942	2,014	160,062	–	209,018
Interests in associates	–	–	–	1,493,348	1,493,348
Unallocated assets					68,689
Total assets					1,771,055
Segment liabilities	1,136	2,137	4,016	–	7,289
Unallocated liabilities					6,521
Total liabilities					13,810
Capital expenditure	–	–	22,772	–	22,772
Depreciation charge (Note 5)	1,936	–	18,705	–	20,641
Amortisation of leasehold land (Note 12)	–	–	463	–	463
Amortisation of released films (Note 5)	–	3,078	–	–	3,078

Note: Turnover was after eliminating inter-segment transactions amounting to HK\$158,000 attributable to filming facilities services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

Although the Group's business segments are managed on a worldwide basis, they operate in four main geographical areas:

Hong Kong : Property rental, film distribution, filming facilities services and investment holding

South East Asia, United States of America ("USA") and others : Film distribution

There are no sales between the geographical segments.

	Turnover		Profit before income tax		Total assets		Capital expenditure	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	41,805	49,385	(10,982)	(8,160)	249,596	277,707	3,907	22,772
South East Asia	1,015	4,183	424	2,089	-	-	-	-
USA	390	80	347	75	-	-	-	-
Others	101	508	84	493	-	-	-	-
	43,311	54,156	(10,127)	(5,503)	249,596	277,707	3,907	22,772
Share of profits less losses of associates			303,921	302,907	-	-		
Interests in associates			-	-	1,646,749	1,493,348		
			293,794	297,404	1,896,345	1,771,055		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging the following:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Depreciation charge (Note 11)	21,153	20,625
(Less)/add: Net amount (capitalised to)/realised from inventories	(914)	16
	20,239	20,641
Amortisation of leasehold land (Note 12)	463	463
Amortisation of released films	1,469	3,078
Auditor's remuneration	282	291
Employee benefit expense (Note 10)	32,724	33,007
Operating leases – land and buildings	409	400
Specific provision for doubtful debts	–	282

6 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Company and two of the subsidiaries have utilised their tax losses brought forward to offset their estimated assessable profit for the year (2006: Nil), while other subsidiaries in the Group have no estimated assessable profit for the year (2006: Nil).

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2007	2006
	HK\$'000	HK\$'000
Profit before income tax	293,794	297,404
Calculated at a taxation rate of 17.5% (2006: 17.5%)	51,414	52,046
Tax effect of share of results of associates	(53,186)	(53,009)
Income not subject to taxation	(891)	(1,220)
Expenses not deductible for taxation purposes	2,530	1,981
Tax losses not recognised	226	373
Utilisation of previously unrecognised tax losses	(93)	(171)
Income tax expense	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$166,402,000 (2006: HK\$113,973,000).

8 DIVIDENDS

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Interim dividend paid, HK\$0.05 (2006: HK\$0.06) per ordinary share	19,920	23,904
Final dividend proposed, HK\$0.40 (2006: HK\$0.34) per ordinary share	159,356	135,452
	179,276	159,356

At a meeting held on 27th June 2007, the Directors proposed a final dividend of HK\$0.40 per ordinary share for the year ended 31st March 2007. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March 2008.

9 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$293,794,000 (2006: HK\$297,404,000) and on 398,390,400 ordinary shares in issue throughout the years ended 31st March 2007 and 2006. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2007	2006
	HK\$'000	HK\$'000
Directors' fee	88	62
Salaries, housing reimbursement and other allowances	31,831	31,749
Bonuses	12	72
Post employment benefits		
– MPF Scheme (Note 21)	1,041	1,014
– Long service payments (Note 21)	(35)	(42)
	<u>32,937</u>	<u>32,855</u>
(Less)/add: Net amount (capitalised to)/realised from inventories	<u>(213)</u>	<u>152</u>
	<u><u>32,724</u></u>	<u><u>33,007</u></u>

Note: Contributions totalling HK\$186,000 (2006: HK\$175,000) were payable to the fund at the year end. No contribution was forfeited during the year (2006: Nil).

