漢傳媒集團有限公司

SEE CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 491)

Seeing is Believing

Annual Report 2006

SEEING IS BELIEVING

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.* *(Chairman)*
Mr. Carl Chang *(Chief Executive Officer)*
Mr. Yu Kam Yuen, Lincoln
Mr. Tong Chin Shing

Independent Non-executive Directors

Mr. Li Fui Lung, Danny
Mr. Ng Hoi Yue, Herman
Hon. Shek Lai Him, Abraham, *J.P.*
Mr. Fong Shing Kwong, Michael

COMPANY SECRETARY

Ms. Ng Yuk Yee, Feona

QUALIFIED ACCOUNTANT

Mr. Kwok Yeuk Yee

AUDIT COMMITTEE

Mr. Li Fui Lung, Danny
Mr. Ng Hoi Yue, Herman
Hon. Shek Lai Him, Abraham, *J.P.*
Mr. Fong Shing Kwong, Michael

REMUNERATION COMMITTEE

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.*
Mr. Li Fui Lung, Danny
Mr. Ng Hoi Yue, Herman
Hon. Shek Lai Him, Abraham, *J.P.*
Mr. Fong Shing Kwong, Michael

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

LEGAL ADVISER

Richards Butler

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2/F., Talon Tower
38 Connaught Road West
Hong Kong

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

WEBSITE

http://www.irasia.com/listco/hk/see

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board"), I have great pleasure in announcing the results of See Corporation (formerly known as "Ruili Holdings Limited", and hereinafter referred to as the Company) and its subsidiaries (the Group) for the year ended 30 June 2006.

BUSINESS AND OPERATIONS REVIEW

The year under review can best be described as a period of transition and preparation; whereas the coming year should be a period of growth, in which we expect to reap the rewards of our past work.

The Group shifted its focus from trading multimedia electronic products to the entertainment and media businesses. Acquisition of a 49% interest in TVB Pay Vision Holdings Limited (TVB Pay Vision, formerly known as Galaxy Satellite TV Holdings Limited) represented our first move.

It is recognised that films and TV enrich and inspire people in their daily lives by broadening their horizons and enabling them to step outside their everyday experience. Our inspiration and influence have been penetrated into people's daily lives by completing and distributing two films and one TV series. Other high-definition (HD) films and TV programmes have either been produced or are currently in production. These will be distributed in the coming months. The Group's future production plans also include several Class B films aimed at the international market.

The singers we manage released a number of music albums, and we organised or co-organised several successful concerts. The established artistes and models stream we manage took part in a number of fashion shows, advertisements, films and TV programmes. Some other new artistes and models also joined the Group, and we are investing in their professional and artistic development. Meanwhile, we are maintaining our search for more new talents for our team.

MAJOR CORPORATE ACTIVITIES DURING THE YEAR ENDED 30 JUNE 2006

On 22 July 2005, the Company issued a total of 1,615,668,333 rights shares at a subscription price of HK$0.10 per rights share, and on the basis of three rights shares for every issued share.

It also issued a convertible note for an aggregate principal amount of HK$170,000,000 to Hanny Holdings Limited on 10 August 2005.

The Company's acquisition of a 49% shareholding interest in TVB Pay Vision Holdings Limited was completed on 12 August 2005.

Chairman's Statement (Continued)

In September 2005, the Company was renamed as "See Corporation Limited".

On 30 June 2006, the Company further issued 10,771,122,220 rights shares at a subscription price of HK$0.014 per rights share, and on the basis of five rights shares for every issued share.

PROSPECT

The implementation of CEPA (the Closer Economic Partnership Arrangement) and the rapid growth of Mainland China's film and TV markets are opening up many potential new opportunities and resources for local filmmakers. Hong Kong has been a hub of the Chinese-language film industry for a number of years. Its open system of government and liberal media policies attract talent and investments. The city is therefore uniquely positioned to serve as a centre for the movie industry to meet the needs of overseas Chinese markets, as well as the huge market within the PRC itself.

All of us in the Group are striving to realise this vision, for the benefit of ourselves and our shareholders, and for the film industry in Hong Kong and China as a whole. The proposal to establish the Hong Kong Film Development Council is expected to support local film production companies. The Group looks forward to benefiting from its assistance in areas such as marketing and other professional expertise.

The Group believes that piracy must be effectively controlled, because this is an essential prerequisite for revitalising the film industry in the future. As a leading industry player, and to safeguard our future growth and development, the Group will continue to play an active role in stamping out piracy and promoting consumer education about the subject.

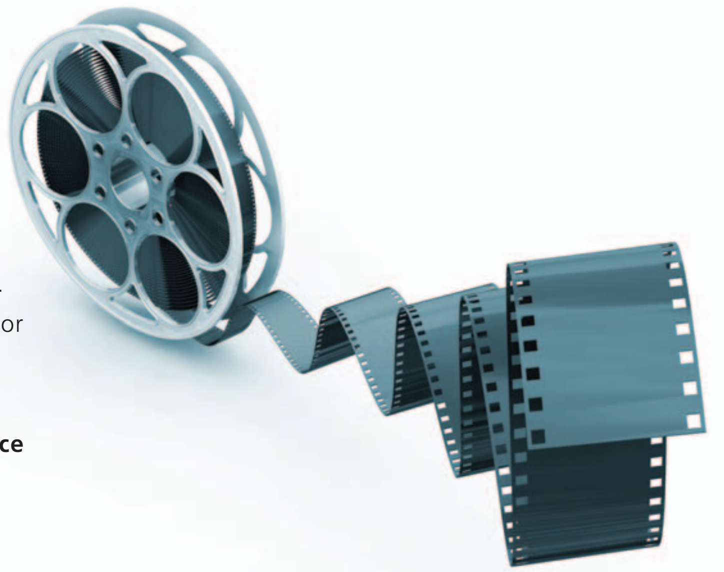
In the coming months and years, we plan to undertake new projects in partnership with other filmmakers in Hong Kong; and we will actively work to tap the potential of China's rapidly growing market by discussing possible opportunities to co-produce feature films and television drama series with Mainland companies. Moreover, we will continue to strengthen our film library through our own productions, co-productions and/or acquisitions, and by fully utilising our experience and programme-sourcing network.

Supported by our strong artiste base and outstanding industry expertise, the Group expects to grow and gain a larger share in both the local and international markets. We hope to increase our market share and strengthen our foothold in the music industry. We look forward to receiving a continuous revenue stream from our multimedia offerings, and to expanding our presence throughout the Greater China region.

Finally, the Group will continue to seek other potentially profitable investment opportunities, with a view to developing a more diversified business portfolio. We will fully utilise our existing resources, explore new business opportunities, and expand our operations, while minimising risk, in order to achieve better returns for our shareholders.

APPRECIATION

I would like to conclude by expressing my sincere appreciation to my fellow Directors as well as all the Group and Company's staff members for their outstanding hard work during the past year. Their efforts have contributed greatly to our progress, and also to the establishment of firm foundations for our future success. In addition, I would also like to thank our shareholders for their loyal support.



Yu Kam Kee, Lawrence
B.B.S., M.B.E., J.P.
Chairman

Hong Kong, 20 October 2006


LENS FD 35-105mm 1:3.5-4.5
193
196
197

PROFESSIONAL

"We will continue to strengthen our film library through our own productions, co-productions and/or acquisitions, and by fully utilising our experience and programme-sourcing network.

Supported by our strong artiste base and outstanding industry expertise, the Group expects to grow and gain a larger share in both the local and international markets."

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's turnover for continuing operations amounted to HK$37.3 million during the year ended 30 June 2006, which was 33% less than the previous year's figure of HK$56 million. This was mainly due to a change in our focus from trading multimedia electronic products to the entertainment and media businesses. The Group's operations in these two areas were still in the formation and development stages. Gross profit for continuing operations for the year was HK$23.1 million before the amortisation of film rights, and HK$4.3 million after taking this amortisation into account. On the same basis, the gross profit for the previous year was HK$5.2 million.

The Group suffered a loss from operations of HK$55.7 million on continuing operations during the year, compared with a loss of HK$21.1 million the previous year. Our share of the losses of associates amounted to HK$148 million. The net loss for the year attributable to equity holders was HK$261.9 million, compared with HK$36.8 million the previous year. The substantial increase in the net loss was primarily due to the disappointing results of our newly acquired associates, an impairment loss of HK$40.4 million on goodwill concerning the acquisition of subsidiaries and associates, an impairment loss of HK$4.4 million on film rights, and a HK$13.7 million impairment loss on trade and other receivables. The loss per share for the year was HK$0.125, compared with HK$0.095 during the previous year.

REVIEW OF OPERATIONS

During the year under review, our Group's focus changed from trading multimedia electronic products to the entertainment and media businesses. We terminated our multimedia electronic products trading and system-integration businesses in February 2006. Consequently, the Group's entertainment businesses accounted for 93% of our total turnover during the year. These can be categorised into film and TV programme production, music production, event production and artiste and model management segments. The acquisition of a 49% interest in TVB Pay Vision Holdings Limited ("TVB Pay Vision") (formerly known as Galaxy Satellite TV Holdings Limited) was completed in August 2005. TVB Pay Vision is treated as interests in associates for the purposes of this report.

Entertainment

Film and TV programme production

The Group produced a number of films during the year. "Kung Fu Mahjong II" was released in November 2005; "Superkid" was released in February 2006; and "Don't Open Your Eyes" was released in May 2006. Production of the "Brave New World" TV series was completed, and distribution of it commenced in January 2006. Box-office and licensing income from these films and TV programmes amounted to HK$19.8 million.

Management Discussion and Analysis (Continued)

In addition, the Group produced a number of high-definition (HD) films during the year. They included "The Dragon Gate Post", "Bliss", "Luxury Fantasy" and "Sound of Pure". "Bliss" won the Netpac award at the 59th Locarno International Film Festival. As at 30 June 2006, the total cost of film rights less accumulated amortisation and impairment was HK$22.5 million. The Group was also in the process of producing a number of new films and TV programmes. The total production costs incurred up to 30 June 2006 amounted to HK$29.1 million.

