1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted 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) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention.

The adoption of new/revised HKFRS:
From 1st April 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of last year have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKAS 2, 7, 8, 10, 16, 21, 24, 27, 28, 32, 33 and 39 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 2, 7, 8, 10, 16, 27, 28, 32, 33 and 39 had no material effect on the Group's policies.

- HKAS 21 has no material effect on the Group's policy. The majority of the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong dollars. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 1 has affected the presentation of share of net after-tax results of associates and other disclosures. In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1st April 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and included the share of taxation of associates accounted for using the equity method in the respective share of the associates' profits less losses reported in the consolidated income statement before arriving at the Group's profit or loss before income tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 1(a)(i).

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment. These changes in reclassification have been applied retrospectively with comparatives restated as shown in note 1(a)(ii).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. In previous years, goodwill arising from acquisition on or after 1st April 2001 was amortised on a straight-line basis over its estimated useful life of not more than 20 years. Goodwill was assessed for indication of impairment at each balance sheet date. Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves in the year of acquisition. Following the adoption of HKFRS 3, HKAS 36 and HKAS 38, goodwill on acquisition of subsidiaries and associates is no longer amortised but tested for impairment annually. Any impairment loss recognised is charged to the income statement. Goodwill previously taken to reserves is not restated on the balance sheet or included in the calculation of gain or loss on disposal of subsidiaries and associates.

The Group's goodwill was acquired through investment in an associate prior to 1st April 2001. Prior to the adoption of HKFRS 3, HKAS 36 and HKAS 38, the Group had written off the goodwill against reserves in the year of acquisition.

On the initial application of HKFRS 3 in the current year, entities should neither be required nor permitted to restate goodwill previously eliminated against reserves. The Group's goodwill is therefore not required to be restated.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKFRS 3, which is adopted prospectively on or after 1st April 2005.

(i) The effects of the adoption of HKAS 1 are summarised as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in share of profits less losses of associates	**(60,416)**	(39,604)
Decrease in income tax expense	**60,416**	39,604

There was no impact on earnings per share from the adoption of HKAS 1.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) The effects of the adoption of revised HKAS 17 are summarised as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in property, plant and equipment	**(18,978)**	(2,660)
Increase in leasehold land	**18,978**	2,660

There was no impact on earnings per share from the adoption of revised HKAS 17.

The Group has not early adopted the following new HKAS and HKFRS that have been issued but are not yet effective. The adoption of such HKAS and HKFRS will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plan and disclosures[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts[2]
HKFRS 7	Financial instruments: disclosures[1]

[1] *Effective for annual periods beginning on or after 1st January 2007.*
[2] *Effective for annual periods beginning on or after 1st January 2006.*

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Group, directly or indirectly, controls the composition of the Board of Directors, controls more than half of the voting power or holds more than half of the issued share capital.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

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

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

(c) Interest in associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interest in associates are accounted for by the equity method of accounting and is initially recognised at cost.

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

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Where the associates have financial year ends other than 31st March, their latest audited financial statements made up to a date within three months before 31st March 2006 are used for equity accounting purposes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment, comprising buildings, furniture and fittings, equipment, motor vehicles and plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation is calculated at rates sufficient to write off the cost of the property, plant and equipment less accumulated impairment losses over their estimated useful lives on a straight-line basis. The annual rates of depreciation adopted are as follows:

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

Leasehold land is amortised to the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(f)).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in interest in associates. 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.

(f) Impairment of assets

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

(g) Inventories

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Accounts receivable

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

(i) Cash and cash equivalents

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

(j) Share capital

Ordinary shares are classified as equity.

(k) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(iii) Pension obligations

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

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

The Group's contributions to the MPF Scheme are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

(iv) Long service payment

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

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

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

(l) Accounts payable

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Provisions

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

(n) Foreign currency translation

(i) Functional and presentation currency

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

(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.