(a) Directors' emoluments

The directors' emoluments for the year are equivalent to key management compensation.

The remuneration of every Director for the year ended 31st March 2007 is set out below:

Name of Director	Directors' fees	Salaries, housing reimbursement and other allowances	Bonuses	Mandatory provident fund	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sir Run Run Shaw, GBM	10	1,231	–	–	1,241
Mona Fong	8	3,474	–	–	3,482
Louis Page (Note i)	2	295	–	3	300
Jeremiah Rajakulendran	8	1,409	–	12	1,429
Dr. Chow Yei Ching	20	30	–	–	50
Ng Julie Yuk Shun	20	30	–	–	50
Nelson Hon Sang Chiu	20	20	–	–	40
	<u>88</u>	<u>6,489</u>	<u>–</u>	<u>15</u>	<u>6,592</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(a) Directors' emoluments (Continued)

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

Name of Director	Directors' fees	Salaries, housing reimbursement and other allowances	Bonuses	Mandatory provident fund	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sir Run Run Shaw, GBM	10	900	–	–	910
Mona Fong	8	3,406	–	–	3,414
Louis Page	8	980	–	12	1,000
Jeremiah Rajakulendran	8	1,340	60	12	1,420
The Hon. Sir Ti Liang Yang, GBM; JP (Note ii)	4	6	–	–	10
Dr. Chow Yei Ching	8	15	–	–	23
Ng Julie Yuk Shun	8	15	–	–	23
Nelson Hon Sang Chiu	8	12	–	–	20
	<u>62</u>	<u>6,674</u>	<u>60</u>	<u>24</u>	<u>6,820</u>

Notes:

- (i) Resigned on 30th June 2006.
- (ii) Retired on 7th September 2005.

(b) Five highest paid individuals

Among the five highest paid individuals, three (2006: four) are directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments of the remaining two (2006: one) individuals are analysed as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, housing reimbursement and other allowances	1,416	804
Post employment benefits – MPF Scheme	12	12
	<u>1,428</u>	<u>816</u>

The emoluments fell within the following band:

Emolument band	Number of individuals	
	2007	2006
Nil – HK\$1,000,000	<u>2</u>	<u>1</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Buildings (Note)	Motor vehicles, furniture, fittings and equipment	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2005				
Cost	167,192	60,671	88,738	316,601
Accumulated depreciation	(39,785)	(52,078)	(50,116)	(141,979)
Net book amount	<u>127,407</u>	<u>8,593</u>	<u>38,622</u>	<u>174,622</u>
Year ended 31st March 2006				
Opening net book amount	127,407	8,593	38,622	174,622
Additions	–	783	5,208	5,991
Disposals (Note 25(c))	–	–	(273)	(273)
Depreciation (Note 5)	(3,066)	(3,370)	(14,189)	(20,625)
Closing net book amount	<u>124,341</u>	<u>6,006</u>	<u>29,368</u>	<u>159,715</u>
At 31st March 2006				
Cost	167,192	61,454	93,400	322,046
Accumulated depreciation	(42,851)	(55,448)	(64,032)	(162,331)
Net book amount	<u>124,341</u>	<u>6,006</u>	<u>29,368</u>	<u>159,715</u>
Year ended 31st March 2007				
Opening net book amount	124,341	6,006	29,368	159,715
Additions	–	354	3,553	3,907
Reclassification	–	(36)	36	–
Disposals (Note 25(c))	–	(3)	–	(3)
Depreciation (Note 5)	(3,031)	(3,426)	(14,696)	(21,153)
Closing net book amount	<u>121,310</u>	<u>2,895</u>	<u>18,261</u>	<u>142,466</u>
At 31st March 2007				
Cost	167,192	60,960	97,671	325,823
Accumulated depreciation	(45,882)	(58,065)	(79,410)	(183,357)
Net book amount	<u>121,310</u>	<u>2,895</u>	<u>18,261</u>	<u>142,466</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (Continued)