Music production

We regard our music production activities as complementary to our artiste management business. They serve to enhance and promote the image of our artistes, as well as generate profit for the Group.

Our artistes released several music albums during the year under review, including one by Baby Zhang launched in Hong Kong in April 2006, and another by Dicky Cheung launched in Taiwan in December 2005. Hong Kong new rock band "Dear Jane" also released an album in August 2006. The Group is currently producing albums by Patrick Tang, whose songs have occupied top positions in several local and PRC music charts, and these are scheduled for release during the coming months. Revenue from the sale of music albums totalled HK$0.5 million during the year under review. We are also producing several albums for some of our new artistes. The total production costs incurred up to 30 June 2006 amounted to HK$1.9 million.

Event production

The Group organised several events during the year, including a concert by Eason Chan in Guangzhou during July 2005. We also co-organised another concert by Vivian Chow in Hong Kong during May 2006. Both of these were well received by the two singers' fans.

The Group's turnover and gross profit from our event productions amounted to HK$4.7 million and HK$0.7 million, respectively. Although the event production business's contribution was small, it helped to promote the Group's image and prestige.

Artiste and model management

A number of artistes and models joined the Group during the year under review, increasing the total number we had under contract to over 30, as of 30 June 2006. We have invested heavily in the professional and artistic development of the new artistes and models that we recruited, with very promising results. Meanwhile, our established artistes and models (including Dicky Cheung, Patrick Tang, Annie Man, Eunis Chan, Kathy Chow, Lynn Xiong, Yedda Chao, etc.) participated in a number of different fashion shows, advertisements,

Film/TV programme production

Management Discussion and Analysis (Continued)

films and TV programmes. The turnover and gross profit of this business sector rose considerably during the year, amounting to HK$9.9 million and HK$2.9 million, respectively. At the same time, the quality of our team members made a substantial contribution to raising our Group's overall image.

Multimedia Electronic Products

The Group's multimedia and electronic products operations ceased doing business in February 2006. Consequently, their turnover declined from HK$53.3 million the previous year to HK$2.4 million during the year under review; while their gross profit fell from HK$5.1 million to HK$0.3 million.

Telecommunication and System Integration

This business operation ceased in February 2006. Its turnover dropped from HK$3.2 million to HK$0.5 million, and gross profit from HK$0.4 million to HK$0.3 million.

Associates

The acquisition of a 49% interest in TVB Pay Vision was completed in August 2005. The Group's share of this company's loss between September 2005 and June 2006 amounted to HK$148 million.

GEOGRAPHICAL REVIEW

During the year under review, most of the Group's revenue was derived from the Hong Kong and Mainland China markets. These accounted for about 94% of our total turnover.

MATERIAL ACQUISITION

The Group completed the first and second closing of our acquisition of a 49% interest in TVB Pay Vision in August 2005 and February 2006, respectively. This acquisition represents a further investment in the media and entertainment business.

FUTURE BUSINESS PROSPECTS AND PLANS

Several of the Group's new films and TV programmes have been completed. One of these, "Wo Hu", is being released in October 2006; while "The Beauties" will be premiered next year. Our production plans include several Class B films aimed at the international market. Production of several HD films and TV programmes has been completed, and the Group intends to release them in the coming year, when HD TV channels start broadcasting.

Besides engaging local film directors, producers and actors, the Group will continue to expand our film library through our own productions and co-productions, including partnerships with international production companies and talents from China, Japan and South Korea.

Many potential new opportunities and resources have opened up for the Hong Kong film industry since the implementation of CEPA (the Closer Economic Partnership Arrangement) and the rapid improvement and expansion of Mainland China's film and TV markets. In his Policy Address, the Hong Kong SAR Chief Executive announced that the Government will establish the Hong Kong Film Development Council. This new policy is expected to provide further support and assistance to local film production companies, and to enhance the quality of their productions. In particular, we look forward to the benefits the new Council is likely to offer us in terms of helping to strengthen our marketing and other areas of professional expertise.

In our artiste and model management operations, the Group has already recruited a group of new artistes and models, whose talents will be developed through various types of training, such as acting, singing and dancing. We will also provide opportunities for the new artistes and models to appear in public performances, films and TV programmes, concerts and live shows. The Group will also continue to seek out other artistes and models to add to our portfolio.

The number of TVB Pay Vision's paying subscribers has increased steadily. Besides distributing its content via its own satellite master antenna television system and Hutchison Global Communication Limited's broadband services, TVB Pay Vision concluded another distribution agreement with PCCW Limited to make some TVB Pay Vision Limited channels available to subscribers of NOW Broadband TV in February 2006. These include TVBS-Asia, TVBS-News and eight exclusive TVB channels (TVBN, TVBN2, TVB Classic, TVB Entertainment News Channel, TVB Drama, TVB Lifestyle, TVB Kids and TVBM). This increases the number of bundled channels to a total of 20. The number of the service's subscribers and homepassed will increase significantly as a result of the additional distribution channel.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2006, the Group's net assets amounted to HK$156.1 million, compared with HK$72.3 million on the same date last year. The current ratio, representing current assets divided by current liabilities, was 1.80. The Group's cash and bank balances amounted to HK$148.4 million on the balance sheet date.

Management Discussion and Analysis (Continued)

The Group issued convertible notes for a principal amount of HK$170 million during the year. On 30 June 2006, the fair value of the liability component of these convertible notes was approximately HK$135.7 million. On the balance sheet date, the Group had a short-term loan from a third party of HK$109 million and short-term bank borrowing of HK$10.1 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.58.

The Group had contingent liabilities of HK$24 million on the balance sheet date, mainly as a result of a corporate guarantee we provided to a financial institution in respect of banking facilities granted to former subsidiaries. HK$5.5 million of the banking facilities were utilised by those former subsidiaries and this amount was subject to a claim by the financial institution concerned.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

During the year, the revenue and cost for film/TV programme, music and event production were mainly denominated in Renminbi and Hong Kong dollars. The revenue and cost for the artiste and model management services were also mainly dominated in Renminbi and Hong Kong dollars. The sale of multimedia electronic products and the purchase of raw material for their productions were mainly denominated in US dollars, Renminbi and Hong Kong dollars.

Borrowings in terms of loans and convertible notes were also denominated in Hong Kong dollars. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

The Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

EMPLOYEE SCHEMES

As at 30 June 2006, the Group has 60 employees (58 based in Hong Kong and 2 based in PRC) within the Group. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from provident fund scheme and in-house training programmes, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performances.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

1. The Company and its ex-subsidiary P.N. Electronics Ltd. ("PNE") have been involved in arbitration proceedings with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings were initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has upon legal advice, vigorously contested the alleged claims and has counterclaimed the said sum of HK$18 million as well as other damages. The arbitration proceedings have been dormant for a substantial period of time and the Company is considering whether any further action should be taken in respect of the same.

2. On 13 October 2003, a Writ of Summons and Statement of Claim was issued by BII Finance Company Limited ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain liabilities of Welback Enterprises Limited. The claim is for a sum of approximately HK$3,583,000 and US$248,000 (approximately HK$1,936,000), together with interest.

   The Company has issued Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng, former directors of the Company, seeking a contribution to the extent of 49% of BII Finance's claim in the event that the Company is found liable to BII Finance (which is denied).

   The Company will continue to defend BII Finance's claim, and will also continue to pursue the Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng. The parties have yet to exchange witness statements in the main action. The Company has filed its Reply in the Third Party proceedings on 20 March 2006.

Save as disclosed above, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

BRIGHT FUTURE

"The Group will continue to seek other potentially profitable investment opportunities, with a view to developing a more diversified business portfolio. We will fully utilise our existing resources, explore new business opportunities, and expand our operations, while minimising risk, in order to achieve better returns for our shareholders."

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance so as to ensure "Accountability, Responsibility and Transparency" towards the shareholders, stakeholders, investors as well as the employees of the Company.

Following the introduction of Code on Corporate Governance Practices by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "CG Code") in January 2005, the Board has accordingly adopted most of the code provisions set out in CG Code as the code of the Company (the "Code") on 26 October 2005. The purposes of the Code are to lay down the standard principles and practices of good corporate governance for the Board as well as the employees of the Company to observe and follow for furtherance of the Company's business in a professional and ethical manner thereby maximising the shareholders' value of the Company.

The Board will continue to monitor and upgrade the Code so as to ensure that it is consistent with the practices and standards recommended by the Stock Exchange as well as the internal standards currently adopted by the Company.

The Company has applied the principles of and complied with all the Code provisions throughout the year ended 30 June 2006.

BOARD COMPOSITION

The Board currently comprises eight members (four Executive Directors including the Chairman and the Chief Executive Officer and four Independent Non-executive Directors) of which two members have the appropriate accounting qualification or related financial management expertise as required by the Stock Exchange.

The composition of the Board represents a mixture of expertise specializing in management, media and entertainment industry, accounts and finance and corporate development. All of the Directors have comprehensive qualifications and experience in and exposure to diversified businesses which shall be beneficial to the business development of the Company.

The Board is responsible for formulating and implementing the Company's strategic planning, promoting corporate development as well as policies and objectives setting. Each Executive Director is assigned with specific responsibilities to enhance the effectiveness of the Company:

– Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.*, the Chairman, is responsible for formulating the Company's long term goal and strategy. He is the leader of the Board and take the role of overseeing the effectiveness of the Board in achieving the Company's long term goal and strategy.

– Mr. Carl Chang, the Chief Executive Officer, is responsible for implementation of Company's strategy, overseeing and developing the Company's media and entertainment businesses. He is also responsible for soliciting other investment opportunities for the Company.

– Mr. Yu Kam Yuen, Lincoln and Mr. Tong Chin Shing, the Executive Directors, are responsible for overseeing the Company's general management.

