



星 美 國 際

SMI CORPORATION LIMITED

(Provisional Liquidators Appointed)

星美國際集團有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Xianbo
Ms. Horfuangfung Wei Ho
Mr. Li Kai (*Deputy Chairman*)
Mr. Hao Bin

Independent Non-executive Directors

Mr. Lam Tak Shing, Harry
Mr. Pang Hong
Mr. Qiao Zhen Pu

Audit Committee Members

Mr. Pang Hong
Mr. Qiao Zhen Pu

JOINT AUDITORS

Messrs. Ting Ho Kwan & Chan
Certified Public Accountants
and
Messrs. Cheung & Siu
Certified Public Accountants

REGISTERED OFFICE

Clarendon House,
Church Street,
Hamilton HM 11,
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2502, 25th Floor,
Sino Plaza,
255-257 Gloucester Road,
Causeway Bay,
Hong Kong

SHARE REGISTRARS

Principal Share Registrar in Bermuda
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Pembroke,
Bermuda

Branch Share Registrar in Hong Kong
Tricor Progressive Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

STOCK CODE

198

WEBSITE

www.equitynet.com.hk/smi

Management Discussion and Analysis

SMI Corporation Limited (Provisional Liquidators Appointed) (the “Company”) is an investment holding company and its subsidiaries (collectively the “Group”) are principally engaged in (i) theme restaurant operation; and (ii) entertainment business in relation to the production, distribution and licensing of content for movies, television programs and documentaries. For the year ended 31 March 2006, approximately 96.22% (2005: approximately 75.80%) of the Group’s turnover was derived mainly from these two business activities.

APPOINTMENT OF PROVISIONAL LIQUIDATORS

On 18 February 2008, the Bank of China (Hong Kong) Limited (“BOCHK”) presented a winding-up petition to the Court of First Instance of the High Court (the “High Court”) of Hong Kong Special Administrative Region to wind up the Company because it was unable to pay its debts. On 19 February 2008, BOCHK made an application to the High Court for the appointment of provisional liquidators of the Company.

By order of the Honourable Justice Barma of the High Court dated 20 February 2008 (the “Order”), Mr. Liu Yiu Keung, Stephen and Ms. Chan Wai Hing, both of Ernst & Young Transactions Limited, were appointed the joint and several provisional liquidators (the “Provisional Liquidators”) of the Company. Pursuant to the Order, the Provisional Liquidators would, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such time as further order is made.

The Provisional Liquidators initiated steps to have in place a proposal for the application for resumption of trading of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

OPERATING PERFORMANCE

The Group’s turnover for the year ended 31 March 2006 was approximately HK\$59,617,000, a decrease of approximately HK\$57,388,000 or 49% compared with the turnover for the previous year which was approximately HK\$117,005,000.

It is impracticable to present the Group’s segment results for the year ended 31 March 2006 because segment information was not available. An analysis of the Group’s turnover is as follows:

	2006	2005	Increase/ (Decrease)
	HK\$’000	HK\$’000	
Entertainment complex and theme restaurant franchising income	–	924	(100%)
Income from investment in marketable securities	1,691	20,945	(92%)
Interest income from provision of finance	368	4,252	(91%)
Movies, television and dramas and documentary production, distributing and licensing income	16,619	39,343	(58%)
Music production income	–	408	(100%)
Property income	193	1,792	(89%)
Theme restaurant income	40,746	49,341	(17%)
	59,617	117,005	49%

Management Discussion and Analysis

The Group's movies, television, dramas and documentary production, distributing and licensing operation was not a success during the year due to heavy competition. In addition, income from investment in marketable securities dropped significantly due to the poor liquidity of the Group. Interest income from provision of finance and music production income for the year had continued to shrink as a result of the Group's discontinuation or disposal of these two activities in previous years. The Group had also recorded a loss in its theme restaurant operation in Japan during the year.

The leisure and entertainment industry is highly volatile because it is very much dependent on the economic condition and consumers' willingness to spend. Therefore, the Group's performance would fluctuate vigorously in accordance with changes in market condition. However, it is the Group's long term strategy to diversify its business operations within the leisure and entertainment industry in order to minimise the impacts due to such unstable market environment.

Loss attributable to the Company's shareholders for the year ended 31 March 2006 was approximately HK\$49,045,000, a significant improvement as it represented a drop of approximately HK\$38,826,000 or 44.19% compared to the loss of the previous year which amounted to approximately HK\$87,871,000. The substantial decrease in loss for the year was due to decreases in cost of sales, administrative expenses and other operating expenses.

For the year ended 31 March 2006, the loss per share was approximately 15.6 Hong Kong cents (2005: 28.1 Hong Kong cents).

MATERIAL ACQUISITIONS, DISPOSALS AND IMPAIRMENTS

The Group had the following material acquisitions, disposals and impairments during the year ended 31 March 2006:

- (a) On 20 May 2005, Global Step Limited ("Global Step"), a wholly owned subsidiary of the Group, entered into an agreement with Town Health Medical and Dental Services Limited, a wholly owned subsidiary of Town Health International Holdings Company Limited which securities are listed on the Growth Enterprises Market of the Stock Exchange, for the disposal of Global Step's 100% interest in the property situated at Shop 1D, 1st Floor, Fou Wah Centre, 210 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong, for a consideration of HK\$12.8 million.
- (b) On 6 July 2005, Star East Far East Limited ("Star East"), a wholly owned subsidiary of the Group, entered into an agreement with Ultra Way Limited ("Ultra Way"), an independent third party, for the disposals of the entire issued share capital of Cheerfame Limited ("Cheerfame") owned by Star East together with the shareholder's loan amounting approximately to HK\$22 million extended by Star East to Cheerfame, for a total consideration of HK\$5 million.
- (c) On 25 August 2004, 星美影院發展有限公司 ("星美影院發展"), an associate which was 25% owned by the Group, entered into an acquisition agreement (the "Acquisition") with 星美傳媒集團有限公司 ("星美傳媒") to acquire the latter's 60% equity interest in 中影星美電影院線有限公司 ("中影星美"), a PRC domestic company engaged in film distribution business in Mainland China, at a consideration of RMB55,000,000 (the "Acquisition"). During the year ended 31 March 2005, 星美影院發展 paid a sum of RMB55,000,000 to 星美傳媒 for the Acquisition (the "Deposit"). So far, the legal title on 中影星美 has not yet been transferred to the Group because of an existing regulation in the PRC restricting foreign enterprises from holding equity interest in domestic company carrying on film distribution business. By a supplementary agreement signed on 30 April 2008, 星美傳媒 has agreed to refund the Deposit to 星美影院發展 if the Acquisition could not be completed within two years. Further details of the recoverability of this deposit are set out in note 16 to the financial statements.

Management Discussion and Analysis

- (d) On 14 March 2005, Sino Logic Limited ("Sino Logic"), a wholly owned subsidiary of the Group, entered into an agreement (the "Agreement") with 星美傳媒 for the acquisition of 35% additional equity interest in 星美影院發展 held by 星美傳媒, for a consideration of RMB 42 million (the "Additional Acquisition"). In 2005, a sum of approximately HK\$15,555,000 was paid to 星美傳媒 as down payment for the Additional Acquisition. As conditions precedent stipulated in the Agreement had not been fulfilled, the Agreement was declared as no effect on 31 December 2005. On 14 February 2008, a memorandum was signed between Sino Logic and 星美傳媒 for resuming the negotiation for completing the Additional Acquisition.

FINANCIAL RESOURCES, LIQUIDITY, CAPITAL STRUCTURE, GEARING RATIO AND FOREIGN CURRENCY EXPOSURE

As at 31 March 2006, the Group did not maintain sufficient liquid funds and had net current liabilities of approximately HK\$15,286,000 (2005: approximately HK\$3,718,000). If all pledged bank deposits are excluded, the net current liabilities as at 31 March 2006 will amount to approximately HK\$40,085,000 (2005: approximately HK\$36,380,000). The net current liabilities as at 31 March 2006 comprises cash and bank balances of approximately HK\$688,000 (2005: approximately HK\$1,402,000).

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowings when appropriate.

As at 31 March 2006, the Group's total loans and borrowings amounted approximately to HK\$48,773,000 (2005: approximately HK\$84,422,000), of which, approximately HK\$42,217,000 (2005: approximately HK\$66,341,000) was bank loans and borrowings and approximately HK\$6,556,000 (2005: approximately HK\$18,081,000) was other loans and borrowings. The Group's borrowings are principally on a floating rate basis. There was no fixed rate or equity linked bonds and notes issued by the Group.

The Group's gearing ratio as at 31 March 2006 was approximately 39% (2005: 45%), which is calculated on the basis of the Group's total interest bearing debts net of cash and bank balances, pledged deposit and short-term marketable securities over the total equity interest as at 31 March 2006.

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities or United States dollars for Hong Kong dollar functional currency Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

When appropriate and at times of interest rate or exchange rate uncertainty or volatility, hedging instruments including swaps and forwards are used by the Group in the management of exposure to interest rate and foreign exchange rate fluctuations.

There has not been any change in the Group's funding and treasury policies and the Group will continue to follow the practice of prudent cash management.

Management Discussion and Analysis

PROSPECTS

Upon their appointment on 20 February 2008, the Provisional Liquidators, through their financial adviser, have been in discussion with various potential investors while liaising with Strategic Media International Limited, the controlling shareholder of the Company (the "Controlling Shareholder") with a view to restructure the Company and to apply for the resumption of trading in the Company's shares on the Stock Exchange. On 11 March 2008, the Company submitted a resumption proposal to the Listing Division of the Stock Exchange, setting out the principal terms of the proposed restructuring and requesting the Stock Exchange's approval for the resumption of trading of the Company's shares on the Stock Exchange. Subsequently, one set of supplementary information for the resumption proposal was submitted to the Stock Exchange on 9 May 2008.

The proposed restructuring, if successfully implemented, will amongst other things, result in the following:

- (a) an acquisition of a cinema business to be settled by way of the issuance of consideration shares of the Company;
- (b) an open offer giving rise to gross proceeds of approximately HK\$94.2 million;
- (c) the settling up of café bars in the PRC;
- (d) an increase in the authorised share capital of the Company;
- (e) all the creditors of the Company being repaid in full;
- (f) reorganisation of the Group's operations by disposing part of its inactive subsidiaries; and
- (g) trading of the Company's shares on the Stock Exchange being resumed upon completion of the proposed restructuring.

The Company also intends to streamline its business and concentrate its activities in areas where growth opportunities exist for the Group.

BUSINESS OUTLOOK

Looking ahead, the Group will concentrate on the businesses of (i) theme restaurant operation; and (ii) entertainment business in relation to the production, distribution and licensing of content for movies, television programs and documentaries.

Apart from the continuous efforts to monitor the market development, restructure and streamlining the business operations so as to improve the financial status of the Group and enhance its business performance, the management of the Company is actively looking for business opportunities to expand the Group's businesses and to widen the Group's income streams.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 March 2006, the Group's bank deposits of approximately HK\$24,799,000 (2005: HK\$32,662,000) were pledged to banks to secure credit facilities granted to the Group.

On 15 November 2004, the Group entered into a share mortgage agreement (the "Share Mortgage Agreement") with ITC Management Limited ("ITC"). Pursuant to the Share Mortgage Agreement, the Group agreed to pledge its 100% interest in Fung Ming Venture Limited, 50% interest in Canaria Holding Limited, 40% interest in Applause Holdings Limited and 100% interest in Cheerfame Limited held by the Company's subsidiaries in favour of ITC as security (the "Share Mortgage") to secure a loan of HK\$15,000,000 granted by ITC to the Group. Subsequent to 31 March 2006, the Share Mortgage was discharged on 23 October 2006 with all the shares pledged being released.

CONTINGENT LIABILITIES

On 9 April 2008, Planet Hollywood International, Inc. ("PHI") obtained a declaratory judgement (the "Declaratory Judgement") against the Company in the Circuit Court of the Ninth Judicial Circuit In and For Orange County, Florida (the "US Court") for damages based on a breach of the settlement agreement, namely, the term sheet dated 7 February 2005 (the "Term Sheet") entered into between, amongst others, PHI and the Company. Pursuant to the Declaratory Judgement, the US Court ordered the Company to pay to PHI damages including, but not limited to actual damages, lost profits, loss business opportunities, interest, attorneys' fees and costs in the total sum of US\$6,173,497.61 (the "Claim").

According to a legal opinion obtained by the Company, the likelihood of PHI eventually making a successful recovery of an amount of damages from the Company based on the breach of the Term Sheet is slim, given the nature of the Claim upon which the Notice of Claim was filed and given the legal requirements for PHI in applying for leave to issue proceedings against a company being wound up.

COMMITMENTS

The Group had no significant capital commitment as at 31 March 2006.

Details of the Group's operating lease commitments as at 31 March 2006 are set out in note 33 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, the Group had 20 employees (2005: 39). Employee remuneration, excluding directors' remuneration, for the year ended 31 March 2006 was approximately HK\$27,433,000 (2005: approximately HK\$36,380,000). The pay scale of the Group's employees is maintained at a competitive level and the employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended from 11:04 a.m. on 28 April 2005 and will remain suspended until further notice.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. Liu Xianbo, aged 44, is currently a lawyer of China Commercial Law Co. Mr. Liu has been qualified as a lawyer for 20 years and law consultant for hundreds of enterprises, listed companies and financial institutions. Mr Liu also took part in strategy planning and drafting of legal documents of investment decision, initial listing merging, reorganization, financing and bankruptcy. He has extensive experience in corporate management.