Notes:

(a) Included in buildings of the Company and the Group is a property at net book value of HK\$119,826,000 as at 31st March 2007 (2006: HK\$122,820,000). The property is held under a medium term lease granted by the District Commissioner, New Territories, of the Government of Hong Kong Special Administrative Region under special conditions (“the Grant”). Under the conditions of the Grant, the use of the property is restricted to specific purposes and there are also restrictions on the right to assign, underlet or dispose of the property whereby prior approval should be obtained from the District Commissioner. The property is classified as buildings of the Company and the Group and stated at cost less accumulated depreciation at the balance sheet date.

(b) Depreciation expense has been charged in the consolidated income statement as follows:

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Cost of sales	12,237	12,534
Add/(less): Net amount capitalised to/(realised from) inventories	949	(15)
	<u>13,186</u>	<u>12,519</u>
Selling and distribution expenses	12	12
General and administrative expenses	5,881	5,874
Other operating expenses	2,109	2,221
Less: Net amount realised from inventories	(35)	(1)
	<u>2,074</u>	<u>2,220</u>
	<u>21,153</u>	<u>20,625</u>

(c) Income less outgoings relating to the lease of buildings has been recognised in the consolidated income statement as follows:

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Lease rental income	3,663	6,606
Studio facilities income	2,726	2,742
	<u>6,389</u>	<u>9,348</u>
Less: Outgoings	(118)	(152)
	<u>6,271</u>	<u>9,196</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 LEASEHOLD LAND – GROUP AND COMPANY

The Group's and the Company's interests in leasehold land represent prepaid operating lease payments and their net book amount are analysed as follows:

	2007	2006
	HK\$'000	HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	18,515	18,978
Opening net book amount		
– as previously reported	18,978	–
– as currently reported	–	2,660
	18,978	2,660
Additions	–	16,781
	18,978	19,441
Amortisation (Note 5)	(463)	(463)
Closing net book amount	18,515	18,978
Cost	23,181	23,181
Accumulated amortisation	(4,666)	(4,203)
Closing net book amount	18,515	18,978

Note: Amortisation expense of HK\$463,000 (2006: HK\$463,000) has been charged as general and administrative expenses in the consolidated income statement.

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,900	4,900
Less: Provision for impairment	(4,890)	(4,890)
	10	10
Amounts due from subsidiaries (Note a)	35,793	37,201
Less: Provision for impairment	(35,216)	(35,772)
	577	1,429
	587	1,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVESTMENTS IN SUBSIDIARIES (Continued)

- (a) An amount due from a subsidiary, Film Power Company Limited, of HK\$26,564,000 (2006: HK\$26,564,000) was interest-bearing at Hong Kong Dollar prime lending rate per annum. No interest has been charged to this subsidiary since the Group acquired the remaining 40% interest in this subsidiary and it became the wholly owned subsidiary of the Group during the year. The remaining amounts due from subsidiaries are unsecured, interest free and repayable on demand.
- (b) Details of the subsidiaries at 31st March 2007 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held	
					Direct	Indirect
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK\$1	-	100%
Super Film Production Company Limited	Hong Kong	Film production and distribution	2	HK\$1	-	100%
Multi Entertainment Limited	Hong Kong	Investment holding	100	HK\$1	-	100%
Shaw Productions Limited	Hong Kong	Investment holding	2	HK\$1	100%	-
Special Classic Limited	Hong Kong	Dormant	2	HK\$1	100%	-
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK\$10	100%	-
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	HK\$'000	HK\$'000
At the beginning of the year	1,493,348	1,280,939
Share of associates' results		
– profit before income tax	368,193	363,323
– income tax expense	(64,272)	(60,416)
	<u>303,921</u>	<u>302,907</u>
Reserve movements	(12,038)	(2,345)
Dividend received	(176,527)	(119,583)
Loan advanced during the year	38,045	31,430
At the end of the year	<u>1,646,749</u>	<u>1,493,348</u>