(iii) Group companies

The balance sheet of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising are dealt with as a movement in the exchange fluctuation reserve. When any of these subsidiaries and associates is sold, any translation differences previously recognised in respect of such subsidiary or associate are transferred to the income statement as part of the gain or loss on sale.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

The Group as lessor:
Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee:
Rentals payable under operating leases, including the leasehold interests in land, are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits, if any, receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense on a straight-line basis over the lease term.

(p) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

(q) Contingent liabilities

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

(i) Rental income from land and buildings is recognised on a straight-line basis over the terms of the lease.

(ii) Revenue from film distribution are recognised upon delivery of the films for royalty income and upon release of the films for theatrical income.

(iii) Filming facilities services fees comprise studio service fees, film processing and film remastering income. Studio service fees are recognised when the facilities are used. Film processing income is recognised upon delivery of the films. Film remastering income is recognised on acceptance of film quality by the customer.

(iv) Management fee income is recognised when the services are rendered.

(v) Interest income is recognised on a time proportion basis using the effective interest method.

(s) Segment reporting

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

A party is considered to be related to the Group if

(i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with the Group; or (ii) has an interest in the Group that gives it significant influence over the Group;

(ii) the party is an associate;

(iii) the party is a member of the key management personnel of the Group;

(iv) the party is a close member of the family of any individual referred to in (i) to (iii) above; and

(v) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) and (iv) above.

(u) Dividend distribution

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

(v) Comparatives

Where necessary, comparatives figures have been reclassified to conform with changes in presentation in the current year.

(w) Financial risk management

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

(i) Foreign exchange risk

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Financial risk management *(Continued)*

(ii) Credit risk

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

(iii) Interest rate risk

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

The effective interest rate on short term bank deposits was 4.2% (2005: 2.5%); these deposits have an average maturity of 39 days (2005: 23 days).

(x) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key source of estimation uncertainty and the critical accounting judgements that can significantly affect the amounts recognised in the financial statements are set out below.

(i) Useful lives of property, plant and equipment

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Critical accounting estimates and judgements *(Continued)*

(ii) Accounts receivables

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

(iii) Staff long service payment

Determining the carrying amount of provision for staff long service payment requires actuarial assumptions made in respect of discount rate and expected rate of future salary increment. Changes in these assumptions could have a significant risk of causing a material adjustment to the carrying amount in the balance sheet. Details of these actuarial assumptions are set out in Note 18 to the financial statements.

2 TURNOVER AND REVENUES

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

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

Other revenues mainly consist of management fee income and interest income.

2 TURNOVER AND REVENUES *(Continued)*

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

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Rental income from land and buildings	**6,606**	17,876
Film distribution income	**5,761**	13,594
Filming facilities services fees	**41,789**	41,046
	54,156	72,516
Other revenues		
Management fee income	**11,131**	9,205
Interest income	**4,069**	1,395
Others	**4,386**	2,836
	19,586	13,436
Total revenues	**73,742**	85,952

Primary reporting format – business segments

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries through the following major business segments:

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

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

2 TURNOVER AND REVENUES *(Continued)*

Primary reporting format – business segments *(Continued)*

	Property rental	Film distribution	Filming facilities services	Investment holding	Group total
	2006	**2006**	**2006**	**2006**	**2006**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Turnover (Note)	**6,606**	**5,761**	**41,789**	**–**	**54,156**
Segment results	**4,986**	**(788)**	**3,600**	**(5,781)**	**2,017**
Unallocated items					**(7,520)**
Operating loss					**(5,503)**
Share of profits less losses of associates (Note 12(b))	**–**	**–**	**–**	**302,907**	**302,907**
Profit before income tax					**297,404**
Income tax expense (Note 4)					**–**
Profit attributable to equity holders of the Company (Note 5)					**297,404**
Segment assets	**46,942**	**2,014**	**160,062**	**–**	**209,018**
Interest in associates	**–**	**–**	**–**	**1,493,348**	**1,493,348**
Unallocated assets					**68,689**
Total assets					**1,771,055**
Segment liabilities	**1,136**	**2,137**	**4,016**	**–**	**7,289**
Unallocated liabilities					**6,521**
Total liabilities					**13,810**
Capital expenditure	**–**	**–**	**22,772**	**–**	**22,772**
Depreciation charge (Note 3)	**1,936**	**–**	**18,705**	**–**	**20,641**
Amortisation of leasehold land (Note 10)	**–**	**–**	**463**	**–**	**463**
Amortisation of released films	**–**	**3,078**	**–**	**–**	**3,078**

Note:

Turnover is after eliminating inter-segment transactions amounting to HK$158,000 attributable to filming facilities services.