Ms. Horfuangfung Wei Ho, aged 45, is currently the financial director-general of Hopsang Holdings Limited in charge of the financial operation of the company's subsidiaries. Ms. Ho had been the manager of the financial and trading department of 泰國五邑國際貿易公司 for 4 years. She graduated from South China University of Technology. Ms. Ho has extensive experience in property development, capital organization, debt reorganization, corresponding legal regulation, tax policies and the operation of listed companies.

Mr. Li Kai, aged 47, graduated from the Post-graduate School of the Chinese Institute of Social Science. Mr. Li has over 15 years of experience in corporate management both in the PRC and in the USA. Prior to joining the Company, he was the President of Dongfeng Hongtai Investments Holdings Limited, a property investment company in Beijing, PRC.

Mr. Hao Bin, aged 44, graduated in the faculty of News in the Beijing Broadcasting College. Mr. Hao has been engaged as the general manager in an enterprise carrying on media business in Beijing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Tak Shing, Harry, aged 47, joined the Company as an independent non-executive director in December 1998. Mr. Lam holds a bachelor's degree and a master's degree in Business Administration. He has over 27 years' experience in the accounting and finance field, with wide exposure to businesses of different nature.

Mr. Pang Hong, aged 54, has over 28 years of experience working for enterprises in the PRC as well as PRC government authorities. Mr. Pang was a deputy general manager of Beijing Electrical Industry Corporation and deputy director of the Liaison Office of Taiwan, Hong Kong, Macao Compatriot and Overseas Chinese Affairs of the National Committee of the Chinese People's Political Consultative Conference (CPPCC). After finishing further studies for three years in the USA, Mr. Pang moved to, and started his career in Hong Kong in 1991. He is well versed with the investment environments in Hong Kong and in the PRC and has extensive experience in the management of both Hong Kong and PRC corporations. He has been a director of numerous Sino-foreign joint venture companies in the PRC.

Mr. Qiao Zhen Pu, aged 50, graduated from University of Shanghai for Science and Technology and has over 14 years' experience in the real estate industry in the PRC. Mr. Qiao is a director of Beijing Real Estate Association and a researcher of Western China Economics Institute.

Directors' Report

The directors of the Company present their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are respectively set out in notes 40, 16 and 17 to the financial statements.

RESULTS

The loss of the Group for the year ended 31 March 2006 and the state of the Group's affairs as at that date are set out in the financial statements on pages 30 to 93.

DIVIDEND

No dividend was paid during the year. The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006.

RESERVES

Details of the movements in other reserves of the Group during the year are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers respectively during the year were less than 30% of the Group's turnover and cost of sales.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

During the year, the Group disposed its investment property situated at Shop 1D, 1st Floor, Fou Wah Centre, 210 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong to an unrelated third party at a consideration of HK\$12,800,000.

Details of the movements in investment properties of the Group during the year are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2006 are set out in notes 28 and 29 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Liu Xianbo	(appointed as executive director on 5 July 2007)
Ms. Horfuangfung Wei Ho	(appointed as executive director on 5 July 2007)
Mr. Li Kai (Deputy Chairman)	
Mr. Hao Bin	(appointed as executive director on 24 May 2005)
Mr. Xing Jing	(resigned as executive director and deputy chairman on 13 December 2005)
Mr. Tsang Chi Wai, Eric	(resigned as executive director and deputy chairman on 12 June 2006)
Mr. Chan Pak Cheung, Natalis	(resigned as executive director and deputy chairman on 22 August 2005)
Mr. Wong Kun To	(resigned as executive director and managing director on 1 July 2005)
Mr. Li Wei	(resigned as executive director on 6 May 2005)
Mr. Ren Jian Hong	(resigned as executive director on 16 September 2005)
Mr. Qin Hong	(resigned as executive director and chairman on 18 June 2007)

Independent non-executive directors:

Mr. Lam Tak Shing, Harry
Mr. Pang Hong
Mr. Qiao Zhen Pu

In accordance with bye-laws 86(2), 87(1) and 87(2) of the Company's bye-laws, Ms. Horfuangfung Wei Ho, Messrs. Liu Xianbo, Li Kai, Hao Bin, Lam Tak Shing, Harry, Pang Hong and Qiao Zhen Pu will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS (Continued)

The following directors have service contracts with the Company:

Name	Position	Annual remuneration HK\$
Mr. Qin Hong	Chairman	1,440,000
Mr. Xing Jing	Deputy chairman	600,000
Mr. Li Kai	Deputy chairman	720,000
Mr. Tsang Chi Wai, Eric	Deputy chairman and chief content officer	600,000

All of the above service contracts have no fixed term, continue on a month-to-month basis and can be terminated by either party by giving, in the case of Messrs. Qin Hong, Xing Jing and Li Kai, three months' notice and in the case of Mr. Tsang Chi Wai, one month notice. All annual remuneration packages were determined on arm's length negotiations between the parties based on their respective contribution to and responsibilities in the Company.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors of the Company who held office at 31 March 2006 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

(a) Interests in issued shares

	Ordinary shares of HK\$0.10 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
<i>Beneficial interests</i>						
Mr. Tsang Chi Wai, Eric	19,700	–	–	–	19,700	0.06%

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(b) Interests in underlying shares

The directors of the Company have been granted options under the Company's share option scheme, details of which are set out under "Share Option Scheme" below.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries and other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to Appendix 10: "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SHARE OPTION SCHEME

On 28 August 2002, the Company adopted a share option scheme (the "Scheme") under which the directors of the Company may at its discretion offer to any director (including non-executive director), employee and contracted celebrity, consultant, adviser or agent of any member of the Group or any entity in which the Group holds an equity interests (the "Eligible Person(s)") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the Scheme. The principal purpose of the Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company cannot exceed 10% of the issued share capital as at 28 August 2002, i.e. 245,137,515 shares unless a fresh approval from the shareholders of the Company has been obtained. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company cannot in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each Eligible Person under the Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

Options granted under the Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee is required to pay HK\$1 to the Company as consideration for the grant.

The subscription price for the shares under the Scheme must be a price determined by the directors of the Company at its absolute discretion but cannot be less than the highest of: (i) the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

Directors' Report

SHARE OPTION SCHEME (Continued)

The Scheme will remain in force for a period of 10 years commencing on 28 August 2002, after which no further options shall be granted but the options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue and, in all other respects, the provisions of the Scheme shall remain in full force and effect.

At 31 March 2006, the directors of the Company had the following interests in options to subscribe for shares of the Company (the trading in the shares was suspended on 28 April 2005 and the closing value per share on that date was HK\$0.355) granted under the Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 (after consolidation) each of the Company.

Name of director	Date of grant	Exercisable period	Exercise price HK\$	Number of underlying share comprised in the options		
				Number of shares outstanding as at 1.4.2005	Exercised or lapsed or cancelled during the year	Outstanding as at 31.3.2006
Mr. Xing Jing	26.7.2003	28.1.2004 to 27.1.2007	0.33	2,150,000	–	2,150,000
Mr. Tsang Chi Wai, Eric	26.7.2003	28.1.2004 to 27.1.2007	0.33	1,750,000	–	1,750,000
Mr. Chan Pak Cheung, Natalis	13.2.2004	13.8.2004 to 12.8.2007	0.67	500,000	–	500,000
Mr. Wong Kun To	28.7.2003	28.1.2004 to 27.1.2007	0.33	1,650,000	–	1,650,000
Mr. Li Wei	28.7.2003	28.1.2004 to 27.1.2007	0.33	2,150,000	–	2,150,000
Mr. Ren Jian Hong	13.2.2004	13.8.2004 to 12.8.2007	0.67	900,000	–	900,000
				9,100,000	–	9,100,000

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

Directors' Report

SHARE OPTION SCHEME (Continued)

No new share option was granted to any directors of the Company under the Scheme during the year.

No charge is recognised in the consolidated income statement in respect of the value of options granted under the Scheme.

At 31 March 2006, there were a total of 12,250,000 shares, representing 3.9% of the shares of the Company in issue at that date, in respect of outstanding share options which were granted under the Scheme.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 March 2006 amounting to 5% or more of the ordinary shares in issue:

Substantial shareholders	Registered shareholders	Total number of ordinary shares held			% of total issued shares
		Corporate interests	long position	short position	
Mr. Qin Hui	–	163,239,981	163,239,981 ^(Note)	–	51.98%
Strategic Media International Limited ("SMIL")	163,239,981	–	163,239,981	–	51.98%

Note: Mr. Qin Hui owned the entire interest in SMIL and was accordingly deemed to be having the same interests in the shares as SMIL.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Qin Hong	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production, distribution and licensing in the PRC Talent management in the PRC	As chairman and executive director
Mr. Xing Jing	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production, distribution and licensing in the PRC Talent management in the PRC	As executive director
Mr. Li Wei	Stellar Film & Television Culture Investment Co., Limited	Movies, television dramas and documentary production, distribution and licensing in the PRC	As executive director
	Beijing Stellar Talent Management Co., Limited	Talent management in the PRC	As executive director
	Beijing Huaxia Culture Co., Limited	Movies, television dramas and documentary production, distribution and licensing in the PRC	As executive director
Mr. Ren Jian Hong	China Film & Stellar Theater Chain Co., Limited	Theater management in the PRC	As chairman and executive director
	Shanghai Stellar Zhenda Cineplex Co., Limited	Theater management in the PRC	As chairman and executive director

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(Continued)*

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Hao Bin	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production, distribution and licensing in the PRC Talent management in the PRC	As executive director
	China Film & Stellar Theater Chain Co., Limited	Theater management in the PRC	As executive director

Having considered (i) the nature, scope and size of the above businesses as compared to those of the Group; and (ii) the nature and extent of the above-named directors' respective interest in these businesses, the directors of the Company believe that there is unlikely to be any significant competition with the businesses of the Group.

Apart from the foregoing, none of the directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

CONNECTED TRANSACTION

The Group had no material connected transaction during the year ended 31 March 2006.

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 as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' Report

DISCLOSURE UNDER RULE 13.22 OF THE LISTING RULES

The total value of the amounts due from the Group's affiliated companies in respect of advances made by the Group was approximately HK\$56,163,000 as at 31 March 2006, representing more than 8% of the percentage ratios defined under the Listing Rules. Details of these amounts are set out in notes 16 and 17 to the financial statements.

It is not practicable to prepare the combined balance sheet of the Group's affiliated companies as information of certain affiliated companies is not available to the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR SUMMARY

A summary of the results of the assets and liabilities of the Group for the last five financial years is set out on page 94 of the annual report.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefit schemes are set out in note 37 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from Mr. Pang Hong, an independent non-executive director of the Company, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers him to be independent.

The Company has not received from each of Messrs. Lam Tak Shing, Harry and Qiao Zhen Pu, independent non-executive directors of the Company, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and are unable to consider whether they are independent.

AUDITORS

The financial statements were jointly audited by Messrs. Ting Ho Kwan & Chan and Messrs. Cheung & Siu.

By order of the Board

Pang Hong

Executive Director

Hong Kong, 4 July 2008

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in enhancing the shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2006, the Company was in compliance with the principles of good governance (the "Principles") and code provisions (the "Code Provisions") set out in Appendix 14: "Code on Corporate Governance Practices" (the "Code") of the Listing Rules, except for the following:

1. Due to practical reasons, 14 days' advanced notifications have not been given to all meetings of the board of directors of the Company (the "Board"). Reasons have not been given in the notifications in respect of those meetings of the Board where it is not practical to give 14 days' advanced notification. The directors of the Company will give 14 days' advanced notifications of regular Board meeting to give all directors of the Company an opportunity to attend and use its best endeavour to give reasonable notices for all other Board meetings (Code Provisions A.1.3);
2. Non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation at the Company's annual general meeting in accordance with the bye-law of the Company (Code Provision A.4.1);
3. No remuneration committee was established to review directors' remuneration policy and other remuneration related matters. The directors of the Company will, as soon as practicable, establish a remuneration committee with specific written reference which deal clearly with its authorities and duties (Code Provision B.1.1);
4. The Company had not complied with the financial reporting and disclosure requirements set out in the Listing Rules by publishing annual and interim reports on a regular basis. The directors of the Company will use their best endeavour to present a balanced, cleared and assessable assessment of the Company's performance, position and prospects to shareholders of the Company by publishing annual and interim reports in accordance with the financial reporting and disclosure requirements set out in the Listing Rules (Code Provision C.1.3);
5. The directors of the Company did not maintain sound and effective internal controls to safeguard the Company's shareholders' investment and the Company's assets. In this regard, the directors of the Company will at least annually conduct a review of the effectiveness of the system of internal control of the Group (Code Provision C.2.1); and
6. The directors of the Company did not maintain an on-going dialogue with shareholders of the Company. In this regard, the directors of the Company will at least annually conduct a general meeting to communicate with shareholders of the Company and encourage their participation (Code of Best Practice E.1).

Save as those mentioned above, in the opinion of the directors of the Company, the Company had met with the Code Provisions in the Code during the year ended 31 March 2006.

Corporate Governance Report

COMPLIANCE WITH THE MODEL CODE

The directors of the Company have not adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. However, the directors of the Company will, as soon as practicable, adopted such code of conduct and request all directors of the Company to comply with it.

BOARD OF DIRECTORS

The Board are responsible for the leadership and control of the Company and oversee the Group's businesses, strategic decisions and performance. The senior management were delegated with the authorities and responsibilities by the Board for the day-to-day operations of the Group while reserving certain key matters for the approval of the Board. In addition, the Board has also delegated various responsibilities to committees of the Board. Further details of these committees are set out in this corporate governance report.