	Company	
	2007	2006
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	7	7
Hong Kong listed shares	1,053,250	1,053,250
	<u>1,053,257</u>	<u>1,053,257</u>
Loans to an associate:		
Interest-free loan (Note (a))	332,500	332,500
Additional loan (Note (b))	66,681	28,636
	<u>399,181</u>	<u>361,136</u>
	<u>1,452,438</u>	<u>1,414,393</u>
Market value of listed shares	<u>5,563,459</u>	<u>5,011,100</u>

Notes:

- (a) The loan is secured, interest free and has no fixed repayment terms.
- (b) The additional loan is secured, carries interest at one month Hong Kong Interbank Offered Rate plus 0.5% per annum, and has no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(c) Details of the associates at 31st March 2007 are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued shares held	Percentage of interest in ownership	
				Direct	Indirect
Television Broadcasts Limited	Hong Kong	Television broadcasting	Ordinary shares of HK\$0.05 each	26%	–
Goldway Holdings Limited	The British Virgin Islands/ Hong Kong	Investment holding	Ordinary shares of US\$1.00 each	35%	–
Hong Kong Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	Ordinary shares of HK\$100.00 each	–	35%
China Digital Movie City Company Limited	Hong Kong	Dormant	Ordinary shares of HK\$1.00 each	–	35%
Hong Kong Digital Movie City Company Limited	Hong Kong	Dormant	Ordinary shares of HK\$1.00 each	–	35%

Summary of the Group's share of financial information on associates is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Turnover</u>	<u>Profit for the year</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2007	1,879,541	631,973	1,092,391	303,921
2006	1,754,126	621,914	1,085,996	302,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN ASSOCIATES (Continued)

The following are extracts from the published financial statements of Television Broadcasts Limited.

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED INCOME STATEMENT

	For the year ended 31st December	
	2006	2005
	HK\$'000	HK\$'000
Turnover	4,201,186	4,176,590
Cost of sales	(1,778,433)	(1,791,612)
Gross profit	2,422,753	2,384,978
Other revenues	73,896	38,962
Selling, distribution and transmission costs	(451,064)	(451,923)
General and administrative expenses	(504,427)	(490,969)
Other operating income/(expenses)	57,670	(22,042)
Gain on disposal of financial assets at fair value through profit or loss	–	148,778
Operating profit	1,598,828	1,607,784
Finance costs	(98)	(956)
Share of losses of Jointly controlled entities Associates	– (163,109)	(30) (187,197)
Profit before income tax	1,435,621	1,419,601
Income tax expense	(247,181)	(232,354)
Profit for the year	1,188,440	1,187,247
Attributable to:		
Equity holders of the Company	1,188,597	1,180,019
Minority interest	(157)	7,228
	1,188,440	1,187,247
Dividends	744,600	678,900
Earnings per share for profit attributable to the equity holders of the Company during the year	HK\$2.71	HK\$2.69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN ASSOCIATES (Continued)

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS OF TELEVISION BROADCASTS LIMITED (Continued)

CONSOLIDATED BALANCE SHEET

	As at 31st December	
	2006 HK\$'000	2005 HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,731,207	1,896,100
Leasehold land	183,848	188,416
Intangible assets	162,184	161,003
Interests in associates	150,213	245,516
Available-for-sale financial assets	3	3
Loan to investee company	6,666	6,676
Deferred income tax assets	25,121	24,358
	2,259,242	2,522,072
Current assets		
Programmes, film rights and movies	442,319	452,586
Stocks	14,439	11,430
Trade and other receivables, prepayments and deposits	1,372,347	1,353,966
Tax recoverable	1,450	2,015
Pledged bank deposits	239	236
Bank deposits maturing after three months	38,026	35,289
Cash and cash equivalents	1,559,079	944,670
	3,427,899	2,800,192
Total assets	5,687,141	5,322,264
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	21,900	21,900
Other reserves	669,823	700,132
Retained earnings		
– Proposed final dividend	635,100	569,400
– Others	3,518,325	3,090,315
	4,845,148	4,381,747
Minority interest	23,199	23,320
Total equity	4,868,347	4,405,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN ASSOCIATES (Continued)

