2006 ANNUAL REPORT

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東 方 娛 樂 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code : 0009)

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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.
4/F & 5/F, Central Tower
No. 28 Queen's Road Central
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
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

Room 1801-2 Westlands Centre
20 Westlands Road
Quarry Bay
Hong Kong

NOTICE IS HEREBY GIVEN that an Annual General Meeting of members of Mandarin Entertainment (Holdings) Limited (the "Company") will be held at Room 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on 31st May, 2007 at 3:00 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, 2006;

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."

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

Hong Kong, 30th April, 2007

Head office and principal place of business
in Hong Kong:
Room 1801-2, Westlands Centre,
20 Westlands Road,
Quarry Bay, 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 2006 annual report containing this notice of meeting.

(5) 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 2005 Annual Report, with the implementation of CEPA (Closer Economic Partnership Arrangement), the films jointly produced by Hong Kong and Mainland China have been classified as films locally made in China, and as a result, were permitted to be distributed and released throughout the PRC, thus allowing the Group to reach out to the enormous market with a population of 1.3 billion people. Despite of a number of unfavorable factors, such as pirating, parallel goods, illegal downloading and uploading from the Internet and videodisc rental etc. yet to be resolved, respective authorities in Hong Kong and Mainland China have taken active measures to solve these problems. It is expected that positive effect will materialize in the foreseeable future.

Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint production of two major movies, namely *Seven Swords* 「七劍」 and *Dragon Tiger Gate* 「龍虎門」which have both achieved satisfactory results. As such, the Group will continue to explore new development opportunities under CEPA in the coming year.

PROSPECTS

With improved market condition, the Group will produce more films in 2007. The films under production include, among the others, *Flash Point*「導火綫」starred by Donnie Yen and Louis Koo and produced by the same team in the production of *Dragon Tiger Gate*「龍虎門」, a comedy film *Dancing Lion* 「醒獅」 directed and starred by Francis Ng, a female genre film *Wonder Woman*「女人本色」directed by Wong Chun Chun and a suspense film *Missing*「尋人」directed by Hark Tsui. The films under preparation include, among others, *The Sword Searcher* 「神兵」which is adapted from Wong Yuk Long's animation, and TV series *The Phantom Lover*「大劇院」which is adapted from the film *The Phantom Lover*「夜半歌聲」.

With the increase in the number of films and TV series produced by the Group, the directors believe that the Group's results should improve in the coming years.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed 76 staff members, including approximately 51 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, 20th April, 2007

BUSINESS REVIEW AND OUTLOOK

In the year under review, the Group recorded a revenue of HK$77.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 61.7%, 29.1% and 9.2% respectively of the Group's revenue. The increase in revenue compared with the prior year is mainly due to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

During the period, the Group has disposed of 15,976,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31st December, 2005, for an aggregate consideration of approximately HK$10.7 million resulting in a profit of approximately HK$5.04 million.

The Group reported a profit of HK$1.7 million compared to a loss of HK$18.6 million last year. Earnings per share is 0.51 HK cents, calculated on the 330,000,000 shares in issue in 2006 compared with loss of 5.64 HK cents per share of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, the Group's gross assets stood at HK$109.9 million. The net tangible assets of the Group is HK$54.7 million or 16.57 HKcents per share. The cash and cash equivalents is HK$16.7 million.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2006, the Group had outstanding short-term bank borrowings of approximately HK$5.4 million. The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31st December, 2006, the aggregate banking facilities of the Group was approximately HK$17.15 million. The utilization rate of banking facilities was about 34.99%. 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, 2006, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 34.7%.

NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2006 the Group's total current assets and current liabilities were approximately HK$79.8 million and HK$40.8 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 2006, 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, 2006 was HK$16.1 million representing an increase of 8.3%. The Group had a workforce of about 76 staff at the end 2006. 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. During the year ended 31st December, 2006, options were granted on 23rd June. Details of the share options granted under the scheme are set out in note 29 to the consolidated financial statements.

FUTURE PLAN

In the coming year the Group will still continue to focus on the business opportunities in the PRC market. 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 1 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 is 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.