The directors currently consist of seven directors including four executive directors and three independent non-executive directors:

Executive directors

Mr. Liu Xianbo
Ms. Horfuangfung Wei Ho
Mr. Li Kai (*Deputy Chairman*)
Mr. Hao Bin

Independent non-executive directors

Mr. Lam Tak Shing, Harry
Mr. Pang Hong
Mr. Qiao Zhen Pu

The Board members have no financial, business, family or other material or relevant relationships with each other. A balanced composition of directors is formed to ensure the existence of a strong independency across the Board and to meet with the recommended practice under the Code for the Board to have at least one-third of its members comprises independent non-executive directors of the Company. The biographical information of the directors of the Company is set out on page 8 of this annual report under the section "Biographical Information of Directors".

Chairman and chief executive officer

The two positions are held separately by two individuals to ensure their respective independencies, accountabilities and responsibilities. While the chairman is in-charge with the leadership of the directors of the Company and strategies planning of the Group, the chief executive officer is responsible for the day-to-day management of the Group's business.

As at the date of this annual report, the directors of the Company have not yet appointed a chairman.

Corporate Governance Report

Independent non-executive directors

The three independent non-executive directors of the Company are persons of high calibre. With their experiences gained from various sectors, they provide strong supports towards the effective discharge of their duties and responsibilities of the directors of the Company. Each independent non-executive director of the Company is required to give an annual confirmation of his/her independence to the Company for the Company's consideration of his/her independency under Rule 3.13 of the Listing Rules.

The independent non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation at the Company's annual general meeting in accordance with the bye-law of the Company.

BOARD MEETINGS

Board minutes are kept by the secretary of the Company (the "Secretary") and are open for inspection by the directors of the Company. Every director of the Company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary of the Company, and has the liberty to seek external professional advice if so required.

INTERNAL CONTROL

The directors of the Company are entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the directors of the Company oversee and monitor the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

In March 2008, the Company engaged an independent consultant to conduct a review of the Company's system of internal controls in order to assist the Company to design appropriate internal control policies and procedures with a view to ensure compliance of the Listing Rules as well as the Principles and Code Provision. The review is still in progress.

With respect to procedures and internal controls for the handling of and dissemination of price-sensitive information:

- the Company is fully aware of its obligations under the Listing Rules;
- the Company conducts its affairs with close regards to the "Guide on disclosure of Price-sensitive information" issued by the Stock Exchange; and
- through channels such as financial reporting and public announcements, the Company has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusionary distribution of information to the public.

Corporate Governance Report

AUDIT COMMITTEE

The main functions of an audit committee is to recommend to the Board on the appointment, reappointment and removal of the external auditors; to approve the remuneration and terms of engagement of the external auditors as well as any questions of resignation or dismissal of such auditors; to review the interim and annual reports and accounts of the Group; and to oversee the Company's financial reporting system and internal control procedures.

Since the directors of the Company have not appointed sufficient members to constitute an audit committee, the Company's audited financial results for the year ended 31 March 2006 have not been reviewed by an audit committee. However, the directors of the Company will, as soon as practicable, establish an audit committee with clear terms of reference pursuant to the Listing Rules.

NOMINATION OF DIRECTORS

In considering the nomination of new directors of the Company, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the media industry and/or other professional area.

As the full Board is responsible for the selection and approval of candidate for appointment as director of the Company, the Company has not established a nomination committee for the time being.

REMUNERATION OF DIRECTORS

A remuneration committee, the majority of its members should be independent non-executive directors of the Company, is mainly responsible for making recommendations to the Board on the remuneration system of the Company. The remuneration committee should consult the chairman and/or chief executive officer of the Company about their proposals relating to the remuneration of other executive directors of the Company and have access to professional advice of considered necessary.

As the Company has not established a remuneration committee, the directors of the Company will, as soon as practicable, establish a remuneration committee with specific terms of reference which deal clearly with its authorities and duties.

The Company adopted a share option scheme on 28 August 2002. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to eligible participants, including the directors of the Company, as incentives or rewards for their contributions to the Group.

Details of the share option scheme are set out in the directors' report on pages 9 to 17 of this annual report and note 27 to the financial statements.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year ended 31 March 2006, the remuneration in respect of audit services provided by the Company's auditors, is set out below:

Services rendered	Fee paid/ payable HK\$
Audit services	<u>1,000,000</u>

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company acknowledges its responsibility to prepare the Company's financial statements for each financial year which give a true and fair view of the state of affairs of the Company and in representing the interim and annual financial statements, and announcements to shareholders, the directors of the Company aim at presenting a balanced, cleared and comprehensive assessment of the Company's performance, position and prospects.

The respective responsibilities of the directors and auditors of the Company in preparing the financial statements are set out in the independent auditors' report on pages 23 to 29 of this annual report.

Independent Joint Auditors' Report

TING HO KWAN & CHAN

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)



Cheung & Siu Certified Public Accountants

張、蕭會計師事務所

To the members of SMI Corporation Limited (Provisional Liquidators Appointed)

(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of SMI Corporation Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 93, which comprise the consolidated balance sheet as at 31st March, 2006, and the consolidated income statement and the consolidated statement of changes in equity 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 financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of 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 financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. 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. However, because of the matter described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS

- (i) The corresponding figures in the current year's financial statements were derived from the financial statements for the year ended 31st March, 2005 which was audited by us and our report dated 4th July, 2008 was disclaimed in view of (i) the disagreement about accounting treatments; (ii) limitations of audit scope and (iii) the fundamental uncertainty relating to the going concern basis of the consolidated financial statements. We are unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the net assets of the Group as at 31st March, 2005 and the results and the related disclosures in the notes to the financial statements of the Group for the year ended 31st March, 2005 were fairly stated. Any adjustment found to be necessary to the opening balances as at 1st April, 2005 may affect the net assets of the Group as at 31st March, 2006, and the results and the related disclosures in the notes to the financial statements of the Group for the year ended 31st March, 2006.
- (ii) As explained in note 2(b) to the financial statements:
- the financial statements do not contain a statement of cash flows for the year ended 31st March, 2006. This is not in accordance with the requirements of Hong Kong Accounting Standard ("HKAS") 7 "Cash Flow Statements" issued by the HKICPA.
 - the financial statements do not contain the financial information by segments for the year ended 31st March, 2006. This is not in accordance with the requirements of HKAS 14 "Segment Reporting" issued by the HKICPA.
 - the financial statements do not present and disclose information relating to the discontinued operations and disposals of non-current assets (or disposal groups). This is not in accordance with the requirements of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA.
 - the following disclosures have not been made in the financial statements:
 - i. Information about the extent and nature of the financial instruments as required by HKAS 32: "Financial Instruments: Disclosure and Presentation";
 - ii. Details of the Group's policy in respect of the financial risk management as required by HKAS 32: "Financial Instruments: Disclosure and Presentation";
 - iii. Information of Deferred taxation and taxation charge reconciliation as required by HKAS 12: "Income Taxes";
 - iv. Details of directors' and employees' emoluments as required by The Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance; and
 - v. Details for the unrecognised share of losses of associates as required by HKAS 28: "Investments in Associates".

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS (Continued)

(iii) As explained in note 16(a)(2) to the financial statements, and included in the Group's interests in associates is the Group's share of net assets of an associate, Applause Holdings Limited ("Applause"), of HK\$5,259,000 as stated in the consolidated balance sheet as at 31st March, 2006 and the Group's share of its net profit of HK\$116,000 as shown in the consolidated income statement for the year then ended, which were derived from the unaudited management accounts of Applause. However, no management accounts have been provided to us by the Group. In the absence of all necessary information and documentary evidence from the associate, we have not been able to perform audit procedures that we considered necessary to satisfy ourselves as to the carrying amount of the Group's interest in Applause of approximately HK5,259,000 as at 31st March, 2006 and the Group's share of its net profit of HK\$116,000 for the year then ended. Accordingly, we are also unable to obtain sufficient reliable evidence to satisfy ourselves as to whether any impairment on the goodwill arising from the acquisition of Applause with carrying value of HK\$2,010,000 is necessary and whether the goodwill is fairly stated in the consolidated financial statements as at 31st March, 2006.

In addition, because of the above limitation, we are unable to satisfy ourselves as to the recoverability of the amount due from Applause of approximately HK\$14,002,000 as at 31st March, 2006. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the amounts referred to the above were free from material misstatement.

(iv) Included in the Group's interests in associates as at 31st March, 2006 is the Group's share of net assets of 星美影院發展有限公司 and its subsidiaries (collectively the "Stellar Cinema Group") of HK\$23,050,000. We have reviewed the financial statements of Stellar Cinema Group and found that there are possible effects of scope limitations in respect of the following:–

- (a) the recoverability of deposit paid by the Stellar Cinema Group of RMB55,000,000 (approximately equivalent to HK\$53,191,000) for the acquisition of 60% equity interest in 中影星美電影院線有限公司 as detailed in note 16(b)(i) to the financial statements;
- (b) the necessity of provision for the possible non-recovery of the counterclaim amount of RMB9,799,000 (approximately equivalent to HK\$9,477,000) for damages as a result of providing a performance guarantee as detailed in note 16(b)(ii) to the financial statements; and
- (c) the recoverability of the long outstanding accounts receivable of approximately RMB350,000 (approximately equivalent to HK\$338,000) as at 31st March, 2006.

As explained in note 16(b)(i) to the financial statements, in the opinion of the Company's directors, no allowance for impairment of these deposit, counterclaims and receivables was considered necessary for the reasons stated therein. We are unable either to obtain sufficient reliable information or to carry out any alternative auditing procedures to satisfy ourselves as to the carrying value of the Group's share of net assets of the Stellar Cinema Group included in the consolidated balance sheet as at 31st March, 2006.

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS (Continued)

- (v) As explained in note 18 to the financial statements and included in the consolidated balance sheet as at 31st March, 2006 is a deposit of approximately HK\$42,882,000 paid for acquisition of an investment. Full allowance of impairment had been made in previous years. We are unable to obtain any documentary evidence or explanations for the appropriateness of this full amount of allowance made against the deposit as at the balance sheet date. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the amount referred to above was free from material misstatement. Furthermore, we have not been able to obtain documentary evidence to substantiate the validity and existence in relation to this deposit as at 31st March, 2006.
- (vi) The operation of 上海東魅餐飲娛樂有限公司 (“上海東魅”), a former subsidiary of the Group was subcontracted to various third parties since 2004. According to the subcontracting agreements, the Group forfeited its rights to exercise significant influence over the financial and operating policy decisions of 上海東魅 in return for fixed guaranteed annual subcontracting fee of approximately RMB6,000,000. The directors considered that the current year subcontracting fee income receivable of RMB6,000,000 is unlikely to be recovered based on the reason stated in note 19 to the financial statements and therefore has not been recognised in the consolidated income statement. However, we are unable to obtain sufficient information and explanations so as to assess the appropriateness of the accounting treatment adopted by the Group.
- (vii) As explained in note 20 to the financial statements and included in the consolidated balance sheet as at 31st March, 2006 is consideration receivable on disposal of available-for-sale financial asset of approximately HK\$8,000,000. The outstanding balance of this receivable up to the date of this report is HK\$2,995,000 and the directors opined that no allowance for bad debt is considered necessary. It was not possible for us to obtain sufficient evidence and explanation to ensure whether the outstanding balance can be recovered in full amount and allowance for bad debt is necessary. There were no other satisfactory audit procedures that we could adopt to confirm that the abovementioned balances are fairly stated in the financial statements.
- (viii) As disclosed in the note 21 to the financial statements are loans and interest receivables of approximately HK\$427,603,000. We have not been able to obtain documentary evidence to substantiate the validity and existence in relation to these loans and interest receivables of approximately HK\$427,603,000 as at 31st March, 2006. Allowance for bad debts of approximately HK\$427,300,000 has been made as at 31st March, 2006, of which HK\$423,375,000 was brought forward from 31st March, 2005. It was not possible for us to obtain sufficient evidence and explanation in relation to the total amount of allowance for bad debts made against the amount of loans and interest receivables as at 31st March, 2006. Therefore, we are unable to comment on whether the amount of allowance made is appropriate and adequate.

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS (Continued)

- (ix) Included in the consolidated balance sheet as at 31st March, 2006 were balances with a debtor 星美傳媒集團有限公司 (“星美傳媒”), in respect of the following:–
- i. a trade receivable of HK11,233,000 due from 星美傳媒 in relation to film distribution income recorded in current year;
 - ii. an other receivable of HK1,509,000 due from 星美傳媒; and
 - iii. a deposit of HK\$15,555,000 paid to 星美傳媒 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司.

For the receivables mentioned (i) and (ii), although the balances are still outstanding as at year end date and up to the date of this report, the directors opined that no allowance for impairment is considered necessary. It was not possible for us to obtain sufficient evidence and explanation to ensure whether the amounts can be recovered in full.

The deposit of HK\$15,555,000 mentioned in above was paid by the Group in 2005 to 星美傳媒 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司 based on an agreement for the above acquisition which was then declared as no effect on 31st December, 2005. As explained in note 24(a) to the financial statements, negotiation for completing the acquisition was resumed in 2008 and no allowance for bad debts had been made. However, we were unable to obtain sufficient documentary evidence to satisfy ourselves as to the ability to complete the acquisition and the recoverability of the deposit in case the completion of this acquisition failed. Furthermore, we were unable to assess whether any impairment loss is required to be recognised in respect of this deposit.