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS OF TELEVISION BROADCASTS LIMITED (Continued)

CONSOLIDATED BALANCE SHEET (Continued)

	As at 31st December	
	2006	2005
	HK\$'000	HK\$'000
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	126,443	149,740
Retirement benefit obligations	16,515	18,503
	<u>142,958</u>	<u>168,243</u>
Current liabilities		
Trade and other payables and accruals	593,994	643,232
Current income tax liabilities	81,842	104,680
Short-term provisions	–	1,042
	<u>675,836</u>	<u>748,954</u>
Total liabilities	<u>818,794</u>	<u>917,197</u>
Total equity and liabilities	<u>5,687,141</u>	<u>5,322,264</u>
Net current assets	<u>2,752,063</u>	<u>2,051,238</u>
Total assets less current liabilities	<u>5,011,305</u>	<u>4,573,310</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVENTORIES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Released films	224	1,693	-	-
Raw materials and processing works	7,504	6,400	7,504	6,400
	7,728	8,093	7,504	6,400

Amortisation of released films of HK\$1,469,000 has been recognised as cost of sales in the consolidated income statement for the year ended 31st March 2007 (2006: HK\$3,078,000). The cost of raw materials and processing works recognised as an expense and included in cost of sales and other operating expenses amounted to HK\$25,141,000 (2006: HK\$26,452,000).

16 ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Accounts receivable	9,181	11,356	8,829	10,797
Less: Specific provision for doubtful debts	(1,731)	(1,731)	(1,449)	(1,449)
Accounts receivable – net (Note)	7,450	9,625	7,380	9,348
Prepayments, deposits and other receivables	15,497	10,890	15,470	10,846
Receivables from related parties (Note 26(c))	7,229	4,995	7,229	4,995
	30,176	25,510	30,079	25,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note:

The Group has a defined credit policy. The general credit term ranges from 30 to 90 days.

At 31st March 2007, the ageing analysis of accounts receivable is as follows:

	Group		Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	5,836	6,662	5,836	6,470
1 – 3 months	930	1,602	860	1,602
Over 3 months	684	1,361	684	1,276
	7,450	9,625	7,380	9,348

17 SHORT TERM BANK DEPOSITS

The effective interest rate on short term bank deposits was 4.1% (2006: 4.2%). These deposits have an average maturity of 26 days (2006: 39 days).

18 SHARE CAPITAL

	Authorised ordinary shares of HK\$0.25 each	
	Number of shares	HK\$'000
As at 1st April 2005, 31st March 2006 and 2007	600,000,000	150,000
	398,390,400	99,598

	Issued and fully paid ordinary shares of HK\$0.25 each	
	Number of shares	HK\$'000
As at 1st April 2005, 31st March 2006 and 2007	398,390,400	99,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 GENERAL RESERVE AND RETAINED PROFITS – COMPANY

	General reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2005	557,394	1,019,441	1,576,835
Profit for the year (Note 7)	–	113,973	113,973
Final dividend 2004/2005	–	(87,645)	(87,645)
Interim dividend 2005/2006 (Note 8)	–	(23,904)	(23,904)
	<u>557,394</u>	<u>1,021,865</u>	<u>1,579,259</u>
At 31st March 2006			
Representing:			
Final dividend 2005/2006 proposed (Note 8)		135,452	
Retained profits		<u>886,413</u>	
At 31st March 2006		<u>1,021,865</u>	
At 1st April 2006	557,394	1,021,865	1,579,259
Profit for the year (Note 7)	–	166,402	166,402
Final dividend 2005/2006 (Note 8)	–	(135,452)	(135,452)
Interim dividend 2006/2007 (Note 8)	–	(19,920)	(19,920)
	<u>557,394</u>	<u>1,032,895</u>	<u>1,590,289</u>
At 31st March 2007			
Representing:			
Final dividend 2006/2007 proposed (Note 8)		159,356	
Retained profits		<u>873,539</u>	
At 31st March 2007		<u>1,032,895</u>	