2 TURNOVER AND REVENUES *(Continued)*

Primary reporting format – business segments *(Continued)*

	Property rental 2005	Film distribution 2005	Filming facilities services 2005	Investment holding 2005	Group total 2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover (Note)	17,876	13,594	41,046	–	72,516
Segment results	13,336	(1,051)	2,964	(5,886)	9,363
Unallocated items					(12,097)
Operating loss					(2,734)
Share of profits less losses of associates (Note 12(b))	–	–	–	185,034	185,034
Profit before income tax					182,300
Income tax expense (Note 4)					–
Profit attributable to equity holders of the Company (Note 5)					182,300
Segment assets	114,264	5,984	89,805	–	210,053
Interest in associates	–	–	–	1,280,939	1,280,939
Unallocated assets					100,528
Total assets					1,591,520
Segment liabilities	2,030	4,028	3,332	–	9,390
Unallocated liabilities					8,395
Total liabilities					17,785
Capital expenditure	–	–	2,748	–	2,748
Depreciation charge (Note 3)	4,084	–	15,899	–	19,983
Amortisation of leasehold land (Note 10)	–	–	63	–	63
Amortisation of released films	–	12,449	–	–	12,449

Note:

Turnover is after eliminating inter-segment transactions amounting to HK$1,045,000 attributable to filming facilities services.

2 TURNOVER AND REVENUES *(Continued)*

Secondary reporting format – geographical segments

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

Hong Kong	:	Property rental, film distribution, filming facilities services and investment holding
South East Asia, USA and others	:	Film distribution

There are no sales between the geographical segments.

	Turnover		Operating (loss)/profit		Total assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**49,385**	63,848	**(8,160)**	(4,551)	**277,707**	310,581	**22,772**	2,748
South East Asia	**4,183**	7,278	**2,089**	1,013	**–**	–	**–**	–
USA	**80**	180	**75**	35	**–**	–	**–**	–
Others	**508**	1,210	**493**	769	**–**	–	**–**	–
	54,156	72,516	**(5,503)**	(2,734)	**277,707**	310,581	**22,772**	2,748
Interest in associates					**1,493,348**	1,280,939		
					1,771,055	1,591,520		

3 EXPENSES BY NATURE

Included in cost of sales, selling and distribution expenses, property related expenses, general and administrative expenses and other operating expenses are the following:

	Group	
	2006	2005
	HK$'000	HK$'000
Depreciation charge (Note 9)	**20,625**	20,198
Add/(less): Net amount realised from/(capitalised to) inventories	**16**	(215)
	20,641	19,983
Amortisation of leasehold land (Note 10)	**463**	63
Amortisation of released films	**3,078**	12,449
Auditors' remuneration	**291**	300
Employee benefit expense (Note 8)	**33,007**	34,772
Net exchange (gain)/loss	**(204)**	209
Operating leases – land and buildings	**400**	400
(Profit)/loss on disposal of property, plant and equipment (Note 24(c))	**(21)**	90
Specific provision for doubtful debts	**282**	–

4 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Company utilised its tax losses brought forward to offset its estimated assessable profit for the year (2005: Nil), while other subsidiaries in the Group have no estimated assessable profit for the year (2005: Nil).

4 INCOME TAX EXPENSE *(Continued)*

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

	2006	As restated 2005
	HK$'000	HK$'000
Profit before income tax	**297,404**	182,300
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**52,046**	31,903
Tax effect of share of results of associates	**(53,009)**	(32,381)
Income not subject to taxation	**(1,220)**	(292)
Expenses not deductible for taxation purposes	**1,981**	1,277
Tax losses not recognised	**373**	491
Utilisation of previously unrecognised tax losses	**(171)**	(998)
Income tax expense	**–**	–

5 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$113,973,000 (2005: HK$88,410,000).