- (x) As explained in note 24(b) to the financial statements and included in trade and other receivables of the consolidated balance sheet as at 31st March, 2006 was a advance payment to a jointly controlled operation of approximately HK\$6,000,000 made by a subsidiary of the Group, Wide Treasure Limited (“Wide Treasure”), to a jointly controlled operation (the “Operation”) in which Wide Treasure is a joint venturer. We are informed by the directors that the Group has not been provided with the books and records of the operation so that they are unable to assess the performance of the joint venture. Full allowance had been made in previous years. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves to the validity of the above statement made by the directors. In view of the above, we are unable to comment on whether the amount of impairment loss made is adequate but not excessive, and the carrying value of this advance to the jointly controlled operation was fairly stated in the consolidated balance sheet.

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS (Continued)

- (xi) Included in the consolidated balance sheet as at 31st March, 2006 are trade and other payables of HK\$27,214,000. We have not obtained evidence from these creditors in respect of their outstanding amounts due from the Group at 31st March, 2006. There were no other satisfactory audit procedures that we could adopt to ensure that the abovementioned trade and other payables balances are fairly stated in the financial statements.
- (xii) As detailed in note 2(b) to the financial statements, there have been several changes to the Board of directors subsequent to 1st April, 2005, the present directors do not represent as to the completeness of recording of transactions entered into by the Group for the year ended 31st March, 2006 and of the completeness of the disclosure of claims, commitments, contingent liabilities and related party transactions and balances in the financial statements as at 31st March, 2006. Therefore we have been unable to establish whether all transactions entered into in the name of the Company and its subsidiaries during the year have been appropriately included in the financial statements.
- (xiii) In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of their preparation by the directors. As more fully explained in note 2(a) to the financial statements, the Group's financial statements have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the measures currently taken by the directors to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures.

There are no detailed projections or relevant information made available to us for inspection so as to determine the appropriateness of adopting the going concern basis of the presentation of these financial statements therefore we have disclaimed our opinion in this respect.

Any adjustment that might have been found to be necessary in respect of the matters set out in the above would have a consequential effect on the net assets of the Group as at 31st March, 2006 and the results for the year then ended and the related disclosures in the financial statements.

Independent Joint Auditors' Report

BASIS FOR DISCLAIMER OF OPINION AND QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS *(Continued)*

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31st March, 2006 and of the Group's loss for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis for disclaimer of opinion paragraphs of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books of account had been kept.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 35 to the financial statements, which describes the major uncertainty related to the outcome of the claim filed against the Company by Planet Hollywood International, Inc. The Company's management considers that this fundamental uncertainty has been adequately disclosed in the financial statements.

Ting Ho Kwan & Chan

Certified Public Accountants
9/F., Tung Ning Building,
249-253 Des Voeux Road Central,
Hong Kong, 4th July, 2008

Cheung & Siu

Certified Public Accountants
Room A, 15/F., Fortis Bank Tower,
77-79 Gloucester Road, Wanchai,
Hong Kong, 4th July, 2008

Consolidated Income Statement

For the year ended 31st March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	7	59,617	117,005
Cost of sales		(39,516)	(76,966)
Direct expenses		(40,650)	(44,785)
		(20,549)	(4,746)
Other income and gains, net	7	1,341	49,899
Distribution costs		(392)	(913)
Administrative expenses		(27,428)	(59,841)
Other operating expenses		(1,116)	(21,203)
Loss from operations	8	(48,144)	(36,804)
Finance costs	9	(2,825)	(3,042)
Impairment losses on deposit paid on acquisition of an investment		–	(22,882)
Impairment losses on interests in associates		–	(19,779)
Share of results of associates		1,948	(3,828)
Share of results of jointly controlled entities		–	(3,939)
Loss before taxation		(49,021)	(90,274)
Taxation	10	(24)	2,359
Loss for the year		(49,045)	(87,915)
Attributable to:			
Equity holders of the Company	11	(49,045)	(87,871)
Minority interests		–	(44)
		(49,045)	(87,915)
Basic loss per share attributable to the equity holders of the Company during the year	12	(15.6) cents	(28.1) cents

The notes on pages 34 to 93 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31st March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	13	9,575	19,441
Investment properties	14	–	12,800
Intangible assets	15	22	36
Interests in associates	16	53,024	53,303
Interests in jointly controlled entities	17	32,538	32,797
Deposit paid on acquisition of an investment	18	–	–
Available-for-sale financial asset	19	–	–
Consideration receivable on disposal of available-for-sale financial asset	20	–	18,000
		<u>95,159</u>	<u>136,377</u>
Current assets			
Inventories	22	2,703	16,898
Financial assets at fair value through profit or loss	23	–	3,377
Trade and other receivables	24	40,913	45,772
Tax refundable		2,390	2,390
Pledged bank deposits	31	24,799	32,662
Cash and bank balances		688	1,402
		<u>71,493</u>	<u>102,501</u>
Total assets		<u>166,652</u>	<u>238,878</u>
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	25	31,407	31,407
Share premium	27	44,150	44,150
Other reserves	27	31,288	27,658
(Accumulated losses)/retained profits		(46,818)	2,227
		<u>60,027</u>	<u>105,442</u>
Minority interests		–	–
Total equity		<u>60,027</u>	<u>105,442</u>

Consolidated Balance Sheet

As at 31st March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current liabilities			
Bank and other borrowings			
– due after one year	28	19,839	27,217
Obligation under a finance lease			
– due after one year	29	7	–
		<u>19,846</u>	<u>27,217</u>
Current liabilities			
Trade and other payables	30	55,783	47,019
Tax payable		1,992	1,995
Bank and other borrowings			
– due within one year	28	28,934	57,205
Obligation under a finance lease			
– due within one year	29	70	–
		<u>86,779</u>	<u>106,219</u>
Total liabilities		<u>106,625</u>	<u>133,436</u>
Total equity and liabilities		<u>166,652</u>	<u>238,878</u>
Net current liabilities		<u>(15,286)</u>	<u>(3,718)</u>
Total assets less current liabilities		<u>79,873</u>	<u>132,659</u>

The financial statements were approved and authorised for issue by the Board of directors on 4th July, 2008.

Pang Hong
DIRECTOR

Hao Bin
DIRECTOR

The notes on pages 34 to 93 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31st March 2006

	Equity attributable to the Company's equity holder					
	Share capital	Share premium	Other reserves	Retained profits/ losses (Accumulated)	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April, 2004	29,632	226,925	142,960	(225,652)	82	173,947
Exchange adjustment and gain not recognised in the consolidated income statement	-	-	396	-	-	396
Issue of shares	1,775	17,750	-	-	-	19,525
Shares issue expenses	-	(525)	-	-	-	(525)
Arising from capital reorganisation	-	(200,000)	(115,750)	315,750	-	-
Further acquisition of a subsidiary	-	-	-	-	(38)	(38)
Released upon deconsolidation of a subsidiary	-	-	(7)	-	-	(7)
Released upon deemed disposal of a subsidiary	-	-	59	-	-	59
Loss for the year	-	-	-	(87,871)	(44)	(87,915)
Balance at 31st March, 2005	31,407	44,150	27,658	2,227	-	105,442
Currency translation differences	-	-	3,630	-	-	3,630
Loss for the year	-	-	-	(49,045)	-	(49,045)
Balance at 31st March, 2006	31,407	44,150	31,288	(46,818)	-	60,027

The notes on pages 34 to 93 are an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31st march 2006

1 GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares have been suspended for trading on the Stock Exchange since 28th April, 2005.

The Company is an investment holding company. The address of its registered office is Room 2502, 25th Floor, Sino Plaza 255-257 Gloucester Road, Causeway Bay, Hong Kong. The principal activities of its principal subsidiaries are set out in note 40 to the financial statements.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company as the Company is a public company incorporated in Bermuda with the shares listed in the Stock Exchange, where most of its investors are located in Hong Kong. The majority of the Company's subsidiaries are operated in Hong Kong and Japan with Hong Kong dollars and Japanese Yen as their functional currency respectively.

The Company was struck off in the Register of Companies by the Registrar of Companies in Bermuda on 7th September, 2007 due to non-payment of its annual government fees and late penalties. The Provisional Liquidators are in the course of restating the Company's status in Bermuda.

On 28th September, 2007, the Company was placed into the third stage of the delisting procedures. If no viable resumption proposal is submitted at least 10 business days before 27th March, 2008, the listing status of the Company will be cancelled.

On 18th February, 2008, the Bank of China (Hong Kong) Limited (the "BOCHK") presented a winding-up petition to the Court of First Instance of the High Court (the "High Court") of Hong Kong Special Administrative Region to wind up the Company because the Company was unable to pay its debts. On 19th February, 2008 BOCHK made an application to the High Court for the appointment of provisional liquidators of the Company.

By Order (the "Order") of the Honourable Justice Barma of the High Court dated 20th February, 2008, Mr. Liu Yiu Keung Stephen and Ms. Chan Wai Hing, both of Ernst & Young Transactions Limited, have been appointed as joint and several provisional liquidators (the "Provisional Liquidators") of the Company. By the Order, the Provisional Liquidators will, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such time as further order is made.

Notes to the financial statements

For the year ended 31st march 2006

1 GENERAL (Continued)

The Provisional Liquidators are taking necessary procedures for an application for resumption of trading of the Company's shares on the Main Board of the Stock Exchange, including the submission of a viable resumption proposal to the Stock Exchange.

On 7th March, 2008, the Provisional Liquidators, the Company, Cenith Capital Limited ("Cenith"), P.C. Woo & Co. ("the Escrow Agent") and Strategic Media International Limited ("the Controlling Shareholder") (collectively as "the Parties") entered into an escrow agreement. The Parties agreed that Cenith to deposit to the Escrow Agent a maximum of HK\$15 million for the expenses to be incurred by the Provisional Liquidators during the implementation of the resumption proposal. It was also agreed that a sum of HK\$5 million will be deposited in the Escrow Agent's account as escrow money to the creditors ("Escrow Money to Creditors"), in the event that the proposed restructuring could not proceed further due to the action done or not done by the Controlling Shareholder.

A supplemental agreement dated 13th March, 2008 was executed by the Parties to extend the deposit of HK\$3 million as Escrow Money to Creditors.

As at the date of this report, the Escrow Agent has received the deposits according to the above agreements.

On 11th March, 2008, a Memorandum of Understanding ("MOU") was signed between the Provisional Liquidators, the Company and the Controlling Shareholder. The purpose of the MOU is to record the agreement and arrangements of the parties regarding the proposed restructuring of the Company for the purpose of resuming the trading of the shares of the Company on the Stock Exchange.

On 28th March, 2008, the Company, the Provisional Liquidators, the Controlling Shareholder and Mr. Qin Hui entered into a formal agreement ("the Formal Agreement") in relation to the proposed restructuring of the Company to supersede the MOU. The Company will publish the relevant details of the Formal Agreement by public announcement.

On 11th March, 2008, a resumption proposal ("the Resumption Proposal") was submitted to the Stock Exchange requesting the resumption of trading of the Company's Shares.

As at the date of this report, the Stock Exchange is still in the process of reviewing and assessing the Resumption Proposal submitted and has yet delisted the listing status of the Company.

Notes to the financial statements

For the year ended 31st March 2006

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Going concern

The Group had net current liabilities of approximately HK\$15,286,000 at 31st March, 2006 and incurred a significant loss of approximately HK\$49,045,000 for the year ended 31st March, 2006. The Group's liquidity position significantly deteriorated during the year. Bank loans from BOCHK had not been repaid in accordance with the relevant terms. In view of the above, the directors consider that it is appropriate to reclassify the indebtedness of approximately HK\$22,378,000 due to BOCHK as current liabilities.

In preparing these financial statements, the directors have given consideration to the current and anticipated future liquidity of the Group. As part of the measures to improve the Group's immediate liquidity and cash flows, a financial adviser has been retained by the Provisional Liquidators with a view to restructure the Company and has submitted a resumption proposal (the "resumption proposal") to the Stock Exchange on 11th March, 2008. In the opinion of the directors, the Group will have sufficient working capital for its current financial requirements and future development after restructuring. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 31st March, 2006.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

(b) Books and records

The financial statements have been prepared based on available books and records of the Company and its subsidiaries. Although the directors (the "directors"), appointed after 1st April, 2005 and did not take part in the daily management of the Company and its subsidiaries, had used their best endeavors to locate all the financial and business records of the Group, the directors could not establish as to the correctness of the opening balances of the financial statements and as to whether all transactions entered into in the name of the Company and its subsidiaries during the year ended 31st March, 2006 have been appropriately included in the financial statements because most of the Company's former directors, the Group's former senior management and accounting personnel responsible for the operation in 2004 and 2007 had left the Group. Therefore the directors do not have sufficient information to enable them:

- (i) to determine as to whether all material related party transactions entered into by the Group have been included in the financial statements in accordance with the disclosures requirements of the Hong Kong Companies Ordinance and Hong Kong Accounting Standards ("HKAS") 24 "Related Party Disclosures";

Notes to the financial statements

For the year ended 31st march 2006

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

(b) Books and records *(Continued)*

- (ii) to prepare:
 - (a) a cash flow statement in accordance with the requirements of HKAS 7 "Cash Flow Statements" issued by the HKICPA, and
 - (b) financial information by segment in accordance with the requirements of HKAS 14 "Segment Reporting" issued by the HKICPA;
- (iii) to present and disclose information relating to the discontinued operations and disposals of non-current assets (or disposal groups). This is not in accordance with the requirements of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA; and
- (iv) to represent as to the completeness of identification and appropriateness of disclosure of the following:
 - post balance sheet events
 - commitments
 - contingent liabilities
 - information about the extent and nature of the financial instruments
 - details of the Group's policy in respect of the financial risk management
 - information of deferred taxation and taxation charge reconciliation
 - details of directors' and employees' emoluments
 - other disclosures under Hong Kong Companies Ordinance

Notes to the financial statements

For the year ended 31st March 2006

3 APPLICATION OF NEW AND REVISED HKFRSs

In the year ended 31st March, 2005, the Group has early adopted, for the first time, the following new HKFRSs, HKASs and their amendments and interpretations (“Ints”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA, which are relevant to the Group’s operation. The new HKFRS are either effective for accounting periods beginning on or after 1st January, 2005, 1st December, 2005, 1st January, 2006 or 1st March, 2006.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC) – Int 12	Consolidation – Special Purpose Entities
HK(SIC) – Int 15	Operating Leases – Incentives
HK(SIC) – Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS-Int 4	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Notes to the financial statements

For the year ended 31st march 2006

4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not applied the following new and revised HKFRSSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKFRS 3 (Revised)	Business Combinations ⁸
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statement ⁸
HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellations ²
HK(IFRIC) – Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – Int 12	Service Concession Arrangements ⁷
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁹
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ¹⁰

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

⁶ Effective for annual periods beginning on or after 1 March 2007

⁷ Effective for annual periods beginning on or after 1 January 2008

⁸ Effective for annual periods beginning on or after 1 July 2009

⁹ Effective for annual periods beginning on or after 1 July 2008

¹⁰ Effective for annual periods beginning on or after 1 January 2008

Notes to the financial statements

For the year ended 31st March 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance with HKFRSs

The consolidated financial statements for the year ended 31st March, 2006 of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs 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 6 to the financial statements.