Distributable reserve of the Company as at 31st March 2007, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,590,289,000 (2006: HK\$1,579,259,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Accounts payable (Note)	447	735	406	694
Other payables and accruals	10,526	11,297	10,088	9,981
	10,973	12,032	10,494	10,675

Note:

At 31st March 2007, the ageing analysis of accounts payable is as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current	406	694	406	694
Over 3 months	41	41	-	-
	447	735	406	694

21 PROVISION FOR STAFF LONG SERVICE PAYMENTS – GROUP AND COMPANY

The Group's provision for long service payments is provided based on the actuarial assumptions with the adoption of the projected unit credit method.

The amounts recognised in the balance sheets are determined as follows:

	2007 HK\$'000	2006 HK\$'000
Present value of unfunded obligations	6,588	5,404
Fair value of MPF Scheme	(4,845)	(3,626)
Provision for staff long service payments	1,743	1,778

The amounts recognised in the consolidated income statement are as follows:

	2007 HK\$'000	2006 HK\$'000
Current service cost	1,042	874
Actuarial loss/(gain)	144	(38)
(Return)/deficit on MPF Scheme assets	(180)	136
Total, included in employee benefit expense (Note 10)	1,006	972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 PROVISION FOR STAFF LONG SERVICE PAYMENTS – GROUP AND COMPANY (Continued)

Total expenses recognised in the consolidated income statement are analysed as follows:

	<u>2007</u> HK\$'000	<u>2006</u> HK\$'000
Cost of sales	250	252
Selling and distribution expenses	20	20
General and administrative expenses	156	303
Other operating expenses	580	397
	<u>1,006</u>	<u>972</u>

Movements in the provision for long service payments recognised in the balance sheet are as follows:

	<u>2007</u> HK\$'000	<u>2006</u> HK\$'000
At the beginning of the year	1,778	2,142
Total expenses		
– MPF Scheme (Note 10)	1,041	1,014
– Long service payments (Note 10)	(35)	(42)
Total expenses (as shown above)	1,006	972
Contributions and benefits paid	(1,041)	(1,336)
At the end of the year	1,743	1,778

The principal actuarial assumptions used are as follows:

	<u>2007</u> %	<u>2006</u> %
Discount rate	4.20	4.58
Expected rate of future salary increment	2.00	1.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

Group and Company:

	Deferred income tax assets		Deferred income tax liabilities	
	Tax losses		Accelerated tax depreciation	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
At the beginning of the year	2,926	4,610	(2,926)	(4,610)
Credited/(charged) to the income statement	2,117	(1,684)	(2,117)	1,684
At the end of the year	5,043	2,926	(5,043)	(2,926)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable. As at 31st March 2007, the Group has unrecognised tax losses of approximately HK\$171,208,000 (2006: HK\$182,273,000) to carry forward against future taxable profits. These tax losses have not been recognised due to uncertainty of their future recoverability. The tax losses have no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 CAPITAL COMMITMENTS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Authorised but not contracted for –in respect of the Group's share of contribution to an associate for its development of film studio and ancillary facilities	83,966	15,113	83,966	15,113
Contracted but not provided for –in respect of property, plant and equipment	957	5,732	957	5,732
–in respect of the Group's share of contribution to an associate for its development of film studio and ancillary facilities	6,853	8,751	6,853	8,751
	7,810	14,483	7,810	14,483
	91,776	29,596	91,776	29,596

24 LEASE COMMITMENTS

- (a) At 31st March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Not later than one year	87	84	87	84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 LEASE COMMITMENTS (Continued)

- (b) At 31st March 2007, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Not later than one year	2,768	3,187	2,768	3,187
Later than one year and not later than five years	588	2,959	588	2,959
	3,356	6,146	3,356	6,146

Leases are negotiated and rentals are fixed for an average of one to three years.

