CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Wong Pak Ming *(Chairman)*
Ms. Wong Kit Fong
Ms. Wong Yee Kwan, Alvina
Mr. Ko Tin Chow

Independent Non-executive Directors:

Mr. Wan Ngar Yin, David
Mr. Lai Voon Wai
Mr. Tang Kai Kui, Terence

COMPANY SECRETARY

Mr. Lo Hang Fong L.L.B. *(Bristol)*

SOLICITORS

Stevenson, Wong & Co.
Rooms 2002-2009
20th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd.
Wing Lung Bank Ltd.
The Hongkong and Shanghai Banking Corporation Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

NOTICE IS HEREBY GIVEN that an Annual General Meeting of members of Mandarin Entertainment (Holdings) Limited (the "Company") will be held at 27th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong on 26th May, 2006, Friday at 4:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st December, 2005;

2. To elect directors and to authorise the board of directors to fix directors' remuneration;

3. To appoint auditors and to authorise the board of directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**

   (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares ("Shares") in the capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:

      (i) a Rights Issue (as defined below); or

      (ii) the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or

      (iii) the exercise of any option under the share option scheme of the Company or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares of the Company; or

(iv) scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; and

(v) a specific authority granted by the shareholders of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;

(d) for the purpose of this resolution:

"Relevant Period" means the period from (and including) the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or by any applicable laws to be held; or

(iii) the date on which the authority set out in this resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer on the relevant register) on a fixed record date in proportion to their then holdings of such Shares or, where appropriate, such other securities as at that date (subject in all cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company)."

5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

(a) subject to paragraphs (b) and (c) of this resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to purchase shares ("Shares") in the capital of the Company or securities convertible into Shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose ("Recognised Stock Exchange"), subject to and in accordance with the Companies Act 1981 of Bermuda, all other applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares and securities convertible into Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the approval pursuant to paragraph (a) of this resolution shall be limited accordingly;

(c) for the purpose of this resolution, "Relevant Period" means the period from (and including) the date of the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; or

(iii) the date on which the authority set out in this Resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting."

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT** subject to the passing of the resolutions numbered 4 and 5 as set out in the notice (the "Notice") convening this meeting, the general mandate granted to the directors of the Company ("Directors") to exercise the powers of the Company to allot, issue and otherwise deal with shares ("Shares") in the capital of the Company pursuant to the resolution numbered 4 as set out in the Notice be and the same is hereby extended (as regards the aggregate nominal amount of share capital thereby limited) by adding thereto of the aggregate nominal amount of the share capital of the Company as purchased by the Company under the authority granted pursuant to the resolution numbered 5 as set out in the Notice provided that such additional amount shall not exceed the 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution."

7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

   "**THAT** the existing Bye-laws of the Company be and are hereby amended in the following manner:

   (a) by deleting the word "following annual" in the 6th line of the existing Bye-law 86(2);

   (b) by deleting the word "special" in the 2nd line of the existing Bye-law 86(4) and substituting therefor the word "ordinary";

   (c) by deleting the words "notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year" at the end of the existing Bye-law 87(1) and substituting therefor the following:

   "every Director (including those appointed for a specified term or holding office as Chairman, Deputy Chairman, Managing Director or other office) shall be subject to retirement by rotation at least once every three years or within such other period as the laws of such jurisdiction applicable to the Company.""

By order of the Board
Mandarin Entertainment (Holdings) Limited
WONG Pak Ming
Chairman

Hong Kong, 28th April, 2006

Head office and principal place of business in Hong Kong:
27th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

Notes:

(1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one proxy or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Standard Registrars Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting.

(4) An explanatory statement containing further details regarding the proposed resolution nos. 4 to 6 above will be sent to shareholders shortly together with the 2005 annual report containing this notice of meeting.

(5) The proposed resolution no. 7 above is mainly made to reflect the corresponding changes in the Company's existing Bye-laws required by the amendments to the Appendix 3 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited.

(6) The period during which members may serve notice (with other relevant documents) to the Company of his intention to propose any person other than a director of the Company for election at the aforesaid meeting in accordance with the Company's Bye-laws shall commence from 3rd May, 2006 and end on 9th May, 2006 (both dates inclusive). The aforesaid notice should be sent to the Company's head office or its Hong Kong branch share registrars, and be accompanied by the requisite information on the nominated person including those information required under rule 13.51(2) of the Listing Rules to be set out in the announcement to be made by the Company for the purpose.

(7) The Chinese translation of this notice (including the contents of the proposed resolutions set out therein) is for reference only. In case of inconsistency, the English version shall prevail.

BUSINESS REVIEW

As previously stated in the 2004 Annual Report, the Hong Kong film industry continues to be affected by the existence of, amongst others, pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading and uploading from the Internet and video disc rental in 2005, which caused film productions in Hong Kong to slide to a new low. In 2005, only 55 sets of films were released throughout the year, even fewer than the 64 sets recorded in 2004. Due to the above reasons, the Group's businesses of film distribution and processing as well as advertising and promotional services were all adversely affected. With the implementation of CEPA (Closer Economic Partnership Arrangement) and the rapidly improving and expanding film and television markets in Mainland China, new and potentially lucrative market opportunities have been provided to the Hong Kong film industry. Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint shooting of *Seven Swords* last year, the results of which was quite well received.

As a further step towards fulfilling the aspirations of the Group and the opportunities offered, the Group established the "東方橫店影視後期製作有限公司" joint-venture with the Hengdian Group of Zhejiang in 2005. All the relevant pre-operation procedures for the joint-venture have been completed, and it has now entered the formal preparation stage of the establishment. The Group believes that, upon the joint-venture becoming operational, the joint-venture will open up new market opportunities and create even more room to develop and contribute to the future growth of the Group's film processing business.

PROSPECTS

As stated above, with the experiences gained from the joint-shooting of *Seven Swords* last year, the Group decided to invest in another major production the *Dragon Tiger Gate* during the latter part of last year. The production of the film had been completed and is scheduled to be released in Hong Kong and Mainland China during the coming summer holiday in 2006. In the meantime, we have been highly encouraged by the positive responses from the foreign film dealers on the film while negotiation with the dealers for selling the licenses are entering an advance stage. On analysis of the current sales of the film, we believe that the contribution to the financial performance of the Group from the *Dragon Tiger Gate* will be better than the *Seven Swords*.