(b) Basis of consolidation

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

(i) *Subsidiaries*

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.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. 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.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(i) Subsidiaries (Continued)

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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition (see note 5(h)).

The Group's share of its associates' post-acquisition results 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.

(iii) Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment losses.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

(iii) Jointly controlled entities (Continued)

When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

(c) 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 HK dollars, which is the Company's functional and presentation currency.

(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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(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:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) 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
- (3) all resulting exchange differences are recognised as a separate component of equity.

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

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

(d) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Depreciation and amortisation are provided to write off the cost of other property, plant and equipment to their residual values (if any) over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% or the term of the lease, if shorter
Furniture and equipment	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%
Operating equipment	20%

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

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 5(h)).

(e) Investment properties

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

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

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

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

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

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment properties *(Continued)*

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

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

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

Changes in fair values are recognised in the income statement.

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

(g) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Negative goodwill

On acquisition of subsidiary/associate/jointly controlled entity, if the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination ("Negative goodwill"), the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in the consolidated income statement any excess remaining after that reassessment.

Intangible asset other than goodwill is stated at cost less amortisation and any identified impairment loss. The cost of the intangible asset is amortised over the estimated useful life of the intangible asset on a straight line basis unless such life is indefinite where it is tested for impairment annually.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets

(1) *Impairment of investments in debt and equity securities and other receivables*

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

(2) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indicators that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- intangible assets;
- investments in subsidiaries, associates and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generated unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generated units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(2) Impairment of other assets (Continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Investments

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 5(l)).

(iii) Available-for-sale financial assets

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

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investments *(Continued)*

(iii) Available-for-sale financial assets (Continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

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

(j) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) *Financial guarantees issued (Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 5(j)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) *Contingent liabilities acquired in business combinations*

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 5(j)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 5(j)(iii).

(iii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Work in progress represents movie, television drama and documentary production still in progress and is stated at production costs incurred to date, less foreseeable losses and applicable royalty income and progress payments received and receivable.

Production costs are carried forward as work in progress and are transferred to film stocks upon completion and released Film stocks are amortised over the period of the expected total income being generated from film distribution. Fully amortised film stocks are carried forward at HK\$100 each.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts (see note 5(h)(1)), except for the following receivables:

- interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any impairment losses for bad and doubtful debts; and
- short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any impairment losses for bad and doubtful debts.

(m) Share capital

Ordinary shares are classified as equity.

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

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost, except for the following payables:

- short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.
- interest free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.
- financial guarantee measured in accordance in note 5(j)(i).

(o) Bank and other borrowings

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

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

(p) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred 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 tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) **Income tax *(Continued)***

Deferred 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.

At each balance sheet date, the Company reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

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

(q) **Employee benefits**

(i) **Retirement benefit costs**

Payments to defined contribution plans under the mandatory provident fund scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

(ii) **Share-based compensation**

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Revenue from movies and television dramas produced for third parties is recognised as income when the relevant production is completed and released.
- (ii) Income from movies, television dramas and documentary distribution is recognised when the movies, television dramas and documentary production is completed, released and the amount can be measured reliably.
- (iii) Revenue from the operations of the entertainment complex, including theme restaurants, is recognised when the services are rendered to customers.
- (iv) Non-refundable fixed franchise income is recognised when the right to use the Group's trademark has been assigned to the franchisee. Other franchise income is recognised on an accrual basis in accordance with the terms of the relevant franchising agreement and when the Group's entitlement to payments has been established.
- (v) Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.
- (vi) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (vii) Sales of investments in securities are recognised when the sales contract becomes unconditional.
- (viii) Sales of goods are recognised when goods are delivered and title has passed.
- (ix) Services income is recognised when the services are rendered.

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Leases

(i) *Operating lease (both as the lessee or the lessor)*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement in a straight line basis over the lease period.

(ii) *Finance lease (as the lessee)*

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

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - (1) controls, is controlled by, or is under common control with, the Group;
 - (2) has an interest in the Group that gives its significant influence over the Group; or
 - (3) has joint control over the Group;

Notes to the financial statements

For the year ended 31st march 2006

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) **Related parties *(Continued)***

- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) 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 (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

6 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.

(a) **Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to 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) ***Estimated impairment of goodwill***

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 5(h)(2). The recoverable amounts of cash-generating units have been determined based on value-in use calculations. These calculations require the use of estimates.

(ii) ***Allowance for bad and doubtful debts***

The Group makes provision for impairment of doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

Notes to the financial statements

For the year ended 31st march 2006

7 TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the aggregate of net amounts received and receivable from third parties during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

	2006 HK\$'000	2005 HK\$'000
Turnover		
Entertainment complex and theme restaurant franchising income	–	924
Income from investment in marketable securities	1,691	20,945
Interest income from provision of finance	368	4,252
Movies, television and dramas and documentary production, distributing and licensing income	16,619	39,343
Music production income	–	408
Property income	193	1,792
Theme restaurant income	40,746	49,341
	<u>59,617</u>	<u>117,005</u>
Other income		
Bank interest income	4	57
Other interest income, other than from loan receivables	643	698
	<u>647</u>	<u>755</u>
Release of excess of fair value of net assets acquired over cost of acquisition of interest in an associate	–	1,121
Recovery of loans and interest receivables	–	460
Reversal of allowance for amounts due from jointly controlled entities	–	19,737
Sundry income	515	1,540
	<u>1,162</u>	<u>23,613</u>
Gains, net		
Gains on dilution and disposal of interest in subsidiaries	89	1,329
Gains on disposal of interest in a jointly controlled entity	90	–
Gains on disposal of available-for-sale financial assets	–	22,367
Gains on disposal of investment properties	–	2,590
	<u>179</u>	<u>26,286</u>
	<u>1,341</u>	<u>49,899</u>
	<u>60,958</u>	<u>166,904</u>

Notes to the financial statements

For the year ended 31st march 2006

8 LOSS FROM OPERATIONS

	2006	2005
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– wages and salaries	27,403	36,104
– retirement benefits scheme contributions	30	276
	27,433	36,380
Auditors' remuneration	1,000	2,685
Amortisation of intangible assets	14	563
Depreciation		
– Owned assets	8,550	9,857
– Asset held under a finance lease	36	–
Loss on disposal of property, plant and equipment	287	5
Loss on disposal of investment properties	118	–
Intangible assets written off	–	537
Allowance for bad debts	2,063	28,841
Deficit arising on revaluation of investment properties	–	200
Loss on fair value change of financial assets		
at fair value through profit and loss	–	221
Impairment loss for consideration receivable on disposal of interest in an associate	–	1,176
Losses on disposal of financial assets at fair value through profit and loss	–	529
Impairment loss on available-for-sale financial asset	–	3,936
and crediting:		
Property rental income, net of direct outgoings HK\$173,000 (2005: HK\$896,000)	20	896

Notes to the financial statements

For the year ended 31st march 2006

9 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	1,625	1,228
– other loans	1,190	1,682
Other interest expense	–	132
Finance leases	10	–
	<u>2,825</u>	<u>3,042</u>

10 TAXATION

	2006 HK\$'000	2005 HK\$'000
Hong Kong Profits Tax		
– overprovision in prior year	–	(2,390)
Taxation outside Hong Kong		
– current year income tax	24	31
	<u>24</u>	<u>(2,359)</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Companies within the Group have either no assessable profits for both years or have their profits wholly absorbed by tax losses brought forward.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the financial statements

For the year ended 31st march 2006

11 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of profit of HK\$2,055,000. (2005: Loss of HK\$8,555,000)

12 LOSS PER SHARE

The calculation of basic loss per ordinary share is based on the Group's loss attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2006	2005
	HK\$	HK\$
Loss for the year	49,045,000	87,871,000
Weighted average number of ordinary shares in issue during the year	<u>314,068,757</u>	<u>312,512,593</u>

Since the outstanding share options are anti-dilutive to the loss per share, no diluted loss per share is presented for both years.

Notes to the financial statements

For the year ended 31st march 2006

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Operating equipment HK\$'000	Total HK\$'000
COST					
At 1st April, 2004	54,556	12,263	1,501	5,163	73,483
Exchange realignment	(783)	(32)	–	(53)	(868)
Additions	309	957	–	39	1,305
Deconsolidation of a subsidiary	(11,702)	(1,067)	–	(1,550)	(14,319)
Disposals of subsidiaries	–	(160)	(42)	–	(202)
Disposals	(35)	(164)	(165)	(35)	(399)
At 31st March, 2005	42,345	11,797	1,294	3,564	59,000
Exchange realignment	(3,558)	(146)	–	(244)	(3,948)
Additions	70	38	180	–	288
Disposals	(2,264)	(1,032)	(939)	–	(4,235)
At 31st March, 2006	36,593	10,657	535	3,320	51,105
DEPRECIATION AND IMPAIRMENT					
At 1st April, 2004	31,570	9,227	802	2,604	44,203
Exchange realignment	(323)	(13)	–	(22)	(358)
Eliminated on deconsolidation of a subsidiary	(11,702)	(773)	–	(1,134)	(13,609)
Eliminated on disposal of subsidiaries	–	(139)	(42)	–	(181)
Eliminated on disposals	(33)	(137)	(152)	(31)	(353)
Provided for the year	7,305	1,477	262	813	9,857
At 31st March, 2005	26,817	9,642	870	2,230	39,559
Exchange realignment	(2,510)	(99)	–	(169)	(2,778)
Eliminated on disposals	(2,218)	(939)	(680)	–	(3,837)
Provided for the year	7,012	904	184	486	8,586
At 31st March, 2006	29,101	9,508	374	2,547	41,530
NET BOOK VALUES					
At 31st March, 2006	7,492	1,149	161	773	9,575
At 31st March, 2005	15,528	2,155	424	1,334	19,441

The net book value of the Group's motor vehicle includes an amount of HK\$144,000 (2005: Nil) in respect of asset held under a finance lease.

Notes to the financial statements

For the year ended 31st march 2006

14 INVESTMENT PROPERTIES

	2006	2005
	HK\$'000	HK\$'000
At beginning of the year	12,800	48,200
Fair value losses	-	(200)
Disposals	(12,800)	(35,200)
	<hr/>	<hr/>
At the end of the year	-	12,800

During the year, the investment properties of the Group were disposed of at a consideration of HK\$12,800,000.

The Group's investment properties are situated in Hong Kong and held under medium-term leases. The investment properties of the Group were revalued on the open market existing use basis by RHL Appraisal Limited, an independent firm of professional property valuers. The fair value losses of approximately HK\$200,000 had been debited to the consolidated income statement for the year ended 31st March, 2005.

Notes to the financial statements

For the year ended 31st march 2006

15 INTANGIBLE ASSETS

	Franchise right	Trademark	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
At 1st April, 2004	15,606	3,503	504	19,613
Additions	–	87	–	87
Deemed disposal of a subsidiary	–	–	(149)	(149)
Written off	–	(3,434)	(355)	(3,789)
	<u>15,606</u>	<u>156</u>	<u>–</u>	<u>15,762</u>
At 31st March, 2005 and 31st March, 2006	<u>15,606</u>	<u>156</u>	<u>–</u>	<u>15,762</u>
AMORTISATION AND IMPAIRMENT				
At 1st April, 2004	15,606	2,454	444	18,504
Deemed disposal of a subsidiary	–	–	(89)	(89)
Eliminated on write-off	–	(2,897)	(355)	(3,252)
Provided for the year	–	563	–	563
	<u>15,606</u>	<u>120</u>	<u>–</u>	<u>15,726</u>
At 31st March, 2005	<u>15,606</u>	<u>120</u>	<u>–</u>	<u>15,726</u>
Provided for the year	–	14	–	14
	<u>15,606</u>	<u>134</u>	<u>–</u>	<u>15,740</u>
At 31st March, 2006	<u>15,606</u>	<u>134</u>	<u>–</u>	<u>15,740</u>
NET BOOK VALUES				
At 31st March, 2006	<u>–</u>	<u>22</u>	<u>–</u>	<u>22</u>
At 31st March, 2005	<u>–</u>	<u>36</u>	<u>–</u>	<u>36</u>

Trademark of the Group represents initial fees paid for the registration of the trademark in the respective country/place of registration.