Board of Directors (continued)

For the financial year ended 31 December 2006, 4 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 31 December 2006	Attendance rate
Wong Pak Ming	4	4/4
Wong Kit Fong	4	4/4
Wong Yee Kwan, Alvina	4	4/4
Ko Tin Chow	4	4/4
Wan Ngar Yin, David	4	4/4
Lai Voon Wai	4	4/4
Tang Kai Kui, Terence	4	3/4

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 directors (including executive or independent non-executive directors) are appointed for a fixed term. However, they 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").

The Company has amended the Bye-laws in the 2006 annual general meeting in order to comply with the Code, especially the director retirement requirements under the Code.

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 21 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.

The Company has adopted a share option scheme on 21 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 29 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 11 to the financial statements.

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2006 and during the meeting the remuneration policy in remunerating the directors and senior management of Group was under review and none of the executive directors participated in the determination of their own remuneration. The attendance of each member is set out as follows:

Name of director	Number of Committee meeting attended in the financial year ended 31 December 2006	Attendance rate
Tang Kai Kui, Terence	1	1/1
Wong Pak Ming	1	1/1
Wan Ngar Yin David	1	1/1

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 26 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.

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 2006. The attendance of each member is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31 December 2006	Attendance rate
Wan Ngar Yin David	2	2/2
Lai Voon Wai	2	2/2
Tang Kai Kui, Terence	2	2/2

At the meetings held during the year, the Audit Committee reviewed the financial reports for the year ended 31 December 2005 and six months ended 30 June 2006 and reviewed the effectiveness of internal control system of the Company.

Auditors' Remuneration

During the financial year ended 31 December 2006, 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	1,085
Non-audit services	62
	1,147

The Directors have pleasure in presenting to the shareholders their annual report together with the audited consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 28 of the annual report.

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

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 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the consolidated financial statements.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2006 and 2005, 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, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it 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

Independent non-executive directors:

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

In according with Bye-law 87(1), Mr. Wong Pak Ming, Ms. Wong Kit Fong and Ms. Wong Yee Kwan, Alvina will retire by rotation 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 extend 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, 2006, 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

(a) Ordinary shares of HK$0.10 each of the Company

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	46.12%
	Beneficial owner	200,000	0.06%
	Held by spouse	114,000	0.03%
		152,514,000	46.21%
Mr. Wan Ngar Yin, David	Beneficial owner	2,388,000	0.72%
Ms. Wong Kit Fong	Beneficial owner	2,300,000	0.70%
Ms. Wong Yee Kwan, Alvina	Beneficial owner	2,106,000	0.64%

(b) Directors' interests in the underlying shares of the share options of the Company

Name of director	Number of Options held	Exercisable Period	Exercise price per share
Mr. Wong	328,000	24.12.2006 to 20.8.2011	HK$0.938
Ms. Wong Kit Fong	328,000	24.12.2006 to 20.8.2011	HK$0.938
Ms. Wong Yee Kwan, Alvina	328,000	24.12.2006 to 20.8.2011	HK$0.938
Mr. Ko Tin Chow	328,000	24.12.2006 to 20.8.2011	HK$0.938
Mr. Wan Ngar Yin, David	328,000	24.12.2006 to 20.8.2011	HK$0.938
Mr. Tang Kai Kui, Terence	328,000	24.12.2006 to 20.8.2011	HK$0.938
	1,968,000		

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

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, 2006, none of the directors, the chief executive or their associates had any interests or short positions in shares on underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

Details of the share option granted under the share option scheme to certain directors of the Company to subscribe for shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2006	Granted during the year	Outstanding at 31.12.2006
Mr. Wong	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Ms. Wong Kit Fong	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Ms. Wong Yee Kwan, Alvina	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Mr. Ko Tin Chow	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Mr. Wan Ngar Yin, David	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Mr. Tang Kai Kui, Terence	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
				–	1,968,000	1,968,000

SHARE OPTIONS (continued)

Details of the share options granted under the share option scheme to certain employees of the Company for shares in the Company are as follows:

Name of employee	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2006	Granted during the year	Outstanding as at 31.12.2006
Mr. Wong Chi Woon, Edmond	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
Ms. Chan Yuen Yee	23.6.2006	24.12.2006 to 20.8.2011	0.938	–	328,000	328,000
				–	656,000	656,000

The closing price of the Company's shares immediately before 23rd June, 2006, the date of grant of the options, was HK$0.96.

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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2006, 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.