With the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, we believe that the Group would stand to benefit from even more business opportunities in the near future.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2005, the Group employed 80 staff members, including approximately 53 staff in the processing and development department. Apart from basic salaries, discretionary bonus and contributions to the mandatory provident fund for the staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the group. In addition, I would like to thank all our shareholders and investors for their patronage.

Wong Pak Ming
Chairman

Hong Kong, 18th April, 2006

BUSINESS REVIEW AND OUTLOOK

In the year under review, the Group recorded a revenue of HK$43.3 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 41.9%, 41.2% and 16.9% respectively of the Group's revenue. The decrease in revenue compared with the prior year is mainly due to the general market slump in Hong Kong's film industry.

The Group, reported a loss of HK$18.6 million compared to a loss of HK$56.3 million last year. Loss per share is 5.64 HK$ cents, calculated on the 330,000,000 shares in issue in the 2005 compared with loss of 17.05 HK$ cents per share of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2005, the Group gross assets stood at HK$122.6 million. The net tangible assets of the Group is HK$52.4 million or 15.87 HK$ cents per share. The cash and cash equivalent is HK$10.0 million.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2005, the Group had outstanding short-term bank borrowings of approximately HK$10.5 million (represented by current portion of property mortgage loan). The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31st December, 2005, the aggregate banking facilities of the Group was approximately HK$28.15 million. The utilization rate of banking facilities was about 49.8%. These banking facilities were secured by certain land and buildings of the Group.

The bank borrowings are made in Hong Kong Dollars.

As at 31st December, 2005, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 48.0%.

NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2005 the Group's total current assets and current liabilities were approximately HK$87.7 million and HK$54.9 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2005, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

INVESTMENT

During the year, the Group has held equity investments in HK stock market.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December, 2005 was $14.9 million representing an increase of 1.8%. The Group had a workforce of about 80 staff at the end 2005. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite Executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

FUTURE PLAN

In the coming year the Group will still continue to focus on the business opportunities in the PRC market. Following the establishment of 東方橫店影視後期製作有限公司 last year, which is a sino-foreign joint venture in the PRC, this will create even more room for development for the Group's film processing business in PRC.

In addition, with the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, the Group would stand to benefit from even more business opportunities in the near future.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1st January, 2005, the Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

DIRECTORS

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performances while the Board has delegated the day-to-day management and operations of the Company's businesses to the management of the Company and its subsidiaries.

The Board currently comprises:

Executive Directors	:	Wong Pak Ming *(Chairman)*
		Wong Kit Fong
		Wong Yee Kwan, Alvina
		Ko Tin Chow
Independent Non-executive Directors	:	Wan Ngar Yin, David
		Lai Voon Wai
		Tang Kai Kui, Terence

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

For the financial year ended 31st December, 2005, 4 full Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31st December, 2005	Attendance rate
Wong Pak Ming	4	4/4
Wong Kit Fong	4	4/4
Wong Yee Kwan, Alvina	4	4/4
Ko Tin Chow	1	1/1 (after appointment on 1st December, 2005)
Wan Ngar Yin, David	4	4/4
Lai Voon Wai	3	3/4
Tang Kai Kui, Terence	1	1/1 (after appointment on 1st December, 2005)
Alan Woo (before resignation on 1st December, 2005)	2	2/3 (before resignation on 1st December, 2005)

The Board held meeting from time to time whenever necessary and at least 4 regular Board meetings will be held each year. Minutes or every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Wong Pak Ming ("Mr. Wong") is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. Wong, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

Ms. Wong Kit Fong is Mr. Wong's sister while Ms. Wong Yee Kwan, Alvina is Mr. Wong's daughter.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the independent non-executive directors are appointed for a fixed term. As regards the executive directors, only Mr. Ko Tin Chow is appointed for an initial fixed term of one year commencing from 1st December, 2005 while Mr. Wong, Ms. Wong Kit Fong and Ms. Wong Yee Kwan, Alvina are under no specific term of service. Having said that, all the directors (including the executive and independent non-executive directors) are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the "Bye-laws").

According to the Bye-laws, the chairman whilst holding such office is currently not subject to retirement by rotation while one third of the director for the time being shall retire from office by rotation at each annual general meeting and any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established with specific written terms of reference on 21st September, 2005 comprising 1 executive director and 2 independent non-executive directors. Mr. Tang Kai Kui, Terence is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's policy and structure for all remuneration of directors of the Company and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Since the Remuneration Committee was only set up in late September, 2005, therefore, during the financial year ended 31st December, 2005, the Remuneration Committee did not hold any meeting. The Company intends to schedule the first meeting of the Remuneration Committee within the second quarter of the financial year 2006.

The Company has adopted a share option scheme on 21st August, 2001, which serves as an incentive to attract, retain and motivate staff, including directors. Details of the share option scheme are set out in note 30 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 12 to the financial statements.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The directors are responsible for overseeing the preparation of accounts and financial statements of each financial period. A statement by the auditors about their reporting responsibilities is set out on page 25 of this Annual Report.

Internal Control

The Company has designed a set of internal control policy and the Board is responsible for overseeing the Company's system of internal control.

The Board has conducted review of the effectiveness of the system of internal control.

Audit Committee

The audit committee of the Company (the "Audit Committee") has been established with specific written terms of reference comprising 3 independent non-executive directors. 1 member has appropriate professional qualifications or accounting or related financial management expertise. Mr Wan Ngar Yin David is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

The existing terms of the reference of the Audit Committee was adopted in 2001 and the Board is considering of adopting a revised terms of reference to conform to and to implement the principles set out in the Code.

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alias, is to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on internal control system. 2 meetings were held in 2005. The attendance of each member is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31st December, 2005	Attendance rate
Wan Ngar Yin David	2	2/2
Lai Voon Wai	2	2/2
Alan Woo	2	2/2

At the meetings held during the year, the Audit Committee reviewed the financial reports for the year ended 31st December, 2004 and six months ended 30th June, 2005 and reviewed the effectiveness of internal control system of the Company.