Franchise right of the Group represents the cost incurred for obtaining the right to operate the theme restaurant in Japan. Full impairment had been made in 2002.

Intangible assets are amortised over the following periods on a straight line basis:

Trademark 5 years

Notes to the financial statements

For the year ended 31st march 2006

16 INTERESTS IN ASSOCIATES

	2006	2005
	HK\$'000	HK\$'000
Share of net assets	46,755	44,693
Less: impairment losses	19,779	19,779
	26,976	24,914
Excess of fair value of net assets acquired over consideration at 1st April, as previously reported	-	(756)
Effect on adopting HKFRS 3	-	756
	-	-
Arising from acquisition of associates	-	(1,121)
Release of excess of fair value of net assets acquired over consideration	-	1,121
At 31st March	-	-
Goodwill		
At 1st April	2,423	2,010
Arising from acquisition of an associate	-	413
At 31st March	2,423	2,423
	29,399	27,337
Amounts due from associates, less impairment losses	23,625	25,966
	53,024	53,303

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

Notes to the financial statements

For the year ended 31st march 2006

16 INTERESTS IN ASSOCIATES (Continued)

(a) Details of the Group's principal associates which are held indirectly by the Company are as follows:

Name of associate	Place of incorporation	Form of business structure	Attributable proportion of nominal value of issued capital	Principal activity
星美影院發展有限公司 ("星美影院發展")	PRC	Equity joint venture	25%	Movie distribution and exhibition
Polyco Development Limited ^{#*}	Hong Kong	Incorporated	20%	Property investment
成都星美數碼信息產業有限公司 ("成都星美數碼") (note (1))	PRC	Equity joint venture	50%	Cyber Café operations
Applause Holdings Limited ("Applause") (note (2))	British Virgin Islands	Incorporated	40%	Movie production and distribution
深圳有生軟件技術有限公司 ^{**} ("深圳有生") (note (3))	PRC	Equity joint venture	50%	Software development

This associate has a financial year ending 31st December which is not co-terminous with that of SMI Corporation Limited.

* The financial statements of the company have been audited by a firm other than the joint auditors.

The above associates are limited companies incorporated in their respective jurisdictions.

The above table lists the associates of the Group which, in the opinion of the directors, would principally affect the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Notes to the financial statements

For the year ended 31st march 2006

16 INTERESTS IN ASSOCIATES (Continued)

Notes:

1. 成都星美數碼 has ceased business in early of 2006 and all its books and records could not be located due to the management has left. Full impairment against the carrying value of the Group's net investment in 成都星美數碼 approximately of HK\$13,393,000 had been made in last year.
2. The information for the Group's net investment in Applause as at 31st March, 2006 of HK\$5,259,000 was derived from the unaudited management accounts of Applause.
3. As 深圳有生 has incurred persistent loss and encountered shortage of working capital, the Company's directors opined that full impairment against the carrying value of the Group's net investment in 深圳有生 approximately of HK\$5,710,000 had been made in last year.

- (b) Summarised financial information in respect of the Group's associates, 星美影院發展有限公司 and Polycy Development Limited, are set out below:

	2006	2005
	HK\$'000	HK\$'000
Total assets (notes (i) and (ii))	165,255	284,115
Total liabilities	(69,257)	(171,141)
Net assets	95,998	112,974
Revenue	46,673	13,520
Profit/(loss) for the year	8,872	(14,794)

Financial information for other Group's associates has not been disclosed as they are either fully impaired or their information is not available.

Notes to the financial statements

For the year ended 31st March 2006

16 INTERESTS IN ASSOCIATES (Continued)

Notes:

(b)(i) On 25th August, 2004, 星美影院發展有限公司 (“星美影院發展”), an associate of which 25% owned by the Group, entered into an acquisition agreement (the “Acquisition”) with 星美傳媒集團有限公司 (“星美傳媒”) to acquire its 60% equity interest in 中影星美電影院線有限公司 (“中影星美”), a PRC domestic company engaged in film distribution business in Mainland China at a consideration of RMB55,000,000. During the year ended 31st March, 2005, 星美影院發展 had paid a deposit of RMB55,000,000 to 星美傳媒 for the Acquisition. However, the legal title on 中影星美 has still not yet been passed to the Group since 2005. It was explained by the management that there is a restriction on foreign enterprise to hold equity interest in domestic company carrying on the business as mentioned above according to PRC regulation. By a supplementary agreement signed on 30th April, 2008, 星美傳媒 has agreed to refund the deposit to 星美影院發展 if the Acquisition could not be completed within two years. Mr. Qin Hui, the sole owner of Strategic Media International Limited and the controlling shareholder of the Company, has given an indemnity to 星美影院發展 for the settlement of the above mentioned deposit. The indemnity is irrevocable and subject to the following conditions:

- with the assistance from Mr. Qin Hui, action shall be taken by 星美影院發展 to demand 星美傳媒 for the refund of the deposit paid; and
- the Company’s shares will be resumed for trading on the Stock Exchange.

The Company’s directors consider that the deposit can be recovered in full based on the successfully outcome of the obligation implemented under the indemnity.

(b)(ii) On 24th March, 2004, 星美影院發展, 深圳名翔實業發展有限公司 (“深圳名翔”) and 星美傳媒 have entered into an agreement. According to this agreement, 星美影院 has unconditionally pledged all its assets established in its branch named 星美影院發展有限公司北京星美國際影城 (“北京星美國際影城”) to provide a performance guarantee to an independent third party, 深圳名翔 to secure the obligations conducted by 星美傳媒, in accordance with a co-operation agreement signed between 深圳名翔 and 星美傳媒. The guaranteed amount was RMB40 million. However, 星美傳媒 had failed to fully comply with its obligations as stipulated in the above mentioned co-operation agreement and 深圳名翔 had through legal action to enforce a claim amount of RMB15 million. Subsequently, 深圳名翔 had executed the performance guarantee provided by 星美影院發展 for the settlement of the claim. As agreed by all the parties involved, a 民事調解書 has been issued by a district court in Beijing dated 26th December, 2006. According to the settlement terms as set out in this 民事調解書, 星美影院發展 agreed to surrender its interest in 北京星美國際影城 at a net book value of RMB9,799,000 to 深圳名翔 to discharge all its liabilities suffered under the guarantee. The Company’s directors confirmed that 星美影院發展 will issue a counterclaim of RMB9,799,000 to 星美傳媒 to compensate the interest in the branch so surrendered therefore all the assets and liabilities of the branch were removed from the books of 星美影院發展 and a receivable of RMB9,799,000 was recorded correspondingly as at 31st March, 2007. In the opinion of the Company’s directors the amount counterclaimed will be recovered in full and no allowance for impairment is required.

Notes to the financial statements

For the year ended 31st march 2006

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000	2005 HK\$'000
Share of net assets	–	–
Amounts due from jointly controlled entities, less impairment loss	<u>32,538</u>	<u>32,797</u>
	<u>32,538</u>	<u>32,797</u>

Details of the Group's principal jointly controlled entity which is held indirectly by the Company is as follows:

Name of jointly controlled entity	Place of incorporation	Attributable proportion of nominal value of issued capital	Principal activity
Earn Elite Development Limited ^{#*}	Hong Kong	50%	Property investment

[#] This jointly controlled entity has a financial year ending 31st December which is not co-terminous with that of SMI Corporation Limited

^{*} The financial statements of this company have been audited by a firm other than the joint auditors.

The above jointly controlled entity is a limited company incorporated in Hong Kong.

The balances are unsecured, interest-free and have no fixed repayment terms.

The above table lists the jointly controlled entity of the Group which, in the opinion of the directors, would principally affect the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Notes to the financial statements

For the year ended 31st march 2006

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Summarised financial information on jointly controlled entities related to the Group's interests is set out as below:

	2006 HK\$'000	2005 HK\$'000
Non-current assets	49,250	41,250
Current assets	429	282
Non-current liabilities	(66,968)	(74,095)
Current liabilities	(166)	(161)
	<u>(17,455)</u>	<u>(32,724)</u>
Net liabilities		
	<u>(17,455)</u>	<u>(32,724)</u>
Income	8,930	4,386
Expenses	(1,921)	(766)
Tax charge	(1,198)	(604)
	<u>(1,198)</u>	<u>(604)</u>
Profit for the year	<u>5,811</u>	<u>3,016</u>

18 DEPOSIT PAID ON ACQUISITION OF AN INVESTMENT

	2006 HK\$'000	2005 HK\$'000
Deposit paid	42,882	42,882
Less: Impairment loss	42,882	42,882
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

Impairment losses of HK\$20,000,000 and HK\$22,882,000 have been made during the years ended 31st March, 2004 and 31st March, 2005 respectively. At 31st March, 2006, the Directors opined that the deposit paid has been fully impaired.

Notes to the financial statements

For the year ended 31st march 2006

19 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2006 HK\$'000	2005 HK\$'000
Unlisted equity securities, at cost		
At the beginning of the year	3,936	8,297
Addition	–	674
Reclassification from a subsidiary (note below)	–	3,936
Disposal	–	(8,971)
	<u>3,936</u>	<u>3,936</u>
Less: Impairment loss	<u>3,936</u>	<u>3,936</u>
	<u>–</u>	<u>–</u>

Unlisted securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The operation of 上海東魅餐飲娛樂有限公司 (“上海東魅”), a former subsidiary of the Company, was subcontracted to other parties since 2004. According to the subcontracting agreements, the Group forfeited its rights to exercise significant influence over the financial and operating policy decisions of 上海東魅 in return for fixed guaranteed annual subcontracting fee of approximately RMB6,000,000.

According to the legal opinion given by PRC lawyer, the subcontracting fee outstanding more than two years has been statutory barred. The directors considered that the current year subcontracting fee income receivable of RMB6,000,000 is unlikely to be recovered and therefore has not been recognised in the consolidated income statement. However, we are unable to obtain sufficient information and explanations so as to assess the appropriateness of the accounting treatment adopted.

Since the entity lost its status as a subsidiary of the Group, it was reclassified to available-for-sale financial asset in previous year.

The Group's interest in the entity is held on a long term basis and is stated at the Group's share of the net assets, as at the date when the Group's forfeiture of its control became effective, less any provision for impairment considered to be necessary by the directors.

The directors were informed that 上海東魅 has ceased its catering business and moved out from the rented restaurant premises in early 2008.

Notes to the financial statements

For the year ended 31st march 2006

20 CONSIDERATION RECEIVABLE ON DISPOSAL OF AVAILABLE-FOR-SALE FINANCIAL ASSET

	2006	2005
	HK\$'000	HK\$'000
Balance of consideration receivable on disposal of available-for-sale financial asset	8,000	38,000
Less: classified as current assets and included in other receivables and prepayments (note 24)	8,000	20,000
	<u> </u>	<u> </u>
Amounts due after one year	<u> </u> -	<u> </u> 18,000

The amount represents the remaining balance of consideration receivable from Alfresco Gold Limited ("Alfresco") for disposal of loans amounting to HK\$22 million due from Alfaway International Limited ("Alfaway") to Stepwise Investments Limited ("Stepwise"), a wholly-owned subsidiary of the Company, which will be satisfied by broadcasting rights of films or television programmes or advertising air-time. Pursuant to the above Agreement dated 1st February, 2005, 40% of the issued share capital in Alfaway was pledged by Alfresco to Stepwise through escrow agent to secure the payment of the consideration.

21 LOANS AND INTEREST RECEIVABLES

	2006	2005
	HK\$'000	HK\$'000
Loans and interest receivables	427,603	426,278
Less: Impairment loss	427,300	423,375
	<u> </u>	<u> </u>
	<u> </u> 303	<u> </u> 2,903
Loans and interest receivables	303	2,903
Less: Amounts due within one year included under current assets (note 24)	303	2,903
	<u> </u>	<u> </u>
Amounts due after one year	<u> </u> -	<u> </u> -

Notes to the financial statements

For the year ended 31st march 2006

22 INVENTORIES

	2006	2005
	HK\$'000	HK\$'000
Good held for resale	300	290
Food and beverage	363	419
Film stocks	2,040	4,877
Work in progress	–	11,312
	<hr/> 2,703 <hr/>	<hr/> 16,898 <hr/>

All goods held for resale were carried at net realisable values.

The cost of inventories recognised as an expense during the year and included in 'cost of sales' amounted to HK\$34,197,000. (2005: HK\$50,916,000)

The cost of inventories recognised as an expense includes HK\$13,023,000 (2005: HK\$8,057,000) in respect of writedowns of inventory to net realisable value which has been included in 'cost of sales' in the consolidated income statement.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
	HK\$'000	HK\$'000
Listed securities held for trading:		
Market value of equity securities listed in Hong Kong	–	3,377
	<hr/>	<hr/>

At 31st March, 2005, none of the carrying amount of interest in listed securities exceeded 10% of total assets of the Group.