6 DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Interim dividend paid, HK$0.06 (2005: HK$0.05) per ordinary share	**23,904**	19,920
Final dividend proposed, HK$0.34 (2005: HK$0.22) per ordinary share	**135,452**	87,645
	159,356	107,565

At a meeting held on 22nd June 2006, the Directors proposed a final dividend of HK$0.34 per ordinary share for the year ended 31st March 2006. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March 2007.

7 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$297,404,000 (2005: HK$182,300,000) and on 398,390,400 ordinary shares in issue throughout the years ended 31st March 2006 and 2005. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	HK$'000
Directors' fee	**62**	62
Salaries, housing reimbursement and other allowances	**31,749**	33,486
Bonuses	**72**	131
Post-employment benefits		
– MPF Scheme (Note 18)	**1,014**	1,056
– Long service payments (Note 18)	**(42)**	(25)
	32,855	34,710
Add: Net amount realised from inventories	**152**	62
	33,007	34,772

(a) Directors' emoluments

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

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

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of every Director for the year ended 31st March 2005 is set out below:

Name of Director	Directors' fees	Salaries, housing reimbursement and other allowances	Bonuses	Mandatory provident fund	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Sir Run Run Shaw, GBM	10	900	–	–	910
Mona Fong	8	3,488	–	–	3,496
Louis Page	8	980	–	12	1,000
Jeremiah Rajakulendran	8	2,160	120	12	2,300
The Hon. Sir Ti Liang Yang, GBM; JP	8	24	–	–	32
Dr. Chow Yei Ching	8	24	–	–	32
Ng Julie Yuk Shun	8	24	–	–	32
Nelson Hon Sang Chiu (Note 2)	4	6	–	–	10
	62	7,606	120	24	7,812

Notes:

(1) Retired on 7th September 2005

(2) Appointed on 30th September 2004

(b) Five highest paid employees

Among the five highest paid employees, four (2005: four) are directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments of the remaining one (2005: one) employee are analysed as follows:

	2006	2005
	HK$'000	HK$'000
Salaries, housing reimbursement and other allowances	**804**	804
Post-employment benefits – MPF Scheme	**12**	12
	816	816

The emoluments fell within the following band:

Emolument bands	Number of employees **2006**	2005
Nil – HK$1,000,000	**1**	1

9 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Buildings (Note)	Motor vehicles, furniture, fittings and equipment	Plant and machinery	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st April 2004				
Cost	167,192	60,638	86,297	314,127
Accumulated depreciation	(36,696)	(48,733)	(36,466)	(121,895)
Net book amount	130,496	11,905	49,831	192,232
Year ended 31st March 2005				
Opening net book amount	130,496	11,905	49,831	192,232
Additions	–	77	2,671	2,748
Disposals (Note 24(c))	–	(22)	(138)	(160)
Depreciation (Note 3)	(3,089)	(3,367)	(13,742)	(20,198)
Closing net book amount	127,407	8,593	38,622	174,622
At 31st March 2005				
Cost	167,192	60,671	88,738	316,601
Accumulated depreciation	(39,785)	(52,078)	(50,116)	(141,979)
Net book amount	127,407	8,593	38,622	174,622
Year ended 31st March 2006				
Opening net book amount	127,407	8,593	38,622	174,622
Additions	–	783	5,208	5,991
Disposals (Note 24(c))	–	–	(273)	(273)
Depreciation (Note 3)	(3,066)	(3,370)	(14,189)	(20,625)
Closing net book amount	124,341	6,006	29,368	159,715
At 31st March 2006				
Cost	167,192	61,454	93,400	322,046
Accumulated depreciation	(42,851)	(55,448)	(64,032)	(162,331)
Net book amount	124,341	6,006	29,368	159,715

Note:

Included in buildings of the Company and the Group is a property carried at cost less accumulated depreciation amounting to HK$122,820,000 (2005: HK$125,814,000). The property is held under a medium term lease granted by the District Commissioner, New Territories, of the Government of Hong Kong Special Administrative Region under special conditions ("the Grant"). Under the conditions of the Grant, the use of the property is restricted to specific purposes and there are also restrictions on the right to assign, underlet or dispose of the property whereby prior approval should be obtained from the District Commissioner. The property is classified as buildings of the Company and the Group and stated at cost less accumulated depreciation at the balance sheet date.