Auditors' Remuneration

During the financial year ended 31st December, 2005, the remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out as follows:

	Services rendered **Fees paid/ payable** (HK$'000)
Audit services	850
Non-audit services	155
	1,005

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

The directors do not recommend the payment of a dividend for the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 26 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2005 and 2004, the Company had no reserves available for distribution to shareholders as the contributed surplus is less than the accumulated losses of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, a 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 accounts.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Wong Pak Ming *(Chairman)*	
Ms. Wong Kit Fong	
Ms. Wong Yee Kwan, Alvina	
Mr. Ko Tin Chow	(appointed on 1st December, 2005)

Independent non-executive directors:

Mr. Wan Ngar Yin, David	
Mr. Lai Voon Wai	
Mr. Tang Kai Kui, Terence	(appointed on 1st December, 2005)
Mr. Woo, Alan	(resigned on 1st December, 2005)

In accordance with Bye-law 87(1) of the Company's Bye-laws, Mr. Lai Woon Wai will retire by rotation and in accordance with Bye-law 86(2) Mr. Ko Tin Chow and Mr. Tang Kai Kui, Terence will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is for an initial term of one year except for Mr. Wan Ngar Yin, David which is for an initial term of two years and thereafter all of which may be extended for such period as both parties agree in writing and the independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

Each of the executive directors has entered into a service contract with the Company for an initial term of two years which commenced on 1st September, 2001 except for Ms. Wong Yee Kwan, Alvina which commenced on 1st September, 2003 and Mr. Ko Tin Chow which commenced on 1st December, 2005 and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

At 31st December, 2005, the interests of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions

Name of director	Capacity	Number of issued ordinary shares held *(Note 1)*	Percentage of the issued share capital of the Company
Mr. Wong Pak Ming ("Mr. Wong")	Held by controlled corporations *(Note 2)*	152,200,000	46.1%
	Beneficial owner	3,930,000	1.2%
	Held by spouse	1,314,000	0.4%
		157,444,000	47.7%
Mr. Wan Ngar Yin, David	Beneficial owner	3,292,000	1.0%
Ms. Wong Kit Fong	Beneficial owner	7,232,000	2.2%
Ms. Wong Yee Kwan, Alvina	Beneficial owner	2,606,000	0.8%

Notes:

1. Shares of HK$0.10 each in the capital of the Company.

2. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and 122,200,000 shares by Idea Storm Holdings Limited, both companies are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.

Save as disclosed above, at 31st December, 2005, none of the directors, the chief executive or their associates had any interests or short positions in any securities of the Company or any of its associated corporations.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the financial statements.

No share options were granted or exercised during the year and no share options were outstanding as at 31st December, 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of shareholder	**Capacity**	**Number of issued ordinary shares held *(Note 1)***	**Percentage of the issued share capital of the Company**
Mr. Wong	Held by controlled corporations *(Note 2)*	152,200,000	46.1%
	Beneficial owner	3,930,000	1.2%
	Held by spouse *(Note 3)*	1,314,000	0.4%
		157,444,000	47.7%
Mr. Zhang Xun	Beneficial owner	34,936,000	10.6%

Notes:

1. Shares of HK$0.10 each in the capital of the Company.

2. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.

3. In accordance to SFO, Mr. Wong's spouse is also deemed to be interested in the shares held by Mr. Wong or in which he is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31st December, 2005.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, certain transactions that have been entered into by the Group constituted connected transactions under the Listing Rules. Details are set out below:

During the year, a further advance of HK$2,831,000 was received from Mr. Zhang Xun, a substantial shareholder of the Company. The further advance bears interest at 3% per annum and will be repayable on or before 31st January, 2007. At 31st December, 2005, the remaining loans from Mr. Zhang Xun in the amount of HK$8,290,000, apart from the further advance mentioned above, bear interest at 1% per annum and will be repayable on or before 1st January, 2007.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANY

As at the balance sheet date, the advances made to a jointly controlled entity in the amount of HK$11,099,000 represents approximately 8.3% of the total assets of the Group before the respective allowance. Pursuant to Rule 13.22 of the Listing Rules, the balance sheet of the affiliated company as at 31st December, 2005 is presented below:

	HK$'000
Non-current assets	60
Current assets	1,865
Current liabilities	477
Net current assets	1,388
Shareholders' funds	1,448

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 12 to 16 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

EMOLUMENT POLICY

The Group remunerates its employees including the directors, based on their performance, experience and prevailing market rate. Other employee benefits included insurance and medical cover, subsidized training programme as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 26% and 63%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 22% and 50%, respectively, of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

WONG Pak Ming
CHAIRMAN

Hong Kong, 18th April, 2006

EXECUTIVE DIRECTORS

Mr. WONG Pak Ming, aged 60, is the Chairman of the Company and founder of the Group. Mr. WONG co-founded Cinema City Company Limited and Cinema City (Film Production) Company Limited, both film production companies in Hong Kong, and has over 23 years of experience in the film industry as director, script writer and actor. He has been the Chairman of Movie Producers and Distributors Association of Hong Kong Limited since 1997, an association established in Hong Kong representing the interests of the local film industry.

Ms. WONG Kit Fong, aged 58, is a sister of Mr. Wong Pak Ming. She joined the Group in 1993. Prior to joining the Group, she worked as an accountant in trading companies in Hong Kong for over 10 years. She is responsible for financial planning and administrative functions of the Group. She is also a director of a number of subsidiaries of the Company and oversees their overall operations.

Mr. KO Tin Chow, aged 56, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 33 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Movielab Limited, a film processing company in Hong Kong. He is the Chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Ms. WONG Yee Kwan, Alvina, aged 30, is a daughter of Mr. Wong Pak Ming, was appointed as executive director of the Company on 1st September, 2003. Ms. Wong holds a Bachelor Degree in arts from University of Toronto and attained a certificate in marketing management issued by The George Brown College of Applied Arts and Technology. Prior to her appointment as executive director of the Company, she has been appointed a director of Chili Advertising & Promotions Limited ("Chili") since 20th August, 2000, the Company's subsidiary which is engaged in provision of promotional services for films. Ms. Wong now supervises Chili's overall operation and is also responsible for coordinating with media reporters and other promotional events organized by Chili.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WAN Ngar Yin, David, aged 45, was re-designated as independent non-executive director of the Company on 10th September 2004. He graduated with a bachelor's degree in social sciences from the University of Hong Kong and obtained a master degree in business administration from the University of Sydney. Mr. Wan is a member of the Australian Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. LAI Voon Wai, aged 35, was appointed as independent non-executive director of the Company on 1st September, 2003. Mr. Lai graduated from Queen Mary & Westfield College with a bachelor's degree in electronic engineering and also attained an LLB (Hons) degree from the University of Buckingham, United Kingdom. He has over eight years of experience in investment banking and was involved in the listing and mergers and acquisitions of a number of listed companies in Hong Kong. Mr. Lai was also the Chief of Corporate Development of E-Life International (stock code: 370), a listed company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), for over one and a half year. He is now a director of the investment banking division of a securities company in Hong Kong.