Notes to the financial statements

For the year ended 31st March 2006

24 TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade receivables, net	13,849	4,678
Loans and interest receivables – due within one year (note 21)	303	2,903
Other receivables and prepayments	3,206	8,636
Deposits paid on acquisition of interest in associates (note 24(a))	15,555	9,555
Advance to a jointly controlled operation (note 24(b))	–	–
Consideration receivable on disposal of available-for-sale financial asset (note 20)	8,000	20,000
	40,913	45,772

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

The Group allows an average credit period of 30 days to 60 days to its trade customers. The ageing analysis of the Group's trade receivables (net of impairment loss) at balance sheet date is as follows:

	2006 HK\$'000	2005 HK\$'000
Up to 30 days	2,206	3,413
31 to 60 days	2	68
Over 60 days	11,641	1,197
	13,849	4,678

- (a) A deposit of HK\$15,555,000 was paid to 星美傳媒集團有限公司 for the acquisition of 35% additional equity interest in an associate, 星美影院發展有限公司, by Sino Logic Limited, a wholly owned subsidiary of the Company. As conditions precedent stipulated in the agreement for the above acquisition (the "Agreement") have not been fulfilled, the Agreement was declared as no effect on 31st December, 2005. On 14th February, 2008, a memorandum was signed between Sino Logic Limited and 星美傳媒集團有限公司 for resuming the negotiation for completing the Acquisition. In the opinion of the Company's directors, no allowance for bad debts is considered necessary.
- (b) An advance payment of approximately HK\$6,000,000 made by a subsidiary of the Group, Wide Treasure Limited ("Wide Treasure"), to a jointly controlled operation (the "Operation") in which Wide Treasure is a joint venturer. Full allowance had been made in previous years.

Notes to the financial statements

For the year ended 31st march 2006

25 SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.005 each at 1st April, 2004	10,000,000,000	50,000
Increased during the year	10,000,000,000	50,000
Share consolidation during the year	<u>(19,000,000,000)</u>	<u>–</u>
Ordinary shares of HK\$0.10 each at 31st March, 2005 and 31st March, 2006	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.005 each at 1st April, 2004	5,926,375,155	29,632
Placing of shares during the year	355,000,000	1,775
Share consolidation during the year	<u>(5,967,306,398)</u>	<u>–</u>
Ordinary shares of HK\$0.10 each at 31st March, 2005 and 31st March, 2006	<u>314,068,757</u>	<u>31,407</u>

The movements in share capital in last year were as follows:

- (i) Pursuant to a special resolution passed at the special general meeting on 14th April, 2004, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of 10,000,000,000 ordinary shares of HK\$0.005 each.
- (ii) On 3rd May, 2004, the Company placed 355,000,000 ordinary shares of HK\$0.005 each, through a placing agent, to independent investors at a price of HK\$0.055 per share to provide funding for the existing investments and for future investment opportunities of the Group.

Notes to the financial statements

For the year ended 31st march 2006

25 SHARE CAPITAL (Continued)

- (iii) At a special general meeting of the Company held on 30th September, 2004, resolutions approving the capital reorganisation were passed and the following took effect on 4th October, 2004:
- (a) the share premium account of the Company be reduced by HK\$200,000,000 and transferred to contributed surplus;
 - (b) the transfer of the credit arising from the reduction of share premium account as mentioned in (a) above and an appropriate amount from the contributed surplus account to set-off the deficit of the Company by approximately HK\$315,750,000;
- and
- (c) the issued and unissued ordinary shares of HK\$0.005 each in the capital of the Company be consolidated on the basis of every twenty ordinary shares being consolidated into one ordinary share of HK\$0.10.

Shares issued in last year rank pari passu with the then existing shares in all respects.

26 SHARE OPTION SCHEMES

The 1996 Scheme

The Company's share option scheme, adopted on 29th April, 1996 (the "1996 Scheme") was for the primary purpose of providing incentives to directors and eligible employees. Under the 1996 Scheme, the board of directors of the Company may grant options to executive directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. Options granted must be accepted within 28 days and are exercisable not earlier than half year nor later than three and a half years from the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration of the grant.

The total number of shares in respect of which options may be granted under the 1996 Scheme was not permitted to exceed 10% of the total number of the issued shares of the Company from time to time excluding any shares issued pursuant to the 1996 Scheme. No individual could be granted an option which, if exercised in full, would result in such individual becoming entitled to subscribe for such -number of shares, as when aggregated with the total number of shares already issued or was issuable under all the options previously granted to him, exceeding 25% of the aggregate number of shares for the time being issued and issuable under the 1996 Scheme. The exercise price was determined by the board of directors of the Company, and would not be less than the highest of 80% of the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of a share.

Notes to the financial statements

For the year ended 31st march 2006

26 SHARE OPTION SCHEMES (Continued)

The 1996 Scheme (Continued)

Pursuant to the special resolution passed by shareholders of the Company on 28th August, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the 1996 Scheme. Upon termination of the 1996 Scheme, no further options could be granted thereafter, but all outstanding options granted prior to such termination continued to be valid and exercisable in accordance with their terms of issue and, in all other respects, the provisions of the 1996 Scheme remained in force.

At 31st March, 2005, the number of shares in respect of outstanding share options which were granted under the 1996 Scheme was 250,000, after consolidated on the basis of every twenty ordinary shares being consolidated into one ordinary share of HK\$0.10, representing approximately 0.08% of the shares of the Company in issue at that date.

The share options which have been granted under the 1996 Scheme to certain directors/former directors and employees of the Group to subscribe for shares in the Company are as follow:

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Number of share options					Outstanding at
				Outstanding at 1.4.2004	Share consolidation during the year	Granted during the year	Lapsed during the year	Cancelled during the year	31.3.2005 and 31.3.2006
03.11.2000	03.05.2001 to 02.05.2004	0.2680	5.36	5,000,000	(4,750,000)	-	(250,000)	-	-
				5,000,000	(4,750,000)	-	(250,000)	-	-

Included above are share options granted to directors/former directors of the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Number of share options					Outstanding at
				Outstanding at 1.4.2004	Share consolidation during the year	Granted during the year	Lapsed during the year	Cancelled during the year	31.3.2005 and 31.3.2006
03.11.2000	03.05.2001 to 02.05.2004	0.2680	5.36	5,000,000	(4,750,000)	-	(250,000)	-	-
				5,000,000	(4,750,000)	-	(250,000)	-	-

Notes to the financial statements

For the year ended 31st march 2006

26 SHARE OPTION SCHEMES (Continued)

The 1996 Scheme (Continued)

No share options were exercised by any director or employee during both years.

No charge is recognised in the consolidated income statement in respect of the value of options granted under the 1996 Scheme for both years.

The 2002 Scheme

On 28th August, 2002, the Company adopted the 2002 Scheme under which the board of directors may at its discretion offer to any director (including non-executive director), employee and contracted celebrity, consultant, adviser or agent of any member of the Group or any entity in which the Group holds an equity interests (the "Eligible Person(s)") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the 2002 Scheme. The principal purpose of the 2002 Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other share option schemes of the Company cannot exceed 10% of the issued share capital as at 28th August, 2002, i.e. 245,137,515 shares unless a fresh approval from the shareholders of the Company has been obtained. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company cannot in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each Eligible Person under the 2002 Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

Options granted under the 2002 Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee is required to pay HK\$1 to the Company as consideration for the grant.

The subscription price for the shares under the 2002 Scheme must be a price determined by the board of directors of the Company at its absolute discretion but cannot be less than the highest of: (i) the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

Notes to the financial statements

For the year ended 31st march 2006

26 SHARE OPTION SCHEMES (Continued)

The 2002 Scheme (Continued)

The 2002 Scheme will remain in force for a period of 10 years commencing on 28th August, 2002, after which no further options shall be granted but the options which are granted during the life of 2002 Scheme may continue to be exercisable in accordance with their terms of issue and, in all other respects, the provisions of the 2002 Scheme shall remain in full force and effect.

The share options which have been granted under the 2002 Scheme to certain Eligible Persons of the Group to subscribe for shares in the Company are as follows:

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Number of share options				Outstanding at 31.3.2006
				Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Lapsed during the year	
28.7.2003	28.1.2004 to 27.1.2007	0.0330	0.0660	7,700,000	-	-	-	7,700,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	1.3400	4,550,000	-	-	-	4,550,000
				<u>12,250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,250,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Number of share options				Outstanding at 31.3.2005
				Outstanding at 1.4.2004	Share consolidation during the year	Granted during the year	Lapsed during the year	
28.7.2003	28.1.2004 to 27.1.2007	0.0330	0.0660	154,000,000	(146,300,000)	-	-	7,700,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	1.3400	91,000,000	(86,450,000)	-	-	4,550,000
				<u>245,000,000</u>	<u>(232,750,000)</u>	<u>-</u>	<u>-</u>	<u>12,250,000</u>

Notes to the financial statements

For the year ended 31st march 2006

26 SHARE OPTION SCHEMES (Continued)

The 2002 Scheme (Continued)

Included above are share options granted to directors of the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Number of share options				Outstanding at 31.3.2006
				Outstanding at 1.4.2006	Granted during the year	Exercised during the year	Lapsed during the year	
28.7.2003	28.1.2004 to 27.1.2007	0.0330	0.0660	7,700,000	-	-	-	7,700,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	1.3400	1,400,000	-	-	-	1,400,000
				<u>9,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,100,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Consolidated exercise price HK\$	Share				Outstanding at 31.3.2005
				Outstanding at 1.4.2004	consolidation during the year	Granted during the year	Lapsed during the year	
28.7.2003	28.1.2004 to 27.1.2007	0.0030	0.0660	154,000,000	(146,300,000)	-	-	7,700,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	1.3400	28,000,000	(26,600,000)	-	-	1,400,000
				<u>182,000,000</u>	<u>(172,900,000)</u>	<u>-</u>	<u>-</u>	<u>9,100,000</u>

No share options were exercised by any Eligible Persons in both years.

No charge is recognised in the consolidated income statement in respect of the value of options granted under the 2002 Scheme for both years.

At 31st March, 2006, the number of shares in respect of outstanding share options which were granted under the 2002 Scheme was 9,100,000 (2005: 12,250,000), after consolidated on the basis of every twenty ordinary shares being consolidated into one ordinary share of HK\$0.10 in 2005, representing 2.9% (2005: 3.9%) of the shares of the Company in issue at that date.

Notes to the financial statements

For the year ended 31st March 2006

27 OTHER RESERVES AND SHARE PREMIUM

	Other reserves		
	Exchange reserve HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
Balance at 1st April, 2004	(3,962)	146,922	142,960
Currency translation differences	396	–	396
Arising from capital reorganisation	–	(115,750)	(115,750)
Released on a subsidiary not consolidated	(7)	–	(7)
Released upon deemed disposal of a subsidiary	59	–	59
	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2005	(3,514)	31,172	27,658
Currency translation differences	3,630	–	3,630
	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2006	116	31,172	31,288
	<hr/>	<hr/>	<hr/>

The contributed surplus of the Group represented the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the capital reorganisation in 1996 less the amount transferred to accumulated losses in relation to another capital reorganisation in the years ended 31st March, 2003 and 2005 and the amount released from disposal of certain associates and distribution of dividends in prior years.

	Share Premium HK\$'000
At 1st April, 2004	226,925
Issue of shares	17,750
Share issue expenses	(525)
Arising from capital reorganisation (Note 25(iii)(a))	(200,000)
	<hr/>
At 31st March, 2005 and 31st March, 2006	44,150
	<hr/>

Notes to the financial statements

For the year ended 31st march 2006

27 OTHER RESERVES AND SHARE PREMIUM (Continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

In the opinion of the directors, the Company had no reserves available for distribution to shareholders at 31st March, 2005 and 31st March, 2006.

28 BANK AND OTHER BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Non-current		
Bank borrowings		
– secured	<u>19,839</u>	<u>27,217</u>
Current		
Bank borrowings		
– secured	4,959	39,124
– unsecured	<u>17,419</u>	<u>–</u>
	<u>22,378</u>	<u>39,124</u>
Other borrowings		
– secured	3,475	15,000
– unsecured	<u>3,081</u>	<u>3,081</u>
	<u>6,556</u>	<u>18,081</u>
	<u>28,934</u>	<u>57,205</u>
Total borrowings	<u>48,773</u>	<u>84,422</u>

Notes to the financial statements

For the year ended 31st march 2006

28 BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	28,934	57,205
Between one and two years	6,613	5,443
Between two and five years	<u>13,226</u>	<u>21,774</u>
Wholly repayable with five years	<u>48,773</u>	<u>84,422</u>

29 OBLIGATION UNDER A FINANCE LEASE

	Minimum Lease payments		Present value of minimum leases payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amount payable under a finance lease:				
Within one year	75	–	70	–
In the second to fifth years inclusive	<u>7</u>	<u>–</u>	<u>7</u>	<u>–</u>
	82	–	77	–
Less: Future finance charges	<u>5</u>	<u>–</u>	<u>–</u>	<u>–</u>
Present value of lease payments	<u>77</u>	<u>–</u>	<u>77</u>	<u>–</u>
Less: Amount due for settlement within one year shown under current liabilities			<u>70</u>	<u>–</u>
Amount due for settlement after one year			<u>7</u>	<u>–</u>

Notes to the financial statements

For the year ended 31st March 2006

29 OBLIGATION UNDER A FINANCE LEASE (Continued)

The Group leased a motor vehicle under finance leases initially for 2 years. For the year ended 31st March, 2006, the borrowing rate was 10.73% and the lease was fully repaid in 2007. Interest rate was fixed at the contract date. All leases were on a fixed repayment basis and no arrangement had been entered into for contingent rental payment.

The Group's obligations under finance leases were secured by the lessors' charges over the leased asset.

30 TRADE AND OTHER PAYABLES

	2006 HK\$'000	2005 HK\$'000
Trade payables	8,595	11,807
Other creditors, accrued charges and deposits	44,572	34,737
Amount due to an investee company	480	475
Amount due to related parties (note 32)	<u>2,136</u>	<u>–</u>
	<u>55,783</u>	<u>47,019</u>

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the Group's trade payables at 31st March is as follows:

	2006 HK\$'000	2005 HK\$'000
Up to 30 days	1,202	2,596
31 to 60 days	542	1,519
Over 60 days	<u>6,851</u>	<u>7,692</u>
	<u>8,595</u>	<u>11,807</u>

Notes to the financial statements

For the year ended 31st march 2006

31 PLEDGE OF ASSETS

At 31st March, 2005 the Group's investment property with an aggregate carrying value of approximately HK\$12,800,000 were pledged to banks to secure credit facilities granted to the Group.