25 NET CASH GENERATED FROM OPERATING ACTIVITIES

	2007 HK\$'000	2006 HK\$'000
Profit before income tax	293,794	297,404
Share of profits less losses of associates	(303,921)	(302,907)
Interest income (Note (a))	(7,803)	(4,069)
Depreciation charge (Note 11)	21,153	20,625
Amortisation of leasehold land (Note 12)	463	463
Gain on disposal of property, plant and equipment	(1)	(21)
Gain on disposal of a subsidiary (Note (b))	-	(19)
Operating cash flows before working capital changes	3,685	11,476
Decrease in inventories	365	3,433
Decrease/(increase) in accounts receivable, prepayments, deposits and other receivables	2,127	(4,888)
Decrease in accounts payable, other payables and accruals	(1,795)	(1,924)
Decrease in advanced rental received from an associate	-	(1,853)
Decrease in provision for staff long service payments	(35)	(364)
Net cash generated from operating activities	4,347	5,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 NET CASH GENERATED FROM OPERATING ACTIVITIES *(Continued)*

- (a) Reconciliation of interest income to interest received:

	2007	2006
	HK\$'000	HK\$'000
Interest income	7,803	4,069
Increase in interest receivable	(2,732)	(84)
Interest received	5,071	3,985

- (b) Disposal of a subsidiary

	2006
	HK\$'000
Creditors and accruals	(19)
Gain on disposal	19
Proceed	–

- (c) In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2007	2006
	HK\$'000	HK\$'000
Net book amount (Note 11)	3	273
Gain on disposal of property, plant and equipment	1	21
Proceeds from disposal of property, plant and equipment	4	294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Group entered into the following significant transactions in the normal course of business during the year with related parties:

- (i) The Group received rental income in respect of land and buildings amounting to HK\$4,433,000 from an associate for the year ended 31st March 2006. The rental income was determined by a contract entered into between both parties and the contract was not renewed upon its expiry date on 30th June 2005.
- (ii) The Group provided labour and administrative services to an associate for management fees totalling HK\$4,033,000 (2006: HK\$3,203,000). The fees for these services were determined by an agreement entered into between both parties.
- (iii) The Group provided labour and administrative services to certain related parties for management fees totalling HK\$7,558,000 (2006: HK\$7,442,000). The fees for these services were determined by an agreement entered into between the parties. These related parties are held by a substantial shareholder of the Company.
- (iv) The Group received interest income totalling HK\$2,736,000 (2006: Nil) from an associate for providing additional loan facility to finance the development of film studio and ancillary facilities. The loan interest charged was determined by a facility letter entered into between both parties.

(b) Key management compensation

During the years ended 31st March 2006 and 2007 key management compensation is equivalent to the Directors' emoluments as disclosed in Note 10(a).

(c) Year-end balances – Group and Company

	2007	2006
	HK\$'000	HK\$'000
Receivables from related parties (Note 16)		
Associates	5,326	3,020
Fellow subsidiaries	1,903	1,975
	7,229	4,995
Less: interest receivable from an associate (Note (d))	(2,736)	–
	4,493	4,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS (Continued)

(d) Loan to an associate

	2007	2006
	HK\$'000	HK\$'000
Principal amount		
Beginning of the year	361,136	329,706
Loan advanced	38,045	31,430
	<hr/>	<hr/>
End of the year (Note 14)	399,181	361,136
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Interest receivables from an associate		
Beginning of the year	–	–
Interest income	2,736	–
	<hr/>	<hr/>
End of the year (Note (c))	2,736	–
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total		
Beginning of the year	361,136	329,706
Loan advanced	38,045	31,430
Interest income	2,736	–
	<hr/>	<hr/>
End of the year	401,917	361,136
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27 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 27th June 2007.



邵氏兄弟(香港)有限公司
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