Mr. TANG Kai Kui, Terence, aged 47, is a member of the Royal Institute of British Architects. Mr. Tang is a director of an interior design and engineering company.

OTHER SENIOR MANAGEMENT

Mr. KWOK Chi Keung, Andy, aged 38, is the qualified accountant of the Company and was appointed as chief financial officer of the Group on 30th September, 2004. Mr. Kwok has over 13 years experience in auditing, accounting, financial management and corporate finance. He is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of The Association of Chartered Certified Accountants.

Mr. CHOW Ming Sang, aged 57, is the production manager responsible for the operation of the printing division of the film processing business of the Group. Mr. Chow joined the Group since its establishment and has over 35 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 54, is the production manager responsible for the operation of the special effects division of the film processing business of the Group. Mr. Fung joined the Group since its establishment and has over 31 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 58, is the production manager supervising the quality control division of the film processing business of the Group. Mr. Lau joined the Group since its establishment and has over 31 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 59, is the production manager who has overall responsibilities for film processing and film subtitling. Mr. Wong joined the Group since its establishment and has over 35 years of experience in the film processing industry.

Ms. HO Yuen Man, Janice, aged 38, is the finance manager responsible for the financial and accounting functions of the film processing unit of the Group. Miss Ho holds a diploma in accountancy awarded by Vocational Training Council in Hong Kong. She also holds a certificate accredited by The Hong Kong Association of Accounting Technicians as an "Accounting Technician (H.K.A.T.)".

Deloitte.
德勤

TO THE MEMBERS OF MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mandarin Entertainment (Holdings) Limited (the Company) and its subsidiaries (the Group) from pages 26 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong 18th April, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	**2005** **HK$'000**	2004 HK$'000
Revenue	7	**43,256**	53,192
Cost of sales		**(42,193)**	(72,812)
Gross profit (loss)		**1,063**	(19,620)
Other income		**2,743**	2,227
Administrative expenses		**(22,952)**	(23,744)
Finance costs	9	**(804)**	(751)
Impairment loss recognised on loan to a jointly controlled entity		**–**	(10,927)
Amortisation on goodwill of investment in jointly controlled entity		**–**	(300)
Impairment on goodwill of investment in jointly controlled entity		**–**	(2,400)
Share of results of jointly controlled entities		**87**	(362)
Loss before taxation	10	**(19,863)**	(55,877)
Taxation	11	**1,244**	(466)
Loss for the year		**(18,619)**	(56,343)
Attributable to:			
Equity holders of the Company		**(18,619)**	(56,269)
Minority interests		**–**	(74)
		(18,619)	(56,343)
Dividends	13	**–**	–
Loss per share – basic	14	**(5.64 cents)**	(17.05 cents)

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	**2005 HK$'000**	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,194**	6,202
Prepaid lease payments	16	**2,578**	2,653
Investment securities	17	**–**	6,100
Available-for-sale investments	18	**7,221**	–
Interests in jointly controlled entities	19	**19,871**	16,284
Pledged bank deposits	20	**1,005**	–
		34,869	31,239
CURRENT ASSETS			
Film rights		**3,277**	6,837
Film production in progress		**51,058**	29,029
Prepaid lease payments	16	**75**	75
Inventories	21	**2,007**	1,949
Trade and other receivables and deposits paid	22	**14,426**	27,827
Amount due from a jointly controlled entity	23	**172**	–
Amount due from a related company	24	**5,814**	6,147
Amount due from a minority shareholder of a subsidiary	23	**–**	280
Pledged bank deposits	20	**506**	500
Bank balances and cash	25	**10,410**	9,646
		87,745	82,290
CURRENT LIABILITIES			
Trade and other payables and deposits received	26	**44,352**	19,806
Bank overdraft	27	**384**	1,483
Bank and other borrowings – due within one year	27	**10,117**	16,294
Taxation payable		**66**	919
		54,919	38,502
NET CURRENT ASSETS		**32,826**	43,788
TOTAL ASSETS LESS CURRENT LIABILITIES		**67,695**	75,027
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	27	**14,644**	4,080
Deferred taxation	28	**677**	887
		15,321	4,967
NET ASSETS		**52,374**	70,060
CAPITAL AND RESERVES			
Share capital	29	**33,000**	33,000
Reserves		**19,374**	36,872
Equity attributable to equity holders of the Company		**52,374**	69,872
Minority interests		**–**	188
TOTAL EQUITY		**52,374**	70,060

The financial statements on pages 26 to 69 were approved and authorised for issue by the Board of Directors on 18th April, 2006 and are signed on its behalf by:

Wong Pak Ming
DIRECTOR

Wong Kit Fong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Goodwill reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2004	33,000	34,653	–	17,926	1,720	38,842	126,141	262	126,403
Loss for the year	–	–	–	–	–	(56,269)	(56,269)	(74)	(56,343)
At 31st December, 2004	33,000	34,653	–	17,926	1,720	(17,427)	69,872	188	70,060
Effect of changes in accounting policies *(Note 3)*	–	–	1,028	–	(1,720)	1,720	1,028	–	1,028
At 1st January, 2005 as restated	33,000	34,653	1,028	17,926	–	(15,707)	70,900	188	71,088
Gain on fair value change of available-for-sale investments recognised in equity	–	–	93	–	–	–	93	–	93
Loss of the year	–	–	–	–	–	(18,619)	(18,619)	–	(18,619)
Total recognised income and expense for the year	–	–	93	–	–	(18,619)	(18,526)	–	(18,526)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(188)	(188)
At 31st December, 2005	33,000	34,653	1,121	17,926	–	(34,326)	52,374	–	52,374