10 LEASEHOLD LAND – GROUP AND COMPANY

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

	2006	2005
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 and 50 years	**18,978**	2,660
Opening net book amount		
– as previously reported	**–**	–
– reclassification of leasehold land	**–**	2,723
– as currently reported	**2,660**	–
	2,660	2,723
Additions	**16,781**	–
	19,441	2,723
Amortisation (Note 3)	**(463)**	(63)
Closing net book amount	**18,978**	2,660
Cost	**23,181**	6,400
Accumulated amortisation	**(4,203)**	(3,740)
Closing net book amount	**18,978**	2,660

11 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**4,900**	4,900
Less: Provision for impairment	**(4,890)**	(4,890)
	10	10
Amounts due from subsidiaries (Note a)	**37,201**	37,457
Less: Provision for impairment	**(35,772)**	(33,504)
	1,429	3,953
Amounts due to subsidiaries (Note a)	**–**	(442)
	1,439	3,521

(a) Except for an amount due from a subsidiary of HK$26,564,000 (2005: HK$25,178,000) which carries interest at Hong Kong Dollar prime lending rate per annum, the amounts due from/(to) subsidiaries are unsecured and interest free, and have no fixed terms of repayment.

11 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) Details of the subsidiaries at 31st March 2006 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held Direct	Indirect
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK$1	–	60%
Super Film Production Company Limited	Hong Kong	Film production and distribution	2	HK$1	–	100%
Multi Entertainment Limited	Hong Kong	Investment holding	100	HK$1	–	100%
Shaw Productions Limited	Hong Kong	Investment holding	2	HK$1	100%	–
Special Classic Limited	Hong Kong	Dormant	2	HK$1	100%	–
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK$10	100%	–
United Production Limited	Hong Kong	Dormant	2	HK$1	100%	–

Note: A subsidiary, Cosmos Gain International Ltd, was disposed of during the year.

12 INTEREST IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'000
At the beginning of the year	**1,280,939**	1,069,648
Share of associates' results		
– profits before income tax	**363,323**	224,638
– income tax	**(60,416)**	(39,604)
	302,907	185,034
Addition to interest in an associate	**–**	4
Reserve movements	**(2,345)**	1,583
Dividend received	**(119,583)**	(91,111)
Loan advanced during the year	**31,430**	115,781
At the end of the year	**1,493,348**	1,280,939

	Company	
	2006	2005
	HK$'000	HK$'000
Investments at cost:		
Unlisted shares	**7**	7
Hong Kong listed shares	**1,053,250**	1,053,250
	1,053,257	1,053,257
Loan to an associate (Note a)	**361,136**	329,706
	1,414,393	1,382,963
Market value of listed shares	**5,011,100**	4,475,823

Note:

(a) The loan to an associate is unsecured and interest free, and has no fixed repayment terms. The carrying amount of the loan to an associate approximates its fair value.

12 INTEREST IN ASSOCIATES *(Continued)*

(b) Details of the associates at 31st March 2006 are as follows:

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

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

	Assets	Liabilities	Turnover	Profit for the year
	HK$'000	HK$'000	HK$'000	HK$'000
2006	**1,754,126**	**621,914**	**1,085,996**	**302,907**
2005	1,602,752	651,519	992,479	185,034