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.* is a brother of Mr. Yu Kam Yuen, Lincoln. Other than this, there is no relationship among members of the Board.

Details of the composition of the Board, by category of Directors, including names of Chairman and Chief Executive Officer, Executive Directors, Independent Non-executive Directors and their respective experience and qualification are included under the Section of "Profile of Directors" in this annual report.

BOARD MEETINGS

The Board met regularly throughout the year to discuss the business development, operational and financial performance of the Company.

The attendance rates of individual Board members at the Board Meetings (either in person or by phone) held during the year are set out in the following table:

Attendance of Board Members

Name of Directors	Total number of Board Meetings held	Number of Board Meetings attended by individual Director
	4	
Executive Directors		
Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P. (Chairman)*		4
Carl Chang *(Chief Executive Officer)*		4
Yu Kam Yuen, Lincoln		2
Tong Chin Shing		2
Independent Non-executive Directors		
Li Fui Lung, Danny		4
Ng Hoi Yue, Herman		4
Hon. Shek Lai Him, Abraham, *J.P.*		1
Fong Shing Kwong, Michael		1

All minutes of the Board Meetings are prepared and kept by the Company Secretarial Department and open for inspection by Directors at any time.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of Chairman and Chief Executive Officer of the Company are clearly segregated and performed by two Executive Directors of the Company. In general, Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.*, the Chairman, is responsible for the Company's long term strategic planning and business development as well as the management of the full Board while Mr. Carl Chang, the Chief Executive Officer, is responsible for implementing the Company's strategy, managing and monitoring the performance of the management and overseeing the daily operation of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1 of CG Code, the appointment of independent non-executive directors should have been appointed for a specific term. As such, the Company has taken steps to comply with this code provision. Appointment letters have been signed between the Company and Hon. Shek Lai Him, Abraham, *J.P.* and Mr. Fong Shing Kwong, Michael respectively for a period of three years. The Company will also enter into appointment letters with Mr. Li Fui Lung, Danny and Mr. Ng Hoi Yue, Herman respectively for a period not exceeding three years. All the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with Bye-law 87 of the Company.

MANAGEMENT FUNCTIONS

In general, the daily management and administration functions of the Company have been delegated to the management except for certain matters specifically reserved to the Board for decision. Those matters include the setting of the overall strategic direction and long-term objectives of the Company, approval of annual business plan, material acquisitions and disposals of assets, investments, connected transactions and capital projects, key human resources issue, preliminary interim and final results announcements, determination of interim and final dividends, appointment of directors and annual assessment of internal control system.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

A formal and transparent procedure has been in place in selecting the directors of the Company. Appointment of new directors is reserved for the Board's approval. The Board shall take into account of that person's skill, qualifications and expected contributions to the Company before the appointment. Every newly appointed director shall receive a comprehensive, formal and tailored induction on the first occasion of his appointment to make sure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities in the Company.

According to the Bye-laws of the Company, the newly appointed director shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board) and shall then be eligible for re-election at that general meeting. In addition, at each annual general meeting one-third of the Directors (those appointed in that year shall not be counted in determining the number of directors), including those appointed for specified terms, for the time being or if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation provided that notwithstanding anything herein, every Director shall be subject to retirement by rotation at least once every three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by the Stock Exchange as the Code and Guidelines for the Directors and certain employees (who are likely to be in possession of unpublished price-sensitive information) of the Company to follow and observe in dealing with the securities of the Company.

Confirmations have been obtained from all Directors to acknowledge compliance with the Model Code throughout the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Company. In preparing the financial statements for the year ended 30 June 2006, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

REMUNERATION OF DIRECTORS

A remuneration committee was established on 26 October 2005, comprising one Executive Director, Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.*, and four Independent Non-executive Directors, being Messrs. Li Fui Lung, Danny, Ng Hoi Yue, Herman, Hon. Shek Lai Him, Abraham, *J.P.* and Fong Shing Kwong, Michael. The main duties and responsibilities of the remuneration committee are to determine the remuneration packages of all Executive Directors, Independent Non-executive Directors and senior management of the Company, make recommendations to the Board to improve the transparency of the Company's overall remuneration policy and to review and approve the compensation arrangements relating to any loss or termination of office of Directors and senior management. A Remuneration Committee Charter, which clearly defined the role, authority and function of the remuneration committee, has been adopted by the Company on 26 October 2005.

One remuneration committee meeting with the attendance of all committee members through telephone conference was held during the year.

All minutes of the remuneration committee meetings are prepared and kept by the Company Secretarial Department and open for inspection by Directors and remuneration committee members at any time.

AUDIT COMMITTEE

An audit committee comprising four Independent Non-executive Directors, being Messrs. Li Fui Lung, Danny, Ng Hoi Yue, Herman, Hon. Shek Lai Him, Abraham, *J.P.* and Fong Shing Kwong, Michael was duly established. Amongst the audit committee members, two members have the appropriate professional qualification and experience in financial matters as required by the Listing Rules.

The main duties and responsibilities of the audit committee are to review the Company's financial information such as the interim and annual results, financial reporting principles and practices; to recommend the appointment and reappointment or removal of the external auditors, to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditors; to oversee the financial reporting system and the internal control and risk management system of the Company. An Audit Committee Charter, which clearly defined the role, authority and function of the audit committee, has been duly modified by the Company on 26 October 2005 to accommodate all the necessary code provisions of the Code.

Three audit committee meetings were held during the year to review the financial performance of the Company for the year ended 30 June 2006. The audit committee has also reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

Corporate Governance Report (Continued)

The attendance rates of individual committee members at the audit committee meetings (either in person or by phone) held during the year are set out in the following table:

Attendance of Audit Committee Members

Name of Committee Members	Total number of Audit Committee Meetings held	Number of Audit Committee Meetings attended by individual Committee Member
	3	
Li Fui Lung, Danny		3
Ng Hoi Yue, Herman		3
Hon. Shek Lai Him, Abraham, *J.P.*		1
Fong Shing Kwong, Michael		1

All minutes of the audit committee meetings are prepared and kept by the Company Secretarial Department and open for inspection by Directors and audit committee members at any time.

AUDITORS' REMUNERATION

The total auditors' remuneration in respect of statutory audit and non-audit services provided by HLB Hodgson Impey Cheng, the Company's external auditors, during the year ended 30 June 2006 are set out at the table below:

Services rendered	Fees paid/payable
Statutory audit fees	HK$500,000.00
Fees for non-audit services	
Review of interim results	HK$191,000.00
Review of annual results and annual results announcement	Nil
Ad hoc projects	HK$110,000.00
Taxation services	HK$14,000.00
Total auditors' remuneration for the year	**HK$815,000.00**

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for maintaining sound and effective internal control system to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems. The Board conducts regular reviews of the Group's internal control system. The system is designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational system.

The Internal Control Policy and Procedures covers, amongst others, the following material activities – finance, operational and compliance controls:

Finance

In order to achieve effective financial control, a set of measures have been formulated and implemented to identify and manage liabilities to ensure that the Company is not unnecessarily exposed to avoidable financial risks. They also contribute to the safeguarding of assets from inappropriate use or loss, including the prevention and detection of fraud and errors.

Operational

With regard to the Company's entertainment and media businesses, different sets of principles and procedures have been set up for different teams (movies production team, music production team, models management team and artists management team) to follow. It is expected that through the implementation of the above principles and procedures, the operational process should become more transparent and efficient.

Compliance

Throughout the year, the Company has fully complied with the requirements of the Listing Rules. Financial Reports, announcements and circulars have been prepared and published in accordance with the requirements of the Listing Rules.

The Company has engaged Lak & Associates, a firm of Certified Public Accountants, to undertake the role of reviewing and assessing the Company's internal control and risk management system and to evaluate its effectiveness and efficiency. Lak & Associates shall report to the Board and senior management on the findings of the internal control system implemented by the Company and help to identify any significant areas of concern and make recommendations to the Board accordingly.

COMMUNICATION WITH SHAREHOLDERS

The Company continues to pursue a proactive policy of promoting investor relations and communications with shareholders.

The Company's senior management and the company secretarial department have undertaken the role of establishing an effective communication system. They will respond to the enquiries from shareholders/investing public or the media from time to time. The Company also maintains a website (http://www.irasia.com/listco/hk/see) through which the Company's updated financial information, announcements and press releases can be accessed by the shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The annual general meetings also provide an important opportunity for constructive communication between the Board and the shareholders of the Company. The Chairman and the majority of the Board members will attend the annual general meetings or other general meetings through which the Board can maintain an on-going dialogue with shareholders and to answer any questions raised by the shareholders.

TEAM WORKING

"The Group has already recruited a group of new artistes and models, whose talents will be developed through various types of training, such as acting, singing and dancing. We will also provide opportunities for the new artistes and models to appear in public performances, films and TV programmes, concerts and live shows."

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the Report of the Directors of the Group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in (i) film and TV programme production, (ii) event production, (iii) artiste and model management, (iv) music production and (v) manufacturing and sale of multimedia electronic products, toys and games products. Details of the principal activities and other particulars of the Company's significant subsidiaries are set out in note 24 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 35.

The states of affairs of the Group and the Company as at 30 June 2006 are set out in the balance sheets on pages 37 and 39 respectively.

The cashflows of the Group are set out in the statement on pages 42 and 43.

The Directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year ended 30 June 2006.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 108.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 19 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 34 and 16 to the financial statements respectively.