The special reserve of the Group mainly represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of approximately HK$10,420,000 (2004: HK$10,420,000) and the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the Group Reorganisation of HK$7,506,000 (2004: HK$7,506,000).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005	2004
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(19,863)**	(55,877)
Adjustments for:		
Interest income	**(100)**	(36)
Interest expenses	**804**	751
Release of prepaid lease payments	**75**	75
Depreciation of property, plant and equipment	**2,191**	2,226
Impairment on trade and other receivables	**3,713**	3,742
Share of results of jointly controlled entities	**(87)**	362
Impairment loss recognised in respect of film production in progress	**7,795**	6,981
Impairment loss recognised on loan to a jointly controlled entity	**–**	10,927
Amortisation on goodwill of investment in jointly controlled entity	**–**	300
Impairment on goodwill of investment in jointly controlled entity	**–**	2,400
Operating cash flows before movements in working capital	**(5,472)**	(28,149)
(Increase) decrease in film rights and production in progress	**(26,264)**	33,840
(Increase) decrease in inventories	**(58)**	675
Decrease in trade and other receivables and deposits paid	**9,688**	148
Decrease in amount due from a related company	**333**	238
Increase (decrease) in trade and other payables and deposits received	**24,546**	(3,016)
Cash generated from operations	**2,773**	3,736
Hong Kong Profits Tax paid	**–**	(300)
Hong Kong Profits Tax refunded	**181**	949
NET CASH GENERATED FROM OPERATING ACTIVITIES	**2,954**	4,385
INVESTING ACTIVITIES		
Investment in a jointly controlled entity	**(3,500)**	–
Increase in pledged bank deposits	**(1,011)**	(500)
Purchase of property, plant and equipment	**(183)**	(353)
Advance to a jointly controlled entity	**(172)**	(3,012)
Interest received	**100**	36
Repayment from a minority shareholder of a subsidiary	**92**	45
Purchase of investment securities	**–**	(3,100)
NET CASH USED IN INVESTING ACTIVITIES	**(4,674)**	(6,884)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000
FINANCING ACTIVITIES		
Bank and other borrowings raised	**11,081**	3,610
Repayment of bank and other borrowings	**(6,694)**	(7,561)
Interest paid	**(804)**	(751)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**3,583**	(4,702)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,863**	(7,201)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**8,163**	15,364
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**10,026**	8,163
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**10,410**	9,646
Bank overdrafts	**(384)**	(1,483)
	10,026	8,163

1. GENERAL

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

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill on 1st January, 2005 of which negative goodwill of HK$1,720,000 was previously recorded in reserves with a corresponding decrease to accumulated losses.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities
The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24
Up to 31st December, 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, the Group's investments in debt or equity securities are classified as "investment securities". "Investment securities" are carried at cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the transitional provision of HKAS 39. Investments in securities classified under non-current assets with carrying amounts of HK$6,100,000 were reclassified to available-for-sale investments. An adjustment of HK$1,028,000 to the previous carrying amounts of assets at 1st January, 2005 has been made to the Group's investment revaluation reserve.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

Owner-occupied Leasehold Interest in Land (continued)

As at 31st December, 2004, an amount of HK$2,728,000 previously classified as property, plant and equipment has been classified to prepaid lease payments. Of the amount reclassified, HK$75,000 has been classified as a current asset, while the remaining portion of HK$2,653,000 has been classified as a non-current asset.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies described in note 2 above have no material impact on the results for the current and prior years.

The effects of the changes in the accounting policies described in note 2 above on the balance sheet items are as follows:

	As at 31st December, 2004 (originally stated)	Effect of HKAS 1 and HKAS27	Effect of HKAS 17	At 31st December, 2004 (restated)	Effect of HKFRS 3	Effect of HKAS 39	As at 1st January, 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items							
Property, plant and equipment	8,930	–	(2,728)	6,202	–	–	6,202
Prepaid lease payments							
– non-current portion	–	–	2,653	2,653	–	–	2,653
– current portion	–	–	75	75	–	–	75
Available-for-sale investments	–	–	–	–	–	7,128	7,128
Investment securities	6,100	–	–	6,100	–	(6,100)	–
Other assets and liabilities	55,030	–	–	55,030	–	–	55,030
	70,060	–	–	70,060	–	1,028	71,088
Capital and reserves							
Share capital	33,000	–	–	33,000	–	–	33,000
Share premium	34,653	–	–	34,653	–	–	34,653
Investments revaluation reserve	–	–	–	–	–	1,028	1,028
Special reserve	17,926	–	–	17,926	–	–	17,926
Goodwill reserve	1,720	–	–	1,720	(1,720)	–	–
Minority interests	–	188	–	188	–	–	188
Accumulated losses	(17,427)	–	–	(17,427)	1,720	–	(15,707)
	69,872	188	–	70,060	–	1,028	71,088
Minority interests	188	(188)	–	–	–	–	–
	70,060	–	–	70,060	–	1,028	71,088

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised as follows:

	As originally stated HK$'000	Effect of HKAS 1 and HKAS 27 HK$'000	As restated HK$'000
Share capital and other reserves	126,141	–	126,141
Minority interests	–	262	262
Total effects on equity	126,141	262	126,403
Minority interests	262	(262)	–

The Company has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures1
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary or jointly controlled entity for which the agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated losses.

Property, plant and equipment

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessee

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

Inventories

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

Cost comprises direct materials and, when applicable, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less any estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Financial assets

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

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Financial liabilities and equity

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

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

Financial liabilities
Financial liabilities including bank and other borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Film rights and production in progress

Film rights generated by the Group or perpetual rights acquired by the Group are stated at cost less impairment losses, and net realisable value. Costs of film rights, represent the carrying value transferred from film production in progress upon completion or the purchase price of the perpetual film rights, and are amortised over the period of two to twenty years based on the expected income streams.

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

Impairment losses

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

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

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense as they fall due.

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Taxation

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

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

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

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Estimated impairment loss on film production in progress

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

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

Certain trade and other receivables and loans receivable of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk through fixed and variable interest rates borrowings and short term bank deposits as disclosed in notes 25 and 27 respectively. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Price risk

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

Liquidity risk

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's concentration of credit risk by geographical locations is mainly concentrated in Hong Kong, which accounted for approximately 89% (2004: 73%) of the turnover for the year ended 31st December, 2005.

The largest customer accounted for approximately 26% (2004: 6%) of the revenue and the five largest customers in aggregate accounted for approximately 63% (2004: 18%) of the revenue for the year ended 31st December, 2005.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

7. REVENUE

	2005 **HK$'000**	2004 HK$'000
An analysis of revenue is as follows:		
Film distribution and licensing income	**17,838**	20,152
Film processing income	**18,117**	22,529
Advertising and promotional service income	**7,301**	10,511
	43,256	53,192

8. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

Segment information about these businesses is presented below.

2005

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

Inter segment revenue is charged at prevailing market rate.

8. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2005

BALANCE SHEET

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Others operations HK$'000	Total HK$'000
ASSETS					
Segment assets	73,232	18,468	2,460	–	94,160
Interests in jointly controlled entities	–	–	–	19,871	19,871
Unallocated corporate assets					8,583
Consolidated total assets					122,614
LIABILITIES					
Segment liabilities	40,782	2,463	883	–	44,128
Unallocated corporate liabilities					26,112
Consolidated total liabilities					70,240
OTHER INFORMATION					
Capital expenditure	20	124	39	–	183
Impairment on trade and other receivables	2,717	996	–	–	3,713
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	192	1,894	84	21	2,191
Impairment loss recognised in respect of film production in progress	7,795	–	–	–	7,795

8. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2004

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Other operations HK$'000	Elimination HK$'000	Total HK$'000
REVENUE						
External revenue	22,519	20,162	10,511	–	–	53,192
Inter segment revenue	706	1,519	523	–	(2,748)	–
Total revenue	23,225	21,681	11,034	–	(2,748)	53,192
RESULT						
Segment result	(27,013)	4,555	2,838	–	–	(19,620)
Other income						2,227
Unallocated corporate expenses						(23,744)
Finance costs						(751)
Impairment loss recognised on loan to a jointly controlled entity	–	–	–	(10,927)	–	(10,927)
Amortisation on goodwill of investment in jointly controlled entity	–	–	–	(300)	–	(300)
Impairment on goodwill of investment in jointly controlled entity	–	–	–	(2,400)	–	(2,400)
Share of results of jointly controlled entities	–	–	–	(362)	–	(362)
Loss before taxation						(55,877)
Taxation						(466)
Loss for the year						(56,343)

Inter segment revenue is charged at prevailing market rate.

8. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2004

BALANCE SHEET

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Others operations HK$'000	Total HK$'000
ASSETS					
Segment assets	60,862	24,679	4,508	–	90,049
Interests in jointly controlled entities	–	–	–	16,284	16,284
Unallocated corporate assets					7,196
Consolidated total assets					113,529
LIABILITIES					
Segment liabilities	14,035	2,603	3,040	–	19,678
Unallocated corporate liabilities					23,791
Consolidated total liabilities					43,469
OTHER INFORMATION					
Capital expenditure	199	112	42	–	353
Impairment on trade and other receivables	3,742	–	–	–	3,742
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	249	1,877	78	22	2,226
Amortisation of goodwill of investment in jointly controlled entity	–	–	–	300	300
Impairment loss recognised in respect of film production in progress	6,981	–	–	–	6,981

8. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

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

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

2005

	Hong Kong HK$'000	**The PRC HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue	38,407	383	4,466	43,256

	Hong Kong HK$'000	**The PRC HK$'000**	**Others HK$'000**	**Total HK$'000**
Carrying amount of segment assets	96,003	26,187	424	122,614
Additions to property, plant and equipment	183	–	–	183

2004

	Hong Kong HK$'000	**The PRC** HK$'000	**Others** HK$'000	**Total** HK$'000
Revenue	38,712	7,982	6,498	53,192

	Hong Kong HK$'000	**The PRC** HK$'000	**Others** HK$'000	**Total** HK$'000
Carrying amount of segment assets	75,679	23,350	14,500	113,529
Additions to property, plant and equipment	337	16	–	353

9. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank and other loans:		
– wholly repayable within five years	**804**	732
– not wholly repayable within five years	**–**	19
	804	751

10. LOSS BEFORE TAXATION

	2005	2004
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments *(note 12)*	**3,408**	3,146
Other staff costs	**11,492**	11,492
Total staff costs	**14,900**	14,638
Auditors' remuneration	**1,005**	878
Depreciation of property, plant and equipment	**2,191**	2,226
Release of prepaid lease payments	**75**	75
Impairment on trade and other receivables	**3,713**	3,742
Impairment loss recognised in respect of film production in progress (included in cost of sales)	**7,795**	6,981
Cost of inventories recognised as expenses	**8,410**	8,943
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**43**	41
and after crediting:		
Interest income	**100**	36

Included in total staff costs is an aggregate amount of HK$527,000 (2004: HK$607,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

11. TAXATION

	2005 HK$'000	2004 HK$'000
Hong Kong Profits Tax		
– provision for current year	**143**	342
– (over)underprovision in prior years	**(1,177)**	197
	(1,034)	539
Deferred tax credit *(note 28)*	**(210)**	(73)
Taxation attributable to the Company and its subsidiaries	**(1,244)**	466

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for both years.

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

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

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(19,863)**	(55,877)
Tax at the domestic income tax rate of 17.5%	**(3,476)**	(9,778)
Tax effect of expenses not deductible for tax purpose	**2,098**	4,047
Tax effect of income not taxable for tax purpose	**(26)**	(5)
(Over)underprovision in prior years	**(1,177)**	197
Tax effect of tax losses not recognised	**1,387**	5,930
Utilisation of tax losses previously not recognised	**(36)**	(33)
Utilisation of deferred tax assets previously not recognised	**–**	(230)
Tax effect on share of results of jointly controlled entities	**(14)**	338
Tax (credit) charge for the year	**(1,244)**	466

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2004: seven) directors were as follows:

2005

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

2004

	Wong Pak Ming HK$'000	Wong Kit Fong HK$'000	Wong Yee Kwan, Alvina HK$'000	Lai Voon Wai HK$'000	Wan Ngar Yin, David HK$'000	Woo, Alan** HK$'000	Hou Lee Tsun, Laurence*** HK$'000	Total HK$'000
Fees	–	–	–	120	240	20	100	480
Other emoluments:								
Salaries and other benefits	1,788	482	360	–	–	–	–	2,630
Retirement scheme contributions	12	12	12	–	–	–	–	36
Total emoluments	1,800	494	372	120	240	20	100	3,146

* Ko Tin Chow and Tang Kai Kui, Terence were appointed on 1st December, 2005.

** Woo, Alan was appointed on 1st November, 2004 and resigned on 1st December, 2005.

*** Hou Lee Tsun, Laurence was resigned on 1st November, 2004.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Emoluments of highest paid individuals

In 2005, one of the top five highest paid individuals became a director of the Company in the current year. His emoluments as a director has been included in the disclosure set out in note (a) above.