Long positions

(a) Ordinary shares

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 and 3)*	152,200,000	46.12%
	Beneficial owner *(Note 3)*	200,000	0.06%
	Held by spouse *(Note 4)*	114,000	0.03%
		152,514,000	46.21%
Mr. Zhang Xun	Beneficial owner	40,040,000	12.13%
Mr. Fang Shu An ("Mr. Fang")	Beneficial owner *(Note 5)*	13,000,000	3.94%
	Held by spouse *(Note 6)*	12,000,000	3.64%
		25,000,000	7.58%

(b) Share options

Name of shareholder	**Capacity**	**Number of shares options**	**Number of underlying shares**
Mr. Wong	Beneficial owner	328,000	328,000

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.
4. These shares are held by Mr. Wong's spouse in which Mr. Wong is also deemed to be interested.
5. In accordance to SFO, Mr. Fang's spouse is also deemed to be interested in the shares held by Mr. Fang or in which he is interested.
6. These shares are held by Mr. Fang's spouse in which Mr. Fang is also deemed to be interested.

SUBSTANTIAL SHAREHOLDERS (continued)

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, 2006.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, certain transactions that have been entered into by the Group constituted connected transactions under Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details are set out below:

During the year, a further advance of HK$1,925,000 was received from Mr. Zhang Xun, a substantial shareholder of the Company, this further advance bears interest at 3% per annum and will be repayable on or before 31st January, 2008. At 31st December, 2006, the remaining loans from Mr. Zhang Xun in the amount of HK$11,121,000 bear interest from 1% to 3% per annum and will be repayable on or before 31st January, 2008.

Other than 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 31st December, 2006, the advances made to a jointly controlled entity in the amount of HK$11,529,000, represent approximately 10.5% 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, 2006 is presented below:

	HK$'000
Non-current assets	34
Current assets	1,702
Current liabilities	496
Net current assets	1,206
Shareholders' funds	1,240

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2006 with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, which it is required to report compliance.

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, subsidised training programme as well as share option scheme. Details of the share option scheme is set out in note 29 to the consolidated financial statements.

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 12% and 40%, 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 13% and 33%, 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, 2006.

AUDITOR

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

On behalf of the Board

WONG Pak Ming
CHAIRMAN

Hong Kong, 20th April, 2007

EXECUTIVE DIRECTORS

Mr. WONG Pak Ming, aged 61, 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 24 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 59, 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 57, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 34 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 31, 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 46, 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 36, 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 11 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(s). He is now Managing Director of Corporate Finance of CCB International Capital Limited in Hong Kong.

Mr. TANG Kai Kui, Terence, aged 48, 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 39, 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 14 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 58, 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 36 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 55, 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 32 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 59, 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 32 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 60, 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 36 years of experience in the film processing industry.

Ms. HO Yuen Man, Janice, aged 39, 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 (collectively referred to as the "Group") set out on pages 28 to 71, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20th April, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	6	**77,165**	43,256
Cost of sales		**(60,248)**	(42,193)
Gross profit		**16,917**	1,063
Other income		**7,945**	2,743
Administrative expenses		**(22,984)**	(22,952)
Share of (loss) profit of jointly controlled entities		**(6)**	87
Finance costs	8	**(1,088)**	(804)
Profit (loss) before taxation		**784**	(19,863)
Taxation	9	**889**	1,244
Profit (loss) for the year, attributable to equity holders of the Company	10	**1,673**	(18,619)
Dividends	12	**–**	–
Earnings (loss) per share	13		
Basic		**0.51 HK cents**	(5.64 HK cents)
Diluted		**0.51 HK cents**	–

At 31st December, 2006

	NOTES	**2006** **HK$'000**	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,936**	4,194
Prepaid lease payments	15	**2,503**	2,578
Available-for-sale investments	16	**3,796**	7,221
Interests in jointly controlled entities	17	**20,820**	19,871
Pledged bank deposits	18	**–**	1,005
		30,055	34,869
CURRENT ASSETS			
Film rights		**1,440**	3,277
Film production in progress		**38,646**	51,058
Prepaid lease payments	15	**75**	75
Inventories	19	**1,680**	2,007
Trade and other receivables and deposits paid	20	**15,600**	14,426
Amount due from a jointly controlled entity	21	**602**	172
Amount due from a related company	22	**5,042**	5,814
Tax recoverable		**17**	–
Pledged bank deposits	18	**1,556**	506
Bank balances and cash	23	**15,172**	10,410
		79,830	87,745
CURRENT LIABILITIES			
Trade and other payables and deposits received	24	**35,360**	44,352
Bank and other borrowings – due within one year	25	**5,362**	10,501
Tax payable		**–**	66
Obligations under a finance lease – due within one year	26	**92**	–
		40,814	54,919
NET CURRENT ASSETS		**39,016**	32,826
TOTAL ASSETS LESS CURRENT LIABILITIES		**69,071**	67,695