At 31st March, 2006, the Group's bank deposits of approximately HK\$24,799,000 (2005: HK\$32,662,000) were pledged to banks to secure credit facilities granted to the Company and its subsidiaries.

On 15th November, 2004, the Group entered into a share mortgage agreement (the "Share Mortgage Agreement") with ITC Management Limited ("ITC"). Pursuant to the Share Mortgage Agreement, the Group has agreed to pledge their 100% interest in Fung Ming Venture Limited, 50% interest in Canaria Holding Limited, 40% in interest Applause Holdings Limited and 100% interest in Cheerfame Limited held by the Company's subsidiaries in favour of ITC as security to secure a loan of HK\$15,000,000 granted by ITC to the Group.

32 AMOUNTS DUE TO RELATED PARTIES

	Notes	2006 HK\$'000	2005 HK\$'000
Stellar Megamedia (HK) Limited ("Stellar Megamedia")	(a)	350	–
Strategic Media International Limited ("SMIL")	(b)	1,286	–
Mr. Qin Hui	(c)	500	–
		<u>2,136</u>	<u>–</u>

Notes:

- (a) Stellar Megamedia is owned as to 50% by Mr. Qin Hui, the sole owner of SMIL.
- (b) SMIL is a substantial shareholder of the Company.
- (c) Mr. Qin Hui is the sole owner of SMIL, the controlling shareholder of the Company.

The amounts are secured, interest free and repayable on demand.

Notes to the financial statements

For the year ended 31st march 2006

33 OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2006 HK\$'000	2005 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	<u>12,745</u>	<u>14,886</u>

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

	2006 HK\$'000	2005 HK\$'000
Within one year	9,624	10,243
In the second to fifth year inclusive	35,597	37,161
Over five years	<u>94,027</u>	<u>108,323</u>
	<u>139,248</u>	<u>155,727</u>

The Group as lessor

The Group and the Company had no operating lease commitments at both year end dates.

34 OTHER COMMITMENTS

The Group has no significant capital and other commitments at both year end dates.

35 CONTINGENT LIABILITY

On 15th April, 2008, a notice of claim filed by a creditor, Planet Hollywood International, Inc. ("PHI") for a sum of US\$6,173,497.61 ("the claim") in respect of a Final Default Judgement against the Company ("the declaratory judgement"). PHI obtained the declaratory judgement in the Circuit Court of the Ninth Judicial Circuit In and For Orange County, Florida ("the US Court") on 9th April, 2008 for damages based on the breach of a settlement agreement, namely, the term sheet ("the Term Sheet") dated 7th February, 2005 entered into between, amongst others, PHI and the Company. Pursuant to the declaratory judgement, the US court has ordered the Company to pay to PHI damages, including but not limited to actual damages, lost profits, loss business opportunities, interest, attorneys' fees and costs.

According to the legal opinion obtained by the Company that given the nature of the claim upon which the Notice of Claim is filed and the necessary legal requirements for PHI to apply for a leave to issue proceedings against a company being wound up, the likelihood of PHI eventually making a successful recovery of the claim against the Company is slim.

Notes to the financial statements

For the year ended 31st march 2006

36 NET GAIN ON DISPOSAL, DEEMED DISPOSAL OF SUBSIDIARIES

During the year ended 31st March, 2005, the Group disposed of the entire interest in its subsidiaries, Star East Music Group Limited and Redcliff Property Corporation and their subsidiaries, and 50% interest in Star East Holdings (North America) Limited at an aggregate consideration of HK\$12,000,000. The net gain on disposal and deemed disposal of subsidiaries was amounted to approximately HK\$1,329,000.

During the year ended 31st March, 2006, the Group disposed of its entire interest in a subsidiary, Planet Hollywood Entertainment and Advertising Limited at a consideration of HK\$90,000. The net gain on disposal of subsidiary was amounted to approximately HK\$88,000.

37 RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The amount of contribution payable to pension scheme required by respective jurisdictions other than Hong Kong is also charged to the consolidated income statement.

38 RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transaction with related party during the year:

	2006	2005
	HK\$'000	HK\$'000
Management service fee paid to related companies	826	72
Artistes performance fee received from associates	–	102
Agency fee paid to associates	–	60
Interest income received from associates	–	58
Management fee received from associates	–	291
Purchase of fixed assets from associates	–	693
Franchise/licensing fee and royalty income received from associates	–	924
Interest income received from jointly controlled entity	641	640

Notes to the financial statements

For the year ended 31st march 2006

38 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Outstanding balances with related parties:

- (i) Details of the Group's amounts due to related parties included in note 32 to the financial statements respectively.
- (ii) Details of the Group's balances with its associates are included in note 16 to the financial statements.
- (iii) Details of the Group's balances with its jointly controlled entities are included in note 17 to the financial statements.

39 SUMMARISED BALANCE SHEET OF THE COMPANY

The summarised balance sheet of the Company as at 31st March, 2006 are as follows:

	Notes	2006 HK\$'000	2005 HK\$'000
Total assets		151,905	181,619
Total liabilities		(29,735)	(61,504)
		122,170	120,115
Capital and reserves			
Share capital		31,407	31,407
Share premium and reserves	(a)	90,763	88,708
		122,170	120,115

Notes to the financial statements

For the year ended 31st march 2006

39 SUMMARISED BALANCE SHEET OF THE COMPANY (Continued)

Note:

(a) Share premium and reserves

	Share Premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1st April, 2004	226,925	151,753	(315,750)	62,928
Arising from capital reorganisation – cancellation of share premium to contributed surplus	(200,000)	200,000	–	–
Elimination of accumulated losses as at 1st April, 2004 to contributed surplus	–	(315,750)	315,750	–
Issue of shares	17,750	–	–	17,750
Share issue expenses	(525)	–	–	(525)
Profit for the year	–	–	8,555	8,555
Balance at 31st March, 2005	44,150	36,003	8,555	88,708
Loss for the year	–	–	2,055	2,055
Balance at 31st March, 2006	<u>44,150</u>	<u>36,003</u>	<u>10,610</u>	<u>90,763</u>

Notes to the financial statements

For the year ended 31st march 2006

40 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Anytime Pictures Company Limited	Hong Kong	HK\$2	–	100%	Movies production and distribution
Asiacreation Management Limited	Hong Kong	HK\$2	–	100%	Investment holding
Best Thought Entertainment Limited	Hong Kong	HK\$100	–	71%	Provision of artistes agency and talent management services
Cornhill Development Limited	Hong Kong	HK\$2	–	100%	Provision of finance
Discover China Production Limited	Hong Kong	HK\$2	–	100%	Film and documentary production and distribution
Extra Wealth Investment Limited	British Virgin Islands	US\$1	–	100%	Property investment
Global Step Limited	Hong Kong	HK\$2	–	100%	Property investment
Jumbo Field Limited	Hong Kong	HK\$2	–	100%	Property investment
Lane Smart Holdings Limited	British Virgin Islands	US\$100	–	100%	Investment holding
Lucky Cosmos Limited	Hong Kong	HK\$2	–	100%	Securities investment

Notes to the financial statements

For the year ended 31st march 2006

40 PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Planet Hollywood (Japan) K. K.	Japan	JPY25,000,000	–	80%	Operation of theme restaurant
Star East Management Limited	Hong Kong	HK\$100	–	100%	Provision of corporate management services
Star East Talent Management Limited	Hong Kong	HK\$10,000	–	100%	Provisions of artistes agency and talent management services
Well Bright (Asia) Limited	Hong Kong	HK\$2	–	100%	Property investment

Notes:

The above subsidiaries are limited companies incorporated in their respective jurisdictions.

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

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

41 SUBSEQUENT EVENTS

- (a) On 27th December, 2006, the Group entered into a new share mortgage agreement (the "New Share Mortgage Agreement") and a loan assignment agreement (the "Loan Assignment Agreement") with Sunday Inn Limited (the "Lender"). Pursuant to the New Share Mortgage Agreement, the Company has agreed to pledge the Group's 50% interest (held by a subsidiary, namely, Fung Ming Venture Limited) in Canaria Holding Limited (which in turn owns 100% interest in Earn Elite Development Limited) to the Lender. Pursuant to the Loan Assignment Agreement, the Group has agreed to assign to the Lender absolutely all its right, title, interest and benefit in and to the assigned monies of loans in the principal amount of approximately HK\$54,324,000 and HK\$9,500,000 due by Canaria Holding Limited and its subsidiary, Earn Elite Development Limited, respectively. Both of the New Share Mortgage Agreement and Loan Assignment Agreement have been entered into as the security to secure a loan of HK\$11,000,000 granted by the Lender to the Company.

Notes to the financial statements

For the year ended 31st march 2006

41 SUBSEQUENT EVENTS (Continued)

- (b) The Company was struck off in the Register of Companies by the Registrar of Companies in Bermuda on 7th September, 2007 due to non-payment of its annual government fees and late penalties. The Provisional Liquidators are in the course of restating the Company's status in Bermuda.
- (c) On 28th September, 2007, the Company has been placed into the third stage of the delisting procedures. If no viable resumption proposal is submitted at least 10 business days before 27th March, 2008, the listing status of the Company will be cancelled.
- (d) By a Power of Attorney dated 11th January, 2008, Sunday Inn Limited has appointed attorney to take steps to realise the securities provided to Sunday Inn Limited including the exercising of the power of sale.
- (e) On 18th February, 2008 and 19th February, 2008, a winding-up petition and the application for the appointment of the provisional liquidators were presented and filed respectively by Bank of China (Hong Kong) Limited, a creditor of the Company. On 20th February, 2008, Messrs. Liu Yiu Keung Stephen and Chan Wai Hing, both of Ernst & Young Transactions Limited, were appointed by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region ("the HK High Court") as the Provisional Liquidators ("the Provisional Liquidators"). By the HK High Court order, the Provisional Liquidators will, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such time as further order is made. The Provisional Liquidators are independent third parties not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules). Notice on the appointment of the Provisional Liquidators was published in the Government Gazette, The Standard and Sing Tao Daily respectively on 29th February, 2008.

On 7th March, 2008, the Provisional Liquidators, the Company, Cenith Capital Limited ("Cenith"), P.C. Woo & Co. ("the Escrow Agent") and Strategic Media International Limited ("the Controlling Shareholder") (collectively as "the Parties") entered into an escrow agreement. The Parties agreed that Cenith to deposit to the Escrow Agent a maximum of HK\$15 million for the expenses to be incurred by the Provisional Liquidators during the implementation of the resumption proposal. It was also agreed that a sum of HK\$5 million will be deposited in the Escrow Agent's account as escrow money to the creditors ("Escrow Money to Creditors"), in the event that the proposed restructuring could not proceed further due to the action done or not done by the Controlling Shareholder.

A supplemental agreement dated 13th March, 2008 was executed by the Parties to extend the deposit of HK\$3 million as Escrow Money to Creditors.

As at the date of this report, the Escrow Agent has received the deposits according to the above agreements.

Notes to the financial statements

For the year ended 31st march 2006

41 SUBSEQUENT EVENTS (Continued)

- (f) On 11th March, 2008, a Memorandum of Understanding (“MOU”) was signed between the Provisional Liquidators, the Company and the Controlling Shareholder. The purpose of the MOU is to record the agreement and arrangements of the parties regarding the proposed restructuring of the Company.
- (g) On 11th March, 2008, a resumption proposal (“the Resumption Proposal”) was submitted to the Stock Exchange requesting the resumption of trading of the Company’s Shares. The Resumption Proposal includes, amongst other things: (i) a proposed open offer to be underwritten by the Controlling Shareholder; (ii) a proposed acquisition of a cinema business in the People’s Republic of China; and (iii) proposed full repayment of the liabilities of the Company subject to the completion of the proposed restructuring.
- (h) On 28th March, 2008, the Company, the Provisional Liquidators, the Controlling Shareholder and Mr. Qin Hui entered into a formal agreement (“the Formal Agreement”) in relation to the proposed restructuring of the Company to supersede the MOU. The Company will publish the relevant details of the Formal Agreement by public announcement.

Financial Summary

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Results					
Turnover	<u>179,797</u>	<u>139,913</u>	<u>105,814</u>	<u>117,005</u>	<u>59,617</u>
Loss before taxation	(479,736)	(129,154)	(14,098)	(90,274)	(49,021)
Taxation	<u>17,726</u>	<u>(1,356)</u>	<u>(480)</u>	<u>2,359</u>	<u>(24)</u>
Loss before minority interests	(462,010)	(130,510)	(14,578)	(87,915)	(49,045)
Minority interests	<u>320</u>	<u>101</u>	<u>94</u>	<u>44</u>	<u>-</u>
Net loss for the year	<u>(461,690)</u>	<u>(130,409)</u>	<u>(14,484)</u>	<u>(87,871)</u>	<u>(49,045)</u>
Assets and liabilities					
Total assets	596,238	377,091	428,371	238,878	166,652
Total liabilities	(454,504)	(318,851)	(255,180)	(133,436)	(106,625)
Minority interests	<u>(277)</u>	<u>(176)</u>	<u>(82)</u>	<u>-</u>	<u>-</u>
Shareholders' funds	<u>141,457</u>	<u>58,064</u>	<u>173,109</u>	<u>105,442</u>	<u>60,027</u>