RESERVES

Details of movements in the reserve of the Group and the Company during the year are set out in note 35 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors in office during the financial year and up to the date of this report are:

Executive Directors

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.* *(Chairman)*	
Mr. Carl Chang *(Chief Executive Officer)*	
Mr. Yu Kam Yuen, Lincoln	
Mr. Tong Chin Shing	(appointed on 5 December 2005)

Independent Non-executive Directors

Mr. Li Fui Lung, Danny	
Mr. Ng Hoi Yue, Herman	
Mr. John Pau Mclellan	(appointed on 30 September 2004 and resigned on 1 October 2005)
Hon. Shek Lai Him, Abraham, *J.P.*	(appointed on 1 October 2005)
Mr. Fong Shing Kwong, Michael	(appointed on 5 December 2005)

Pursuant to Bye-law 86 of the Company's bye-laws, Mr. Tong Chin Shing and Mr. Fong Shing Kwong, Michael who were appointed by the Board of Directors, shall hold office until the forthcoming annual general meeting of the Company, and being eligible, offers themselves for re-election at that meeting.

Pursuant to Bye-law 87 of the Company's bye-laws, Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.* and Mr. Carl Chang will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election at that meeting.

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

The Company has received from the Independent Non-executive Directors annual confirmation of independence in accordance with rule 3.13 of the Listing Rules. The Company has assessed their independence and concluded that all the Independent Non-executive Directors are independent within the definition of the Listing Rules.

PROFILE OF DIRECTORS

Profile of Directors of the Company as at the date of the report are set out on pages 31 and 32.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There were no contracts 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, which subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

(A) Shares

As at 30 June 2006, the interests of the Directors and chief executive in the share capital of the Company and its associated corporations as defined in the SFO were as follows:

Name of Director	Name of company	Number of ordinary shares	Capacity	Approximate percentage of interest
Yu Kam Kee, Lawrence	See Corporation Limited	825,178,872	Beneficial owner	6.38%

(B) Share Options

The Company has a share option scheme under which Directors may, at their discretion, grant options to employees, including any directors, of the Company or its subsidiaries to subscribe for shares in the Company, subject to the terms and conditions stipulated. During the year ended 30 June 2006, there are no outstanding share options granted to the Directors of the Company.

Save as aforesaid, as at 30 June 2006, to the knowledge of the Company:

(i) none of the Directors, or chief executives of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules;

(ii) none of the Directors or chief executives or their spouses or children under 18 had any right to subscribe for the shares, underlying shares or debentures of the Company, or had exercised any right during the year ended 30 June 2006.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, the chief executive, 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, save as the share options disclosed in the previous section headed "Directors' Interest in Shares, Underlying Shares and Debentures".

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, shareholders (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Number of ordinary shares	Capacity	Approximate percentage of interest
Hanny Holdings Limited	3,740,643,996 (L)	Beneficial owner	28.94%
Tai Fook Securities Company Limited	1,430,000,000 (L)/(S)	Beneficial owner	11.06%
Tai Fook Finance Company Limited	1,430,000,000 (L)/(S) *(Note 3)*	Interest through a controlled corporation	11.06%
Tai Fook (BVI) Limited	1,430,000,000 (L)/(S) *(Note 3)*	Interest through controlled corporations	11.06%
Tai Fook Securities Group Limited	1,430,000,000 (L)/(S) *(Note 3)*	Interest through controlled corporations	11.06%
Hyde Park Group Limited	2,860,000,000 (L) *(Note 4)*	Beneficial owner	22.13%
Wu Hoi Shan	2,860,000,000 (L) *(Note 4)*	Interest through a controlled corporation	22.13%
Brightstar Global Capital Inc.	715,000,000 (L) *(Note 5)*	Beneficial owner	5.53%
Allen Bradford William	715,000,000 (L) *(Note 5)*	Interest through a controlled corporation	5.53%

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. The letter "L" denotes the person's long position (i.e. interests) in the shares and the letter "S" denotes such person's short position in the shares.

2. Out of these 3,740,643,996 shares, Hanny Holdings Limited ("Hanny") directly holds 320,000,000 shares representing a 2.48% interest in the Company and Cyber Generation Limited, an indirect wholly-owned subsidiary of Hanny, holds 12,490,000 shares representing 0.10% interest in the Company. The 1,991,487,330 shares represent Hanny's underwriting commitment and its commitment to take up its pro-rata entitlement arising from the underwriting agreement entered into between the Company, Hanny and Success Securities Limited dated 22 April 2006 in relation to a proposed rights issue by the Company (the "Rights Issue"). The remaining 1,416,666,666 shares represent the shares which will be issued by the Company to Hanny upon full conversion of the convertible notes dated 10 August 2005 issued by the Company in the aggregate principal amount of HK$170,000,000.

3. Tai Fook Securities Company Limited is directly interested in these 1,430,000,000 shares. Tai Fook Securities Company Limited is a wholly owned subsidiary of Tai Fook Finance Company Limited which, in turn, is a wholly owned subsidiary of Tai Fook (BVI) Limited which, in turn, is a wholly owned subsidiary of Tai Fook Securities Group Limited. By virtue of the provisions of the Part XV of the SFO, each of Tai Fook Finance Company Limited, Tai Fook (BVI) Limited and Tai Fook Securities Group Limited are deemed to be interested in all the shares in which Tai Fook Securities Company Limited is interested.

4. Hyde Park Group Limited, as a result of its agreeing to sub-underwrite the Rights Issue, is directly interested in these 2,860,000,000 shares. Wu Hoi Shan is the sole owner of Hyde Park Group Limited. By virtue of the provisions of the Part XV of the SFO, Wu Hoi Shan is deemed to be interested in all the shares in which Hyde Park Group Limited is interested.

5. Brightstar Global Capital Inc., as a result of its agreeing to sub-underwrite the Rights Issue, is directly interested in these 715,000,000 shares. Allen Bradford William is the sole owner of Brightstar Global Capital Inc. By virtue of the provisions of the Part XV of the SFO, Allen Bradford William is deemed to be interested in all the shares in which Brightstar Global Capital Inc. is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2006.

CONVERTIBLE NOTES, SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

On 10 August 2005, the Company issued a zero coupon convertible notes in the aggregate principal amount of HK$170 million to Hanny Holdings Limited at the conversion price of HK$0.12 per share of HK$0.01 each of the share capital of the Company, subject to adjustment and upon the terms contained therein.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

During the year, 35% of the Group's purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 14% of the Group's purchases. In addition, 40% of the Group's turnover was attributable to the Group's five largest customers with the largest customer accounting for 21% of the Group's turnover.

As at 30 June 2006, to the knowledge of the Directors of the Company, none of the Directors, their associates or any shareholders owning more than 5% of the Company's share capital had any beneficial interests in the Group's five largest suppliers and customers.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 30 June 2006, the following Director(s) were considered to have interests in the following businesses, being businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.* has an indirect interest of approximately 44% in Sun-Tech International Group Limited whose principal business is provision of computer system integration services which is in competition with those business of the Group. The business of the Group in system integration services ceased in February 2006 and was disposed of by the Group in June 2006.

Save as disclosed above, during the year ended 30 June 2006, none of the Directors have any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

Report of the Directors (Continued)

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has complied with all the code provisions except for A.4.1 as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Please also refer to Corporate Governance Report on pages 16 to 21 for details.

Details of the audit committee and remuneration committee are set out in the Corporate Governance Report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the directors have complied with the required standard set out in the Model Code for the year ended 30 June 2006.

AUDIT COMMITTEE

The Company's audit committee comprises four Independent Non-executive Directors, namely Mr. Li Fui Lung, Danny, the chairman of the committee, Mr. Ng Hoi Yue, Herman and Hon. Shek Lai Him, Abraham, *J.P.* and Mr. Fong Shing Kwong, Michael. Both Mr. Li Fui Lung, Danny and Mr. Ng Hoi Yue, Herman are certified public accountants.

The annual results for the year have been reviewed by the Group's external auditors and the audit committee of the Company. The audit committee has also reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's audited annual financial statements for the financial year ended 30 June 2006.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules throughout the year ended 30 June 2006.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant subsequent events are set out in note 41 to the financial statements.

AUDITORS

A resolution to re-appoint Messrs. HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board
Yu Kam Kee, Lawrence
B.B.S., M.B.E., J.P.
Chairman

Hong Kong, 20 October 2006

PROFILE OF THE DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yu Kam Kee, Lawrence, *B.B.S., M.B.E., J.P.*, aged 61, was appointed as an Executive Director and the Chairman of the Company on 24 August 2004. He has undergone training at Bayer AG and Cassella AG in Germany and has accumulated many years of extensive experience in the chemical industry. He is the Honorary Life President of the Hong Kong Dyestuffs Merchants Association Limited. He also serves on many charitable and social organisations. He is now the Co-Chairman of the Campaign Committee of The Community Chest of Hong Kong, Governor of the Hong Kong Automobile Association, Director of the Hong Kong Football Association and Chairman of the Campaign Committee of the Road Safety Council. He is also the chairman of Softbank Investment International (Strategic) Limited, Wing On Travel (Holdings) Limited and an independent non-executive director of Great China Holdings Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lawrence Yu is a brother of Mr. Lincoln Yu, an executive director of the Company.

Mr. Carl Chang, aged 50, was appointed as an Executive Director and the Chief Executive Officer of the Company on 24 August 2004. He graduated from the University of Hong Kong with a Bachelor of Arts Degree and has over 20 years of extensive media experience in the mass communications and entertainment industries. He has worked in key executive positions in various companies in broadcasting, films production, entertainment and media industries. Currently, he is an independent non-executive director of China Chief Cable TV Group Limited (formerly known as "M21 Technology Limited"), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chang also acts as a director of various subsidiaries of the Company.

Mr. Yu Kam Yuen, Lincoln, aged 52, was appointed as an Executive Director of the Company on 24 August 2004. He is the holder of a Bachelor Degree in Economics from the University of Western Ontario, Canada and has undergone training in dyestuffs technology at Bayer AG and Hoechst AG in Germany. He is the President of the Hong Kong Dyestuffs Merchants Association Limited and participates in many charitable organisations. He is also a non-executive director of Softbank Investment International (Strategic) Limited and an independent non-executive director of Innovo Leisure Recreation Holdings Limited, shares of both of which are listed on the Stock Exchange. Mr. Lincoln Yu is a brother of Mr. Lawrence Yu, the chairman and an executive director of the Company.