Of the five individuals with the highest emoluments in the Group, four (2004: three) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the individual mentioned above as an employee and the emoluments of remaining one (2004: two) highest paid individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**908**	1,017
Retirement scheme contributions	**34**	50
	942	1,067

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

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

13. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2005 and 2004, nor has any dividend been proposed since the balance sheet date.

14. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss attributable to equity holders of the Company HK$18,619,000 (2004: loss of HK$56,269,000) and on 330,000,000 shares in issue during both years.

During the year ended 31st December, 2005 and 2004, no diluted loss per share is presented as no options were granted, exercised or outstanding during the year ended 31st December, 2005 and 2004.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Leasehold improvements	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST OR VALUATION						
At 1st January, 2004	1,614	5,349	3,068	525	20,371	30,927
Additions	–	40	–	–	313	353
At 31st December, 2004	1,614	5,389	3,068	525	20,684	31,280
Additions	–	102	–	–	81	183
Disposals	–	–	–	–	(80)	(80)
At 31st December, 2005	1,614	5,491	3,068	525	20,685	31,383
Comprising:						
At cost	–	5,491	3,068	525	20,685	29,769
At valuation	1,614	–	–	–	–	1,614
	1,614	5,491	3,068	525	20,685	31,383
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	345	4,219	2,044	409	15,835	22,852
Provided for the year	96	331	265	35	1,499	2,226
At 31st December, 2004	441	4,550	2,309	444	17,334	25,078
Provided for the year	96	236	337	27	1,495	2,191
Eliminated on disposals	–	–	–	–	(80)	(80)
At 31st December, 2005	537	4,786	2,646	471	18,749	27,189
NET BOOK VALUES						
At 31st December, 2005	1,077	705	422	54	1,936	4,194
At 31st December, 2004	1,173	839	759	81	3,350	6,202

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

The buildings of the Group are situated in Hong Kong.

At 31st December, 2005, had all of the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation, their carrying value would have been HK$2,199,000 (2004: HK$2,295,000).

16. PREPAID LEASE PAYMENTS

	2005 **HK$'000**	2004 HK$'000
The Group's prepaid lease payments comprise medium-term leasehold land in Hong Kong	**2,653**	2,728
Analysed for reporting purpose as:		
Current assets	**75**	75
Non-current assets	**2,578**	2,653
	2,653	2,728

17. INVESTMENT SECURITIES

Investment securities at 31st December, 2004 represented listed shares of equity securities in Hong Kong stated at the cost of HK$6,100,000. The market value of the listed shares at 31st December, 2004 was HK$7,128,000. Upon the application of HKAS 39 on 1st January, 2005, investment securities have been reclassified to available-for-sale investments under HKAS 39 (see note 3 for details).

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments at 31st December, 2005 represents:

	2005
	HK$'000
Equity securities listed in Hong Kong, at fair value	7,221

As at the balance sheet date, all available-for-sale investments are stated at fair value. Fair values of those investments have been determined by reference to bid prices quoted in active markets.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005	2004
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**23,501**	20,001
Share of post-acquisition losses	**(3,630)**	(3,717)
	19,871	16,284
Loan to a jointly controlled entity	**10,927**	10,927
Impairment loss recognised on loan to a jointly controlled entity	**(10,927)**	(10,927)
	–	–

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

At 31st December, 2005, the Group had interests in the following jointly controlled entities:

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

During the year, the Group injected an amount of HK$3,500,000 as capital injection in 橫店影視製作.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The goodwill arising on acquisitions of jointly controlled entities in prior years, included in the cost of investment in jointly controlled entities, had been fully amortised and impaired in 2004. The movement of goodwill is set out below.

	HK$'000
COST	
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	3,000
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	300
Charge for the year	300
Impairment loss recognised	2,400
At 31st December, 2004 and 31st December, 2005	3,000
CARRYING VALUES	
At 31st December, 2004 and 31st December, 2005	–

Prior to 1st January, 2005, goodwill had been amortised over 10 years.

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

	2005 **HK$'000**	2004 HK$'000
Non-current assets	**92,620**	126,292
Current assets	**61,454**	83,295
Current liabilities	**19,243**	104,059
Non-current liabilities	**96,154**	67,308
Income	**34,624**	32,506
Expenses	**34,819**	37,383

20. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$506,000 (2004: HK$500,000) have been pledged to secure bank overdrafts and are therefore classified as current assets. The remaining deposits amounting to HK$1,005,000 (2004: nil) have been pledged to secure long-term borrowings and are therefore classified as non-current assets.

The deposits carry fixed interest rate ranging from of 2.75% to 3.03% per annum (2004: 0.87%). The pledged bank deposits will be released upon the termination of relevant banking facilities. The directors consider that the carrying amounts of pledged bank deposits at 31st December, 2005 approximate their fair values.

21. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**1,898**	1,927
Work in progress	**109**	22
	2,007	1,949

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables and deposits paid are trade receivables of HK$5,598,000 (2004: HK$9,318,000) and their aged analysis is as follows:

	2005	2004
	HK$'000	HK$'000
0 – 90 days	**3,690**	5,951
91- 180 days	**821**	1,890
181 – 365 days	**362**	547
Over 1 year	**725**	930
	5,598	9,318

The directors consider that the carrying amounts of trade and other receivables and deposits paid at 31st December, 2005 approximate their fair values.

23. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY/A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

The directors consider that the carrying amount due from a jointly controlled entity at 31st December, 2005 approximates its fair value.

The amount due from a minority shareholder of a subsidiary has been fully settled during the year.

24. AMOUNT DUE FROM A RELATED COMPANY

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

	As at 31st December,		Maximum amount outstanding during the year
	2005	2004	
	HK$'000	HK$'000	HK$'000
廣州東影影視出品有限公司 ("Tung Ying") *(Note)*	**5,814**	6,147	6,147

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

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

The directors consider that the carrying amount due from a related company at 31st December, 2005 approximates its fair value.

25. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 2% to 3% (2004: 1% to 2%) per annum and have original maturity of three months or less. The carrying amount of these assets approximate their fair values.

The bank balances and cash of the Group are mainly denominated in United States dollars, Renminbi and Hong Kong dollars. Included in the bank balances and cash as at 31st December, 2005 was amount in Renminbi of RMB154,000 (2004: RMB225,000). Renminbi is not freely convertible into other currencies.

26. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables and deposits received are trade payables of HK$2,204,000 (2004: HK$4,475,000) and their aged analysis is as follows:

	2005 HK$'000	2004 HK$'000
0 – 90 days	1,690	4,222
91- 180 days	514	253
	2,204	4,475

27. BANK OVERDRAFT AND BANK AND OTHER BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans	13,640	12,084
Other loan	11,121	8,290
	24,761	20,374
Secured	6,335	4,084
Unsecured	18,426	16,290
	24,761	20,374

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

	2005 HK$'000	2004 HK$'000
On demand or within one year	10,117	16,294
More than one year, but not exceeding two years	14,064	3,691
More than two years, but not exceeding five years	580	294
More than five years	–	95
	24,761	20,374
Less: Amount due within one year shown under current liabilities	(10,117)	(16,294)
Amount due after one year	14,644	4,080

All of the bank overdraft and borrowings are denominated in Hong Kong Dollars and are variable-rate borrowings which carry interest ranging from 3% to 8% (2004: 3% to 6%) per annum. Interest is repriced every month.

27. BANK AND OTHER BORROWINGS (continued)

Other loan at 31st December, 2005 in an amount of HK$8,290,000 (2004: HK$8,290,000) is denominated in Hong Kong Dollars while the remaining HK$2,831,000 (2004: Nil) is denominated in Renminbi. The loans are fixed rate borrowings which carry interest ranging from 1% to 3% (2004: 1%) per annum.

The fair values of the Group's borrowings estimated by discounting their future cash flows at the prevailing market rates at the balance sheet date for similar borrowings approximate their carrying amounts.

28. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1st January, 2004	1,120	(160)	960
(Credit) charge to income statement for the year	(233)	160	(73)
At 31st December, 2004	887	–	887
Credit to income statement for the year	(210)	–	(210)
At 31st December, 2005	677	–	677

At 31st December, 2005, the Group has unused tax losses of HK$35,494,000 (2004: HK$27,774,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

29. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	330,000,000	33,000

30. SHARE OPTION SCHEME

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

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

The Scheme will expire on 20th August, 2011.

No options were granted, exercised or outstanding during the year ended 31st December, 2005 and 2004.

31. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2005 HK$'000	2004 HK$'000
Premises	1,295	1,427

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

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Operating leases which expire:		
Within one year	1,152	1,058
In the second to fifth year inclusive	214	864
	1,366	1,922

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

32. CAPITAL COMMITMENTS

As at 31st December, 2005, the Group had capital commitment of HK$20,058,000 (2004: HK$23,030,000) which is contracted for the investment in a joint venture in the PRC.

33. OTHER COMMITMENTS

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

	2005 HK$'000	2004 HK$'000
Production of a film	–	829
Artists' fee	3,578	7,506
	3,578	8,335

34. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2005, the Group's banking facilities are secured by the following:

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

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

(3) the legal charge over the copyright of one film "Dragon Tiger Gate" with a carrying value of HK$33,175,000, included in film production in progress, at 31st December, 2005 (2004: Nil);

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

(5) certain of its prepaid lease payments and buildings with a carrying value of HK$3,730,000 (2004: HK$3,901,000) and its plant and machinery of HK$1,292,000 (2004: HK$2,148,000); and

(6) bank deposits as set out in note 20.

35. RETIREMENT BENEFITS SCHEME

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

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

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

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

36. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	Notes	2005 HK$'000	2004 HK$'000
Management fee income	(i)	**150**	600
Agency fees paid	(ii)	**100**	435
Consultancy service fee paid	(iii)	**100**	90

Notes:

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

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

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

(ii) Remuneration of key management personnel

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

	2005 HK$'000	2004 HK$'000
Short term benefits	**3,370**	3,110
Other long term benefits	**38**	36
	3,408	3,146

The remuneration of key management is determined with reference to the Group's operating results, individual performance and comparable market statistics.

(iii) Related party balances

Details of the balances with a jointly controlled entity, a related company and a minority shareholder of a subsidiary as at the respective balance sheet dates are set out in the consolidated balance sheet and their respective notes.

37. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31st December, 2005 are as follows:

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

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

37. PRINCIPAL SUBSIDIARIES (continued)

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

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

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

38. BALANCE SHEET OF THE COMPANY

	2005	2004
	HK$'000	HK$'000
NON-CURRENT ASSET		
Investment in subsidiaries	**6,172**	21,172
CURRENT ASSETS		
Amount due from subsidiaries	**40,778**	41,988
Prepayment	**145**	–
Bank balances and cash	**56**	55
	40,979	42,043
CURRENT LIABILITY		
Accrued charge	**359**	108
NET CURRENT ASSETS	**40,620**	41,935
NET ASSETS	**46,792**	63,107
CAPITAL AND RESERVES		
Share capital	**33,000**	33,000
Reserves *(note)*	**13,792**	30,107
SHAREHOLDERS' FUNDS	**46,792**	63,107

38. BALANCE SHEET OF THE COMPANY (continued)

Note:

Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2004	34,653	44,072	(886)	77,839
Loss for the year	–	–	(47,732)	(47,732)
At 31st December, 2004	34,653	44,072	(48,618)	30,107
Loss for the year	–	–	(16,315)	(16,315)
At 31st December, 2005	34,653	44,072	(64,933)	13,792

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

A summary of the results, assets and liabilities of the Group for the last five financial periods is as follows:

	For the year ended 31st December,				
	2001	**2002**	**2003**	**2004**	**2005**
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)	**HK$'000**
RESULTS					
Revenue	129,677	83,442	58,535	53,192	**43,256**
Profit (loss) before taxation	44,149	(7,682)	1,544	(55,877)	**(19,863)**
Taxation	(3,001)	179	(1,011)	(466)	**1,244**
Profit (loss) for the year	41,148	(7,503)	533	(56,343)	**(18,619)**
Attributable to:					
Equity holders of the Company	41,148	(7,503)	551	(56,269)	**(18,619)**
Minority interests	–	–	(18)	(74)	**–**
	41,148	(7,503)	533	(56,343)	**(18,619)**

	2001	**2002**	**2003**	**2004**	**2005**
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	144,825	138,122	174,585	113,529	**122,614**
Total liabilities	(16,952)	(12,532)	(48,182)	(43,469)	**(70,240)**
	127,873	125,590	126,403	70,060	**52,374**
Attributable to:					
Equity holders of the Company	127,873	125,590	126,141	69,872	**52,374**
Minority interests	–	–	262	188	**–**
	127,873	125,590	126,403	70,060	**52,374**