12 INTEREST IN ASSOCIATES *(Continued)*

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

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2005

	2005 HK$'000	2004 HK$'000
Turnover	**4,176,590**	3,816,936
Cost of sales	**(1,791,612)**	(1,841,449)
Gross profit	**2,384,978**	1,975,487
Other revenues	**38,962**	58,220
Selling, distribution and transmission costs	**(451,923)**	(450,258)
General and administrative expenses	**(490,969)**	(512,948)
Other operating (expenses)/income	**(22,042)**	10,890
Gain on disposal of financial assets at fair value through profit or loss	**148,778**	–
Operating profit	**1,607,784**	1,081,391
Finance costs	**(956)**	(7,006)
Share of losses of		
Jointly controlled entities	**(30)**	(6,099)
Associates	**(187,197)**	(166,402)
Profit before income tax	**1,419,601**	901,884
Income tax expense	**(232,354)**	(152,312)
Profit for the year	**1,187,247**	749,572
Attributable to:		
Equity holders of the Company	**1,180,019**	719,415
Minority interest	**7,228**	30,157
	1,187,247	749,572
Dividends	**678,900**	438,000
Earnings per share for profit attributable to the equity holders of the Company during the year	**HK$2.69**	HK$1.64

12 INTEREST IN ASSOCIATES *(Continued)*

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

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2005

	2005	2004
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Property, plant and equipment	**1,896,100**	2,049,844
Leasehold land	**188,416**	192,984
Intangible assets	**161,003**	55,342
Interest in associates	**245,516**	279,546
Interest in jointly controlled entities	**–**	18,722
Available-for-sale financial assets	**3**	–
Investment securities	**–**	3,705
Loans to investee companies	**6,676**	14,263
Deferred income tax assets	**24,358**	18,592
	2,522,072	2,632,998
Current assets		
Programmes, film rights and movies	**452,586**	452,652
Stocks	**11,430**	11,588
Trade and other receivables, prepayments and deposits	**1,353,966**	1,007,123
Other investments	**–**	189,432
Tax recoverable	**2,015**	3,034
Pledged bank deposits	**236**	234
Bank deposits maturing after three months	**35,289**	9,550
Cash and cash equivalents	**944,670**	526,299
	2,800,192	2,199,912
Total assets	**5,322,264**	4,832,910
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	**21,900**	21,900
Other reserves	**700,132**	698,989
Retained earnings		
– Proposed final dividend	**569,400**	350,400
– Others	**3,090,315**	2,599,357
	4,381,747	3,670,646
Minority interest	**23,320**	116,550
Total equity	**4,405,067**	3,787,196
LIABILITIES		
Non-current liabilities		
Long term borrowings	**–**	48,683
Deferred income tax liabilities	**149,740**	125,370
Retirement benefit obligations	**18,503**	16,215
Long-term provisions	**–**	1,045
	168,243	191,313

12 INTEREST IN ASSOCIATES *(Continued)*

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

CONSOLIDATED BALANCE SHEET *(Continued)*
AS AT 31ST DECEMBER 2005

	2005	2004
	HK$'000	HK$'000
Current liabilities		
Trade and other payables and accruals	643,232	727,635
Current income tax liabilities	104,680	99,865
Borrowings	–	12,040
Short-term provisions	1,042	14,861
	748,954	854,401
Total liabilities	917,197	1,045,714
Total equity and liabilities	5,322,264	4,832,910
Net current assets	2,051,238	1,345,511
Total assets less current liabilities	4,573,310	3,978,509

13 INVENTORIES

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Released films	1,693	1,083	–	–
Unreleased films	–	3,790	–	–
Raw materials and processing works	6,400	6,653	6,400	6,653
	8,093	11,526	6,400	6,653

All inventories are stated at costs, which approximate their fair value.

The cost of inventories recognised as expense amounted to HK$29,530,000 (2005: HK$38,385,000).

14 ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts receivable (Note)	**9,625**	8,196	**9,348**	7,800
Prepayments, deposits and other receivables	**10,890**	9,786	**10,846**	9,570
Receivables from related parties (Note 23(c))	**4,995**	3,088	**4,995**	3,088
	25,510	21,070	**25,189**	20,458

The carrying amounts of accounts receivable, prepayments, deposits and other receivables approximate their fair values.