Mr. Tong Chin Shing, aged 53, was appointed as an Executive Director of the Company on 5 December 2005. He holds a Bachelor's Degree in Commerce and is a member of the Society of Management Accountants of Canada. He has over 27 years' experience in general corporate development, accounting, auditing, finance and general administration in Hong Kong, Canada and the PRC. Mr. Tong was formerly an executive director of SMI Publishing Group Limited (formerly known as Sing Pao Media Group Limited) and M Channel Corporation Limited whose shares are listed on the Stock Exchange. He is currently an executive director of Apex Quality Group Limited, a public company operating hotel businesses in Hong Kong and the PRC and an independent non-executive director of Daka Designs Limited, a company listed on Singapore Exchange Securities Trading Limited.

Profile of the Directors (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Fui Lung, Danny, aged 53, was appointed as an Independent Non-executive Director and a member of the audit committee of the Company on 23 October 2001. He graduated with a Bachelor of Science Degree from the University of Hong Kong and subsequently obtained postgraduate certificate in accountancy from the University of Stirling in Scotland. He has over 25 years experience in the accounting profession and after qualifying as Chartered Accountant in 1980 with Ernst & Whinney in Scotland, has worked as finance manager, controller and internal auditor in major multinational companies. Upon his appointment with the Company, Mr. Li has been acting as the Chairman of the Company's audit committee. Mr. Li is the sole proprietor of Messrs. Danny Li & Company, a certified public accountants firm in Hong Kong, and has been practising as a certified public accountant in Hong Kong for more than 5 years. He is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in Australia.

Mr. Ng Hoi Yue, Herman, aged 42, was appointed as an Independent Non-executive Director and a member of the audit committee of the Company on 16 May 2002. Mr. Ng is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been practising as a certified public accountant in Hong Kong for more than 16 years. He is also an independent non-executive director of Henry Group Holdings Limited (formerly known as "Zida Computer Technologies Limited") whose shares are listed on the Stock Exchange.

The Hon. Shek Lai Him, Abraham, *J.P.*, aged 61, was appointed as an Independent Non-executive Director and a member of the audit committee of the Company on 1 October 2005. Mr. Shek is a member of the Legislative Council for the Hong Kong Special Administrative Region representing real estate and construction functional constituency since 2000. He is a graduate of Sydney University, Australia. Mr. Shek served as Chief Executive of Land Development Corporation during the period from 1987 to 2000. Currently, Mr. Shek is a member of the Council of The Hong Kong University of Science & Technology and member of the Court of The University of Hong Kong. He is also a member of the Managing Board of Kowloon-Canton Railway Corporation and a director of The Hong Kong Mortgage Corporation Limited. Mr. Shek is an independent non-executive director and a member of the audit committee of several companies which are listed on the Stock Exchange, including NWS Holdings Limited (stock code: 659), Midas International Holdings Limited (stock code: 1172), Paliburg Holdings Limited (stock code: 617), Lifestyle International Holdings Limited (stock code: 1212), Chuang's Consortium International Limited (stock code: 367), ITC Corporation Limited (stock code: 372). He is an independent non-executive director of Titan Petrochemicals Group Limited (stock code: 1192). He is also an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the Manager of Champion Real Estate Investment Trust (stock code: 2778) which is listed on the Stock Exchange. Mr. Shek was appointed as a Justice of the Peace in 1995.

Mr. Fong Shing Kwong, Michael, aged 58, was appointed as an Independent Non-executive Director and a member of the audit committee of the Company on 5 December 2005. He is presently an executive director of New World China Land Limited, a company listed on the Main Board of the Stock Exchange, and a director of Kiu Lok Service Management Co Ltd. Mr. Fong has over thirty years of experience in the hospitality industry.

AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31st Floor Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF SEE CORPORATION LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 107 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

Auditors' Report (Continued)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 20 October 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Continuing Operations			
Turnover	5	**37,334**	55,983
Cost of sales		**(33,004)**	(50,795)
Gross profit		**4,330**	5,188
Other revenue	8	**5,518**	61
Other income	8	**397**	152
Distribution costs		**(8,822)**	(3,806)
Administrative expenses		**(36,755)**	(22,683)
Impairment loss on trade and other receivables		**(13,659)**	–
Impairment loss on film rights		**(4,409)**	–
Change in fair value of financial assets at fair value through profit or loss		**(2,259)**	–
Loss from operations	9	**(55,659)**	(21,088)
Amortisation of goodwill		**–**	(946)
Impairment loss on goodwill		**(40,414)**	(3,809)
Finance costs	10	**(17,098)**	(763)
Share of results of associates	20	**(147,995)**	–
Gain on disposal of subsidiaries		**476**	4
Loss before taxation		**(260,690)**	(26,602)
Taxation	11	**–**	–
Loss for the year from continuing operations		**(260,690)**	(26,602)
Discontinued Operations			
Loss for the year from discontinued operations	7	**(4,145)**	(18,110)
Loss for the year		**(264,835)**	(44,712)

Consolidated Income Statement (Continued)

For the year ended 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Attributable to:			
Equity holders of the Company		**(261,914)**	(36,799)
Minority interests		**(2,921)**	(7,913)
		(264,835)	(44,712)
Loss per share			
From continuing and discontinued operations			
Basic	13	**(12.5) cents**	(9.5) cents
Diluted	13	**N/A**	N/A
From continuing operations			
Basic	13	**(12.4) cents**	(6.9) cents
Diluted	13	**N/A**	N/A

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Intangible assets	*17*	**992**	1,266
Leasehold land	*18*	**14,297**	14,314
Property, plant and equipment	*19*	**11,325**	12,397
Interests in associates	*20*	**148,019**	–
Goodwill	*23*	**1,092**	1,092
		175,725	29,069
Current assets			
Film rights	*25*	**22,459**	2,500
Film production in progress	*26*	**29,103**	12,903
Music production in progress		**1,896**	1,876
Inventories	*27*	**196**	2,699
Trade and other receivables	*28*	**38,319**	14,622
Financial assets at fair value through profit or loss	*22*	**6,674**	–
Held-to-maturity investments	*21*	**14,819**	–
Pledged bank deposits		**718**	–
Cash and bank balances		**147,685**	19,670
		261,869	54,270
Less: Current liabilities			
Trade and other payables	*30*	**26,770**	10,622
Short-term loan – unsecured	*31*	**109,000**	–
Bank overdrafts – secured	*32*	**10,072**	–
Tax payable		**–**	401
		145,842	11,023
Net current assets		**116,027**	43,247
Total assets less current liabilities		**291,752**	72,316
Less: Non-current liabilities			
Convertible notes	*33*	**135,670**	–
Net assets		**156,082**	72,316

Consolidated Balance Sheet (Continued)

At 30 June 2006

	Notes	**2006 HK$'000**	2005 HK$'000 (Restated)
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	*34*	**129,253**	5,386
Reserves	*35*	**25,768**	65,493
		155,021	70,879
Minority interests		**1,061**	1,437
		156,082	72,316

Approved by the Board of Directors on 20 October 2006 and signed on its behalf by:

Yu Kam Kee, Lawrence *B.B.S., M.B.E., J.P.*
Executive Director

Carl Chang
Executive Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Intangible assets	*17*	**76**	–
Property, plant and equipment	*19*	**2,423**	2,465
Investment in subsidiaries	*24*	**206,576**	57,379
		209,075	59,844
Current assets			
Trade and other receivables		**10,080**	8,275
Financial assets at fair value through profit or loss	*22*	**3,531**	–
Held-to-maturity investments	*21*	**14,819**	–
Cash and bank balances		**146,297**	13,463
		174,727	21,738
Less: Current liabilities			
Trade and other payables		**12,037**	1,951
Short-term loan – unsecured	*31*	**109,000**	–
		121,037	1,951
Net current assets		**53,690**	19,787
Total assets less current liabilities		**262,765**	79,631
Less: Non-current liabilities			
Convertible notes	*33*	**135,670**	–
Net assets		**127,095**	79,631
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	*34*	**129,253**	5,386
Reserves	*35*	**(2,158)**	74,245
		127,095	79,631

Approved by the Board of Directors on 20 October 2006 and signed on its behalf by:

Yu Kam Kee, Lawrence *B.B.S., M.B.E., J.P.*	**Carl Chang**
Executive Director	*Executive Director*

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Attributable to the equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated deficits HK$'000 (Restated)	Sub-total HK$'000 (Restated)	Minority interests HK$'000	Total HK$'000 (Restated)
At 1 July 2004, as previously reported	106,141	115,672	–	–	(228,267)	(6,454)	–	(6,454)
Exercise of share options	500	–	–	–	–	500	–	500
Conversion of convertible bonds	8,889	–	–	–	–	8,889	–	8,889
Placing of shares	90,000	–	–	–	–	90,000	–	90,000
Settlement of short-term borrowings	9,892	–	–	–	–	9,892	–	9,892
Capital reduction	(210,036)	–	–	–	–	(210,036)	–	(210,036)
Premium arising on issue of shares pursuant to exercise of share options	–	350	–	–	–	350	–	350
Premium arising on issue of shares pursuant to conversion of convertible bonds	–	7,111	–	–	–	7,111	–	7,111
Share issue expenses on placing of shares	–	(2,610)	–	–	–	(2,610)	–	(2,610)
Capital reduction	–	–	210,036	–	–	210,036	–	210,036
Amount transferred to write off accumulated deficits	–	–	(210,036)	–	210,036	–	–	–
Net loss for the year	–	–	–	–	(36,832)	(36,832)	–	(36,832)
At 30 June 2005, as previously reported	5,386	120,523	–	–	(55,063)	70,846	–	70,846
Effect on adoption of HKAS 1	–	–	–	–	–	–	1,437	1,437
Effect on adoption of HKAS 17	–	–	–	–	33	33	–	33
At 30 June 2005, as restated	5,386	120,523	–	–	(55,030)	70,879	1,437	72,316