At 31st December, 2006

	NOTES	**2006** **HK$'000**	2005 HK$'000
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	25	**13,627**	14,644
Deferred taxation	27	**471**	677
Obligations under a finance lease – due after one year	26	**284**	–
		14,382	15,321
NET ASSETS		**54,689**	52,374
CAPITAL AND RESERVES			
Share capital	28	**33,000**	33,000
Reserves		**21,689**	19,374
TOTAL EQUITY		**54,689**	52,374

The financial statements on pages 28 to 71 were approved and authorised for issue by the Board of Directors on 20th April, 2007 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, 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2005	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 for 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
Gain on fair value change of available-for-sale investments recognised in equity	–	–	1,074	–	–	–	1,074	–	1,074
Transferred to profit or loss on sale of available-for-sale investments	–	–	(955)	–	–	–	(955)	–	(955)
Profit for the year	–	–	–	–	–	1,673	1,673	–	1,673
Total recognised income and expense for the year	–	–	119	–	–	1,673	1,792	–	1,792
Recognition of equity-settled share-based payment expenses	–	–	–	–	523	–	523	–	523
At 31st December, 2006	33,000	34,653	1,240	17,926	523	(32,653)	54,689	–	54,689

The special reserve of the Group mainly represents the sum of 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 (2005: 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 (2005: HK$7,506,000).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**784**	(19,863)
Adjustments for:		
Interest income	**(325)**	(100)
Finance costs	**1,088**	804
Release of prepaid lease payments	**75**	75
Depreciation of property, plant and equipment	**1,875**	2,191
Impairment on trade and other receivables	**2,716**	3,713
Share of loss (profit) of jointly controlled entities	**6**	(87)
Impairment loss recognised in respect of film production in progress	**2,621**	7,795
Loss on disposal of property, plant and equipment	**4**	–
Gain on disposal of available-for-sale investments	**(5,040)**	–
Equity-settled share-based payment expenses	**523**	–
Operating cash flows before movements in working capital	**4,327**	(5,472)
Decrease (increase) in film rights and production in progress	**11,628**	(26,264)
Decrease (increase) in inventories	**327**	(58)
(Increase) decrease in trade and other receivables and deposits paid	**(3,890)**	9,688
Increase in amount due to a jointly controlled entity	**(430)**	(172)
Decrease in amount due from a related company	**772**	333
(Decrease) increase in trade and other payables and deposits received	**(8,992)**	24,546
Cash generated from operations	**3,742**	2,601
Hong Kong Profits Tax refunded	**600**	181
NET CASH FROM OPERATING ACTIVITIES	**4,342**	2,782
INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale investments	**10,699**	–
Interest received	**325**	100
Proceeds from disposal of property, plant and equipment	**30**	–
Purchase of available-for-sale investments	**(2,115)**	–
Investment in a jointly controlled entity	**(955)**	(3,500)
Purchases of property, plant and equipment	**(191)**	(183)
Increase in pledged bank deposits	**(45)**	(1,011)
Repayment from a minority shareholder of a subsidiary	**–**	92
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**7,748**	(4,502)

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	**(8,188)**	(6,694)
Interest paid	**(1,088)**	(804)
Repayment of obligations under a finance lease	**(84)**	–
Bank and other borrowings raised	**2,000**	11,081
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(7,360)**	3,583
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,730**	1,863
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**10,026**	8,163
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**14,756**	10,026
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**15,172**	10,410
Bank overdraft	**(416)**	(384)
	14,756	10,026

1. GENERAL

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Jointly controlled entities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

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

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

Revenue recognition

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

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

Prepaid lease payments

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

Impairment losses

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses (continued)

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

Share-based payment transactions

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

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

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

Leasing

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

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

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

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

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

Derecognition

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

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

Film rights and production in progress

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

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

Retirement benefits costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Borrowing costs

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Estimated impairment loss on film production in progress

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

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

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

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

Interest rate risk

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

Price risk

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

Liquidity risk

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

5. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Credit risk

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

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

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

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

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

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

b. Fair value

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

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

6. REVENUE

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

7. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

Segment information about these businesses is presented below.