Note:

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

At 31st March 2006, the ageing analysis of accounts receivable is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**6,662**	3,176	**6,470**	3,176
1 – 3 months	**1,602**	1,089	**1,602**	1,064
Over 3 months	**3,092**	5,380	**2,725**	5,009
	11,356	9,645	**10,797**	9,249
Less: Specific provision for doubtful debts	**(1,731)**	(1,449)	**(1,449)**	(1,449)
	9,625	8,196	**9,348**	7,800

15 SHARE CAPITAL

	2006	2005
	HK$'000	HK$'000
Authorised:		
600,000,000 ordinary shares of HK$0.25 each	**150,000**	150,000
Issued and fully paid:		
398,390,400 ordinary shares of HK$0.25 each	**99,598**	99,598

16 GENERAL RESERVE AND RETAINED PROFITS OF THE COMPANY

	General reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000
At 1st April 2004	557,394	1,010,709	1,568,103
Profit for the year	–	88,410	88,410
Final dividend 2003/2004	–	(59,758)	(59,758)
Interim dividend 2004/2005 (Note 6)	–	(19,920)	(19,920)
At 31st March 2005	557,394	1,019,441	1,576,835
Representing:			
Retained profits		931,796	
Final dividend 2004/2005 proposed (Note 6)		87,645	
At 31st March 2005		1,019,441	
At 1st April 2005	557,394	1,019,441	1,576,835
Profit for the year	–	113,973	113,973
Final dividend 2004/2005 (Note 6)	–	(87,645)	(87,645)
Interim dividend 2005/2006 (Note 6)	–	(23,904)	(23,904)
At 31st March 2006	557,394	1,021,865	1,579,259
Representing:			
Retained profits		886,413	
Final dividend 2005/2006 proposed (Note 6)		135,452	
At 31st March 2006		1,021,865	

Distributable reserve of the Company at 31st March 2006, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$1,579,259,000 (2005: HK$1,576,835,000).

17 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts payable (Note)	**735**	243	**694**	202
Other payables and accruals	**11,297**	13,447	**9,981**	10,234
Payables to related parties (Note 23(c))	**–**	100	**–**	100
	12,032	13,790	**10,675**	10,536

The carrying amounts of accounts payable, other payables and accruals approximate their fair values.

Note:

At 31st March 2006, the ageing analysis of accounts payable is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**694**	202	**694**	202
Over 3 months	**41**	41	**–**	–
	735	243	**694**	202

18 PROVISION FOR STAFF LONG SERVICE PAYMENTS – GROUP AND COMPANY

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

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

	2006	2005
	HK$'000	HK$'000
Present value of unfunded obligations	**5,404**	5,265
Fair value of MPF Scheme	**(3,626)**	(3,123)
Provision for staff long service payments	**1,778**	2,142

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

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

	2006	2005
	HK$'000	HK$'000
Current service cost	**874**	1,038
Unrecognised actuarial gain	**(38)**	(143)
Deficit on MPF Scheme assets	**136**	136
Total, included in employee benefit expense (Note 8)	**972**	1,031

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

	2006	2005
	HK$'000	HK$'000
Cost of sales	**252**	250
Selling and distribution expenses	**20**	15
General and administrative expenses	**303**	279
Other operating expenses	**397**	487
	972	1,031

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

	2006	2005
	HK$'000	HK$'000
At the beginning of the year	**2,142**	2,410
Total expenses		
– MPF Scheme (Note 8)	**1,014**	1,056
– Long service payments (Note 8)	**(42)**	(25)
Total expenses (as shown above)	**972**	1,031
Contributions and benefits paid	**(1,336)**	(1,299)
At the end of the year	**1,778**	2,142

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

The principal actuarial assumptions used are as follows:

	2006	2005
	%	%
Discount rate	**4.58**	4.36
Expected rate of future salary increment	**1.00**	1.00

19 DEFERRED INCOME TAX

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

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

Group and Company:

	Deferred income tax assets		Deferred income tax liabilities	
	Tax losses		Accelerated tax depreciation	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**4,610**	6,335	**(4,610)**	(6,335)
Recognised in the income statement	**(1,684)**	(1,725)	**1,684**	1,725
At the end of the year	**2,926**	4,610	**(2,926)**	(4,610)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable. As at 31st March 2006, the Group has unrecognised tax losses of approximately HK$182,273,000 (2005: HK$204,693,000) to carry forward against future taxable profits with no expiry date.