Consolidated Statement of Changes in Equity (Continued)

For the year ended 30 June 2006

	Attributable to the equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated deficits HK$'000 (Restated)	Sub-total HK$'000 (Restated)	Minority interests HK$'000	Total HK$'000 (Restated)
At 1 July 2005, as restated	5,386	120,523	–	–	(55,030)	70,879	1,437	72,316
Capital reorganisation	–	(28,663)	28,663	–	–	–	–	–
Amount transferred to written off accumulated deficits	–	–	(28,663)	–	28,663	–	–	–
Issue of shares pursuant to rights issue	123,867	–	–	–	–	123,867	–	123,867
Premium arising on issue of shares to rights issue	–	185,619	–	–	–	185,619	–	185,619
Shares issue expenses on rights issue	–	(9,350)	–	–	–	(9,350)	–	(9,350)
Convertible notes – equity component	–	–	–	45,920	–	45,920	–	45,920
Minority interests arising from formation of subsidiaries	–	–	–	–	–	–	2,000	2,000
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	152	152
Disposal of subsidiaries	–	–	–	–	–	–	393	393
Net loss for the year	–	–	–	–	(261,914)	(261,914)	(2,921)	(264,835)
At 30 June 2006	**129,253**	**268,129**	**–**	**45,920**	**(288,281)**	**155,021**	**1,061**	**156,082**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 HK$'000	2005 HK$'000 (Restated)
Cash flows from operating activities		
Loss before taxation	**(264,835)**	(44,712)
Adjustments for:		
Gain on disposal of other investments	**–**	(24)
Gain on disposal of subsidiaries	**(476)**	(4)
Impairment loss on goodwill	**153**	3,809
Impairment loss on goodwill recognised upon acquisition of interests in associates	**40,261**	–
Impairment loss on artiste contract rights	**109**	–
Impairment loss on film rights	**4,409**	–
Interest income	**(3,988)**	(37)
Interest expense	**17,098**	980
Change in fair value of financial assets at fair value through profit or loss	**2,259**	–
Depreciation of property, plant, equipment and leasehold land	**1,206**	826
Share of results of associates	**147,995**	–
Amortisation of goodwill	**–**	946
Amortisation of trademark	**233**	20
Amortisation of artiste contract rights	**8**	3
Amortisation of film rights	**18,796**	2,500
Impairment loss on trade and other receivables	**15,320**	13,036
Loss on disposal of property, plant and equipment	**220**	321
Impairment loss on inventories	**2,316**	–
Operating cash flows before working capital changes	**(18,916)**	(22,336)
Increase in film rights	**(43,164)**	(5,000)
Increase in film and music production in progress	**(16,220)**	(14,779)
Decrease in inventories	**187**	–
(Increase)/decrease in trade and other receivables	**(39,019)**	9,598
Increase in trade and other payables	**19,132**	8,493
Cash used in operations	**(98,000)**	(24,024)
Tax paid	**(401)**	–
Net cash used in operating activities	**(98,401)**	(24,024)

Consolidated Cash Flow Statement (Continued)

For the year ended 30 June 2006

	2006 HK$'000	2005 HK$'000 (Restated)
Cash flows from investing activities		
Interest income received	**3,988**	37
Payments for trademark and artiste contract rights	**(76)**	(1,289)
Purchase of other investments	**–**	(4,511)
Proceeds from disposal of other investments	**–**	4,535
Purchase of financial assets at fair value through profit or loss	**(3,416)**	–
Purchase of property, plant and equipment	**(2,215)**	(24,618)
Proceeds from disposal of property, plant and equipment	**–**	14
Purchase of interests in associates	**(336,275)**	–
Convertible notes subscribed	**(20,000)**	–
Cash effect on acquisition of subsidiaries	**–**	(16,127)
Cash effect on establishment of subsidiaries	**2,000**	–
Cash effect on disposal of subsidiaries (net of cash and cash equivalents disposed of)	**(572)**	–
Net cash used in investing activities	**(356,566)**	(41,959)
Cash flows from financing activities		
Proceeds from issue of shares	**309,486**	90,850
Proceeds from issue of convertible notes	**170,000**	–
Increase/(decrease) in short-term loan	**109,000**	(4,717)
Increase in bank overdrafts	**10,072**	–
Issue costs of shares	**(9,350)**	–
Net decrease in trust receipts and import loans	**–**	(1,442)
Interest expense paid	**(5,508)**	(980)
Net cash generated from financing activities	**583,700**	83,711
Net increase in cash and cash equivalents	**128,733**	17,728
Cash and cash equivalents at the beginning of the year	**19,670**	1,942
Cash and cash equivalents at the end of the year	**148,403**	19,670
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**147,685**	19,670
Pledged bank deposits	**718**	–
	148,403	19,670

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 27 March 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the address of the principal place of business of the Company is 2nd floor, Talon Tower, 38 Connaught Road West, Sheung Wan, Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 24 to the financial statements. During the year, the business segment of provision of telecommunication/system integration services has been discontinued, details of which has been set out in note 7 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on the Stock Exchange.

The measurement basis used in the preparation of the financial statements is historical costs as modified for the revaluation of certain financial instruments which are carried at fair value.

The preparation of the financial statements requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involved a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HK-Int 4	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-Current Assets Held for Sale and Discontinued Operations

The adoption of these new and revised HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 33, 37, HK-Int 4, HKAS-Int 15 and HKFRS 2 did not result in substantial changes to the accounting policies of the Group and the methods of computation in the Group's financial statements. In summary:

(i) HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are shown within equity. In the consolidated income statement, minority interests are presented as an allocation of total profit or loss for the year.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) HKAS 24 has affected the identification of related parties and some other related party disclosures.

(iv) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. The principal effects on the Group as a result of implementation of HKASs 32 and 39 are summarised as follows:

(a) HKAS 32 affected the presentation of financial instruments in the financial statements of the Group which was summarised as follows:

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet and stated at amortised cost. Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to retained earnings). The issuance costs incurred for the arrangement of convertible notes were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

From 1 July 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity investments". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Investment in convertible notes

From 1 July 2005 onwards, the Group has applied HKAS 39 to the convertible notes, which comprise of a conversion option embedded in a debt instrument, acquired during the year ended 30 June 2006. In accordance with HKAS 39, the conversion option embedded in the debt instrument is accounted for separately as derivative deemed as "Financial assets at fair value through profit or loss". Changes in the fair value of the conversion options are recognised directly in profit or loss. The debt component is designated as "Held-to-maturity investments" which are carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) The adoption of HKASs 36, 38 and HKFRS 3 results in a change in the accounting policy for goodwill. Until 30 June 2005, goodwill was either:

- amortised on a straight-line basis over 5 to 15 years; or
- written off against reserves.

In accordance with the provisions of HKFRS 3

- The Group ceased amortisation of goodwill from 1 July 2005;
- Accumulated amortisation as at 30 June 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 30 June 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than the following standards:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKFRS 3 – prospectively after the adoption date.

(vi) Non-current assets held for sale and discontinued operations

In the current year, the Group has, for the first time, applied HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"). HKFRS 5 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. The assets classified as held for sale should be measured at the lower of carrying amount and fair value, less costs to sell. The Group has applied the relevant transitional provisions in HKFRS 5 and elected to apply HKFRS 5 prospectively to non-current assets (or disposal groups) that meet the criteria of held for sale and operations that meet the criteria to be classified as discontinued on or after 1 July 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

Consolidated Income Statement

For the year ended 30 June 2006

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Decrease in depreciation of property, plant and equipment	**(85)**	**–**	**–**	**(85)**
Increase in amortisation of leasehold land	**4**	**–**	**–**	**4**
Impairment loss on goodwill	**–**	**40,414**	**–**	**40,414**
Change in fair value of financial assets at fair value through profit or loss	**–**	**–**	**2,259**	**2,259**
Increase in interest income	**–**	**–**	**(336)**	**(336)**
Increase in finance costs	**–**	**–**	**11,590**	**11,590**
Total (decrease)/increase in loss for the year	**(81)**	**40,414**	**13,513**	**53,846**
Increase in loss per share	**Nil**	**1.9 cents**	**0.7 cents**	**2.6 cents**

For the year ended 30 June 2005

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Decrease in depreciation of property, plant and equipment	(35)	–	–	(35)
Increase in amortisation of leasehold land	2	–	–	2
Total decrease in loss for the year	(33)	–	–	(33)
Total decrease in loss per share	Nil	–	–	Nil

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidated Balance Sheet

As at 30 June 2006

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKASs 32 & 39 HK$'000	Total HK$'000
Assets and liabilities				
Increase in leasehold land	**14,297**	**–**	**–**	**14,297**
Decrease in property, plant and equipment	**(14,216)**	**–**	**–**	**(14,216)**
Decrease in goodwill	**–**	**(40,414)**	**–**	**(40,414)**
Decrease in financial assets at fair value through profit or loss	**–**	**–**	**(2,259)**	**(2,259)**
Increase in held-to-maturity investments	**–**	**–**	**336**	**336**
Decrease in convertible notes	**–**	**–**	**34,330**	**34,330**
Total increase/(decrease) in net assets	**81**	**(40,414)**	**32,407**	**(7,926)**
Equity				
Increase in convertible notes reserve	**–**	**–**	**45,920**	**45,920**
Decrease/(increase) in loss for the year	**81**	**(40,414)**	**(13,513)**	**(53,846)**
Total increase /(decrease) in equity	**81**	**(40,414)**	**32,407**	**(7,926)**

As at 30 June 2005

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKASs 32 & 39 HK$'000	Total HK$'000
Assets and liabilities				
Increase in leasehold land	14,314	–	–	14,314
Decrease in property, plant and equipment	(14,281)	–	–	(14,281)
Total increase in net assets	33	–	–	33
Equity				
Increase in equity	33	–	–	33

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group 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.