2006

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

Inter segment revenue is charged at prevailing market rate.

7. SEGMENT INFORMATION (continued)

2006

BALANCE SHEET

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

7. SEGMENT INFORMATION (continued)

2005

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

Inter segment revenue is charged at prevailing market rate.

7. SEGMENT INFORMATION (continued)

2005

BALANCE SHEET

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

7. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

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

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

2006

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

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

2005

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

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

8. FINANCE COSTS

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

9. TAXATION

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

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

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

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

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

10. PROFIT (LOSS) FOR THE YEAR

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

2006

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

2005

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

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Emoluments of highest paid individuals

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

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

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

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

12. DIVIDENDS

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

13. EARNINGS (LOSS) PER SHARE

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

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

13. EARNINGS (LOSS) PER SHARE (continued)

Number of shares

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

The buildings of the Group are situated in Hong Kong.

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

15. PREPAID LEASE PAYMENTS

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

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent:

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

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

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

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

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

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

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

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

18. PLEDGED BANK DEPOSITS

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

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

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

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

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

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

21. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

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

22. AMOUNT DUE FROM A RELATED COMPANY

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

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

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

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

23. BANK BALANCES AND CASH

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

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

24. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

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

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

25. BANK AND OTHER BORROWINGS

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

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

	2006 HK$'000	2005 HK$'000
On demand or within one year	5,362	10,501
More than one year, but not exceeding two years	13,421	14,064
More than two years, but not exceeding five years	206	580
	18,989	25,145
Less: Amount due within one year shown under current liabilities	(5,362)	(10,501)
Amount due after one year	13,627	14,644

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

25. BANK AND OTHER BORROWINGS (continued)

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

26. OBLIGATIONS UNDER A FINANCE LEASE

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

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

27. DEFERRED TAXATION

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

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

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

28. SHARE CAPITAL

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

29. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

No share option were cancelled or lapsed during the year.

29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

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

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

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

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

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

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

30. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

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

30. OPERATING LEASE COMMITMENTS (continued)

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

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

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

31. CAPITAL COMMITMENTS

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

32. OTHER COMMITMENTS

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

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

33. BANKING FACILITIES AND PLEDGE OF ASSETS

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

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

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

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

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

33. BANKING FACILITIES AND PLEDGE OF ASSETS (continued)

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

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

34. MAJOR NON-CASH TRANSACTIONAS

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

35. RETIREMENT BENEFITS PLANS

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

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

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

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

36. CONTINGENT LIABILITIES

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

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

37. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

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

Notes:

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

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

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

(ii) Compensation of key management personnel

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

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

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

(iii) Related party balances

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

38. PRINCIPAL SUBSIDIARIES

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

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

38. PRINCIPAL SUBSIDIARIES (continued)

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

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

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

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

39. BALANCE SHEET OF THE COMPANY

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

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

39. BALANCE SHEET OF THE COMPANY (continued)

Note:

Reserves

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

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

SUMMARY OF FINANCIAL INFORMATION

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,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	83,442	58,535	53,192	43,256	**77,165**
(Loss) profit before taxation	(7,682)	1,544	(55,877)	(19,863)	**784**
Taxation	179	(1,011)	(466)	1,244	**889**
(Loss) profit for the year	(7,503)	533	(56,343)	(18,619)	**1,673**
Attributable to:					
Equity holders of the Company	(7,503)	551	(56,269)	(18,619)	**1,673**
Minority interests	–	(18)	(74)	–	**–**
	(7,503)	533	(56,343)	(18,619)	**1,673**

	At 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	138,122	174,585	113,529	122,614	**109,885**
Total liabilities	(12,532)	(48,182)	(43,469)	(70,240)	**(55,196)**
	125,590	126,403	70,060	52,374	**54,689**
Attributable to:					
Equity holders of the Company	125,590	126,141	69,872	52,374	**54,689**
Minority interests	–	262	188	–	–
	125,590	126,403	70,060	52,374	**54,689**