20 CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Legal claim arising from film production	**–**	1,000	**–**	–

The civil suit filed by a stuntman who was injured during the course of film production, against Film Power Company Limited, a non-wholly owned subsidiary of the Company, has been settled at HK$1,300,000 pursuant to the settlement deed dated 10th August 2005, and it has been charged to the income statement for the year ended 31st March 2006.

21 CAPITAL COMMITMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Authorised but not contracted for				
– in respect of property, plant and equipment	**–**	14,400	**–**	14,400
– in respect of the Group's share of contribution to an associate for its development of film studio and ancillary facilities	**15,113**	53,315	**15,113**	53,315
	15,113	67,715	**15,113**	67,715
Contracted but not provided for				
– in respect of property, plant and equipment	**5,732**	121	**5,732**	121
– in respect of the Group's share of contribution to an associate for its development of film studio and ancillary facilities	**8,751**	1,979	**8,751**	1,979
	14,483	2,100	**14,483**	2,100
	29,596	69,815	**29,596**	69,815

22 LEASE COMMITMENTS

(a) At 31st March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**84**	84	**84**	84

(b) At 31st March 2006, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**3,187**	4,432	**3,187**	4,432
Later than one year and not later than five years	**2,959**	–	**2,959**	–
	6,146	4,432	**6,146**	4,432

23 RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

(i) The Group received rental income in respect of land and buildings amounting to HK$4,433,000 (2005: HK$17,732,000) from an associate. The rental income was determined by a contract entered into between both parties and the contract was not renewed upon its expiry date on 30th June 2005.

(ii) The Group provided labour and administrative services to an associate for management fees totalling HK$3,203,000 (2005: HK$506,000). The fees for these services were determined by an agreement entered into between both parties.

(iii) The Group provided labour and administrative services to certain related parties for management fees totalling HK$7,442,000 (2005: HK$8,213,000). The fees for these services were determined by an agreement entered into between the parties. These related parties are held by a substantial shareholder of the Company.

(b) Key management compensation

Emoluments of the key management are disclosed in Note 8(a) to the financial statements.

(c) Year-end balances

	2006	2005
	HK$'000	HK$'000
Receivables from related parties (Note 14)		
Fellow subsidiaries	**1,975**	2,500
Associates	**3,020**	588
	4,995	3,088
Payables to related parties (Note 17)		
Fellow subsidiaries	**–**	100

24 NET CASH GENERATED FROM OPERATING ACTIVITIES

	2006	2005
	HK$'000	HK$'000
Operating loss	(5,503)	(2,734)
Interest income	(4,069)	(1,395)
Depreciation charge (Note 9)	20,625	20,198
Amortisation of leasehold land (Note 10)	463	63
(Profit)/loss on disposal of property, plant and equipment (Note 3)	(21)	90
Gain on disposal of a subsidiary (Note (b))	(19)	–
Operating profit before working capital changes	11,476	16,222
Decrease in inventories	3,433	13,264
(Increase)/decrease in accounts receivable, prepayments, deposits and other receivables	(4,888)	2,839
Decrease in accounts payable, other payables and accruals	(1,924)	(8,342)
Decrease in advanced rental received from an associate	(1,853)	–
Decrease in provision for staff long service payments	(364)	(268)
Net cash generated from operating activities	5,880	23,715

(a) Reconciliation of interest income to interest received:

	2006	2005
	HK$'000	HK$'000
Interest income	4,069	1,395
(Increase)/decrease in interest receivable	(84)	285
Interest received	3,985	1,680

(b) Sale of a subsidiary

	2006
	HK$'000
Creditors and accruals	(19)
Gain on disposal	19
Sales proceed	–

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

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

	2006	2005
	HK$'000	HK$'000
Net book amount (Note 9)	**273**	160
Profit/(loss) on disposal of property, plant and equipment	**21**	(90)
Proceeds from disposal of property, plant and equipment	**294**	70

25 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 22nd June 2006.