(b) Investment in Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet, the investment in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Interests in Associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of associates, less and identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of future 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 associate.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Following on the adoption of HKFRS 3 "Business Combination", the Group ceased amortisation of goodwill from 1 July 2005. All accumulated amortisation of goodwill would be eliminated with a corresponding decrease in the cost of goodwill. From the year ended 30 June 2006 onwards, goodwill is tested annually for impairment.

For the purpose of impairment testing, goodwill arising from acquisition of a subsidiary is allocated to each of the Group's cash generating unit ("CGU") expected to benefit from the synergies of the combination. CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Goodwill arising from acquisition of an associate is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is or after 1 July 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, Plant and Equipment

Property, plant and equipment, other than buildings, are stated at cost less accumulated depreciation and accumulated impairment losses at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put in to operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is charged so as to write off the cost or fair value of property, plant and equipment over their estimated useful lives, using the straight-line basis, at the following annual rates:

Buildings	:	Over 40 years
Leasehold improvement	:	20%
Furniture, fixture and equipment	:	20%
Tools and moulds	:	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(g) Leasehold Land

Leasehold land represents prepaid lease payment made for leasehold land. Leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of leasehold land is amortised on a straight-line basis over the shorter of the relevant leasehold land or the operation period of the relevant company.

(h) Film Rights

Film rights represent films and television drama series produced or acquired by the Group for reproduction, distribution and sub-licensing, are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights. The amortisation of film rights will not exceed twenty years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Film and Music Production in Progress

Film and music production in progress represent films, television drama series and music records under production, are stated at cost incurred to date, less any identified impairment losses. Cost is transferred to film and music production rights upon completion.

(j) Artiste Contract Rights

Artiste contract rights are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is charged to the income statement as per the contract terms.

(k) Trademark

Trademark which has definite useful life is stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement over the contract terms.

(l) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of goods are recognised when goods are delivered and title has passed.

(ii) Revenue from provision of telecommunication and system integration services are recognised when services are performed.

(iii) Revenue from licensing of the distribution rights over films and television programmes is recognised when the master materials of films are delivered to customers and the title has passed.

(iv) Revenue from provision of model and artiste services are recognised when services are rendered.

(v) Revenue from event production is recognised when the events are completed or the services are provided.

(vi) Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

(vii) Rental income, including rentals invoices in advance from properties under operating leases, recognised on a straight-line basis over the term of the relevant leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less all costs to completion and costs to make the sale.

(n) Foreign Currencies

(i) Functional and presentation currencies

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Foreign Currencies (Continued)

(iii) *Group companies* (Continued)

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

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

(o) Leases

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases. Finance charges, which represent the difference between the total leasing commitments and the recorded value of the assets acquired, are charged to the income statement over the term of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rental payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-lease basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivative financial instruments that are not designated and effective hedging instruments. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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 accounts receivable, time deposits, staff housing loans and other receivables 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.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial Instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed in subsequent periods. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that is an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial Instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two sub-categories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank and other borrowings, floating rate notes, fixed rate notes and zero coupon notes are subsequently measured at amortised cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(q) Convertible Notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition of the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity component in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible notes reserve until either the notes are converted or redeemed.

If the notes are converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible notes reserve is released directly to accumulated losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the tax authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) 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 investment 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment Loss on Assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment loss on assets (excluding inventories, investment properties and financial assets other than interest in subsidiaries, associates and joint ventures), or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been changed in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expect to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(t) Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(v) Employee Benefits

(i) Salaries, annual bonuses, paid annual leaves, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Funds Schemes Ordinance are recognised as an expense in the consolidated income statement as incurred.

(iii) The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals.

(x) Related Party Transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies as described in note 2 above, the management has made various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical accounting judgments that can significantly affect the amounts recognised in the financial statements are set out below.

(a) Impairment Loss on Intangible Assets and Goodwill

The Group performs annual tests on whether there has been impairment loss on intangible assets and goodwill. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by the management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Impairment Loss on Trade and Other Receivables

The provision of impairment loss on trade and other receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on the management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. When recoverability of trade and other receivables are called into doubts, specific provision of impairment loss on trade and other receivables are made on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Impairment Loss on Film and Music Production in Progress

The management of the Group reviews an aging analysis at each balance sheet date, and identify the slow-moving film and music production in progress that are no longer suitable for use in production. The management estimates the net realisable value for such film and music production in progress based primarily on the latest invoice prices and current market conditions of the finished products. In addition, the Group carries out review on each film and music record at each balance sheet date and makes allowance for any film and music production in progress that production no longer proceed.

(d) Impairment Loss on Film Rights

At each balance sheet date, the directors of the Company carries review of the carrying amount of each film by reference to its estimation of total projected revenues from each film, which base on the historical performance, incorporating factors such as the past box office record of the lead actors and actress, the genre of the film, pre-release market research, the expected number of theatres that the film will be released to and the anticipated performance in the home entertainment, television and other ancillary markets, and agreement for future sales. The estimates for residual values of the film rights are continually evaluated based on the changes in consumer demand.

(e) Useful Lives of Property, Plant and Equipment

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

(f) Impairment Loss on Non-current Assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from the management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying amount, an impairment loss is recognised to write the assets down to its recoverable amount.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) Measurement of Convertible Notes

On issuance of convertible notes, the fair value of liability component is determined using a market value for an equivalent convertible notes; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The splitting of the liability and equity components require an estimation of the market interest rate.

4. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include cash and bank balances, trade receivable, equity investments, other receivables, trade payables, other payables, borrowings, and convertible notes. The Company's major financial instruments include cash and bank balances, other receivables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market Risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and majority of transactions are dominated in Hong Kong dollars and Renminbi. As the exchange rate between Hong Kong dollars and Renminbi remains stable, the foreign exchange exposure to such currencies are considered limited.

(ii) Price risk

The Group's financial assets at fair value through profit or loss are listed securities and thus measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements of such financial assets and take appropriate actions when it is required.

(b) Credit Risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentration of credit risk. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity Risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure the maintenance of sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions and other external sources to meet the Group's liquidity requirements in the short and long term.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Cash Flow and Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The key exposure of the Group to these risks are originating from the interest-bearing borrowings. The Group monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

5. TURNOVER

Turnover from continuing operations mainly comprise of revenue from (i) film and TV programme production, (ii) event production, (iii) artiste and model management, (iv) music production and (v) manufacturing and sale of multimedia electronic products, toys and games products. Turnover from discontinued operations represents revenue from the provision of telecommunication and system integration services. The amounts of each significant category of revenue recognised during the year are as follows:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Continuing operations:		
– Film and TV programme production	**19,839**	2,370
– Event production	**4,668**	–
– Artiste and model management	**9,906**	332
– Music production	**485**	–
– Manufacturing and sale of:		
– Multimedia electronic products	**2,436**	53,281
– Toys and games products	**–**	–
	37,334	55,983
Discontinued operations:		
– Provision of telecommunication and system integration services	**470**	3,178

6. SEGMENT INFORMATION

(a) Business Segments

Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The following table presents revenue and results, certain assets, liabilities and expenditures information for the Group's business segments of 2006:

	Continuing operations							Discontinued operations		
	Film and TV programme production HK$'000	Event production HK$'000	Artiste and model management HK$'000	Music production HK$'000	Toys and games products HK$'000	Multimedia electronic products HK$'000	Others HK$'000	Telecommunication and system integration HK$'000	Others HK$'000	Consolidated HK$'000
Segment revenue	19,839	4,668	9,906	485	–	2,436	–	470	–	37,804
Segment results	340	706	2,926	46	–	312	–	278	–	4,608
Interest income and unallocated gains										5,915
Unallocated corporate expenses										(48,339)
Impairment loss on trade and other receivables										(15,320)
Impairment loss on film rights										(4,409)
Change in fair value of financial assets at fair value through profit or loss										(2,259)
Loss from operations										(59,804)
Impairment loss on goodwill										(40,414)
Finance costs										(17,098)
Share of results of associates										(147,995)
Gain on disposal of subsidiaries										476
Loss before taxation										(264,835)
Taxation										–
Loss for the year										(264,835)
Attributable to:										
Equity holders of the Company										(261,914)
Minority interests										(2,921)
										(264,835)
Segment assets	61,748	13,323	9,190	2,345	–	391	350,597	–	–	437,594
Segment liabilities	5,823	11,459	2,177	1,487	–	2,694	257,872	–	–	281,512
Other segment information:										
Capital expenditures	1,106	283	284	–	–	–	542	–	–	2,215
Depreciation	43	17	47	–	–	41	789	286	–	1,223

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

6. SEGMENT INFORMATION (Continued)

(a) Business Segments (Continued)

The following table presents revenue and results, certain assets, liabilities and expenditures information for the Group's business segments of 2005:

	Continuing operations							Discontinued operations		
	Film and TV programme production HK$'000	Event production HK$'000	Artiste and model management HK$'000	Music production HK$'000	Toys and games products HK$'000	Multimedia electronic products HK$'000	Others HK$'000 (Restated)	Telecom-munication and system integration HK$'000 (Restated)	Others HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Segment revenue	2,370	–	332	–	–	53,281	–	3,178	–	59,161
Segment results	(130)	–	264	–	–	5,054	–	444	–	5,632
Interest income and unallocated gains										307
Unallocated corporate expenses										(31,884)
Impairment loss on trade and other receivables										(13,036)
Loss from operations										(38,981)
Amortisation of goodwill										(946)
Impairment loss on goodwill										(3,809)
Finance costs										(980)
Gain on disposal of subsidiaries										4
Loss before taxation										(44,712)
Taxation										–
Loss for the year										(44,712)
Attributable to:										
Equity holders of the Company										(36,799)
Minority interests										(7,913)
										(44,712)
Segment assets	13,113	6,615	2,981	–	–	1,628	51,671	7,318	13	83,339
Segment liabilities	22	85	1,326	–	–	3,533	1,951	4,082	24	11,023
Other segment information:										
Capital expenditures	–	–	22	–	–	37	24,460	99	–	24,618
Depreciation	–	–	1	–	–	68	231	526	–	826

6. SEGMENT INFORMATION (Continued)

(b) Geographical Segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. More than 90% of the Group's assets and liabilities are located in the region of Hong Kong and Mainland China. Accordingly, analysis of segment assets and liabilities based on the geographical segments has not been disclosed. The following table presents revenue for the Group's geographical segments:

For the year ended 30 June 2006

	North America HK$'000	**Europe HK$'000**	**Japan HK$'000**	**Hong Kong HK$'000**	**China HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue from external customers	**1,044**	**491**	**–**	**30,720**	**4,844**	**705**	**37,804**

For the year ended 30 June 2005

	North America HK$'000	Europe HK$'000	Japan HK$'000	Hong Kong HK$'000	China HK$'000	Others HK$'000	Total HK$'000
Revenue from external customers	3,443	5,490	21	29,284	20,757	166	59,161

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

7. DISCONTINUED OPERATIONS

On 15 June 2006, the Group disposed of its interests in certain subsidiaries ("Disposed Subsidiaries") as per note 38 to the financial statements at a total consideration of US$4 (approximately equivalent to HK$31). The principal activity of a major subsidiary disposed was the provision of telecommunication and system integration services. Upon disposal of the Disposed Subsidiaries, the Group discontinued its provision of telecommunication and system integration services.

The results attributable to the discontinued business for the year were as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	**470**	3,178
Cost of sales	**(192)**	(2,734)
Gross profit	**278**	444
Other revenue	**–**	–
Other income	**–**	94
Distribution costs	**–**	(73)
Administrative expenses	**(2,762)**	(5,322)
Impairment loss on trade and other receivables	**(1,661)**	(13,036)
Loss from operations	**(4,145)**	(17,893)
Finance costs	**–**	(217)
Loss before taxation	**(4,145)**	(18,110)
Taxation	**–**	–
Loss for the year from discontinued operations	**(4,145)**	(18,110)
Attributable to:		
Equity holders of the Company	**(2,296)**	(10,218)
Minority interests	**(1,849)**	(7,892)
Loss for the year	**(4,145)**	(18,110)

Assets and liabilities of the Disposed Subsidiaries were as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Total assets	**2,340**	7,331
Total liabilities	**(3,209)**	(4,106)
Net (liabilities)/assets	**(869)**	3,225

7. DISCONTINUED OPERATIONS (Continued)

The cash flows of the discontinued operations were as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Net cash generated from operating activities	**245**	(2,810)
Net cash used in financing activities	**(217)**	(217)
Total net cash inflow/(outflow)	**28**	(3,027)
Loss per share:		
Basic, from the discontinued operations	**0.1 cent**	2.6 cents
Diluted, from the discontinued operations	**N/A**	N/A

The calculations of basic and diluted loss per share from the discontinued operations are based on:

	2006 HK$'000	2005 HK$'000 (Restated)
Net loss attributable to ordinary equity holders of the Company from the discontinued operations	**2,296**	10,218
Weighted average number of ordinary shares in issue during the year in the basic loss per share calculation	**2,090,778**	388,118
Weighted average number of ordinary shares used in the diluted loss per share calculation	**N/A**	N/A

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

8. OTHER REVENUE AND OTHER INCOME

	2006 HK$'000	2005 HK$'000 (Restated)
Other revenue		
Bank interest income	**193**	37
Rental income	**579**	–
Interest income	**3,795**	–
Others	**951**	24
	5,518	61
Other income		
Change in value of held-to-maturity investments	**336**	–
Sundry income	**61**	152
	397	152

9. LOSS FROM OPERATIONS

	2006 HK$'000	2005 HK$'000 (Restated)
Loss from operations is stated after charging:		
Cost of inventories (included in cost of sales)	**2,563**	51,029
Amortisation of film rights (included in cost of sales)	**19,499**	2,500
Auditors' remuneration	**500**	380
Amortisation of trademark	**233**	20
Amortisation of contract rights	**8**	3
Impairment loss on contract rights	**109**	–
Depreciation of property, plant and equipment	**920**	292
Operating leases in respect of land and buildings	**2,548**	866
Staff costs		
– Retirement benefit scheme contributions	**371**	177
– Other staff costs, including directors' emoluments	**11,622**	6,347
Impairment loss on trade and other receivables	**13,659**	–

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000 (Restated)
Interest on:		
Bank borrowings wholly repayable within five years	448	–
Discount bills	–	31
Short-term borrowings	4,936	244
Convertible notes	11,590	426
Amortisation of issue costs of convertible bonds	–	62
Others	124	–
	17,098	763

11. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries either incurred taxation loss or had no assessable profit for the year (2005: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Group has not recognised deferred tax assets in respect of losses due to the unpredictability of the future profit streams.

Reconciliation between tax expense and accounting loss at applicable tax rate:

	2006 HK$'000	2006 %	2005 HK$'000	2005 %
Loss before taxation	(264,835)		(44,712)	
Tax at domestic income tax rate	(46,346)	17.5	(7,825)	17.5
Tax effect of income that is not taxable in determining taxable profit	(119)	–	(1)	–
Tax effect of expenses that are not deductible in determining taxable profit	35,644	(13.5)	579	(1.3)
Tax effect of unrecognised temporary differences	25	–	(226)	0.5
Tax effect of unrecognised tax losses	10,796	(4.0)	7,473	(16.7)
Taxation charge for the year	–	–	–	–

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

12. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK$264,835,000 (2005: HK$44,712,000 (restated)), HK$298,592,000 (2005: HK$8,593,000) has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of basic and diluted loss per ordinary share is based on the following data:

For Continuing and Discontinued Operations

	2006 HK$'000	2005 HK$'000 (Restated)
Loss for the purpose of basic loss per ordinary share (loss for the year attributable to equity holders of the Company)	**(261,914)**	(36,799)

	Number of shares '000	Number of shares '000
Weighted average number of shares for the purpose of basic loss per ordinary share	**2,090,778**	388,118

From Continuing Operations

	HK$'000	HK$'000 (Restated)
Loss for the purpose of basic loss per ordinary share (loss for the year attributable to equity holders of the Company)	**(261,914)**	(36,799)
Less: Loss for the year from discontinued operations	**2,296**	10,218
Loss for the purpose of basic loss per ordinary share from continuing operations	**(259,618)**	(26,581)

The denominators used are the same as those detailed above.

The computation of diluted loss per share for both continuing and discontinued operations did not assume the exercise of the convertible notes existed during the year as the exercise of such notes would reduce loss per share.

14. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 30 June 2006 (2005: Nil).

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' Emoluments

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

The Group

	Fees HK$'000	Salaries HK$'000	Housing Allowances HK$'000	Provident Fund Contributions HK$'000	Total HK$'000
Name of Director					
2006:					
Executive directors					
Mr. Yu Kam Kee, Lawrence	–	–	–	–	–
Mr. Carl Chang	–	1,920	480	12	2,412
Mr. Yu Kam Yuen, Lincoln	100	–	–	–	100
Mr. Tong Chin Shing	–	–	–	–	–
Independent non-executive directors					
Mr. Li Fui Lung, Danny	100	–	–	–	100
Mr. Ng Hoi Yue, Herman	100	–	–	–	100
Mr. John Paul McLellan	25	–	–	–	25
Mr. Shek Lai Him, Abraham	150	–	–	–	150
Mr. Fong Shing Kwong, Michael	115	–	–	–	115
	590	1,920	480	12	3,002
2005:					
Executive directors					
Mr. Carl Chang	–	1,520	400	15	1,935
Mr. Yu Kam Yuen, Lincoln	83	–	–	–	83
Mr. Wu Jiahong	110	–	–	–	110
Mr. Liao Chongde	791	–	216	–	1,007
Independent non-executive directors					
Mr. Li Fui Lung, Danny	100	–	–	–	100
Mr. Ng Hoi Yue, Herman	100	–	–	–	100
Mr. John Paul McLellan	75	–	–	–	75
	1,259	1,520	616	15	3,410

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' Emoluments (Continued)

During the year, no share option (2005: Nil) was granted to directors of the Company under the Company's share option scheme. The details of these benefits in kind are disclosed under section headed "Directors' Interests in Shares, Underlying Shares and Debentures" in the Report of the Directors of the Company. In the absence of a readily available market value for an accurate assessment of the value of these share options, accordingly, no value has been included in the emoluments of the directors in respect thereof.

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments during the year.

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2005: two) director of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining four (2005: three) individuals during the year are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**3,004**	773

The emoluments of the non-director individuals fell within the following bands:

	2006	2005
	Number of employees	
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	–
	4	3

16. EMPLOYEE BENEFITS

Retirement Benefit Scheme

Prior to 1 December 2000, the Group operated a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce the contributions payable by the Group. The Defined Contribution Scheme was terminated on 1 December 2000.

Effective from 1 December 2000, the Group joined the MPF Scheme for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees of the Company's subsidiary in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represents the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC.

Equity Compensation Benefits

Share Options

The Company has adopted a share option scheme ("Share Option Scheme") on 23 November 2001 under which the directors may grant options to employees, including any directors of the Company, its subsidiaries or any entity in which any member of the Group holds an equity interest to subscribe for shares in the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the directors (subject to adjustment), and will not be less than (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for trades in one or more board lots of shares on the date of offer of the options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the options; or (iii) the nominal value of the shares of the Company, whichever is the highest. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 30% of the issued share capital of the Company from time to time.

The amount paid on acceptance of an option was HK$1. An option may be exercised at any time before the expiration of ten years from the date of grant of the option. The maximum entitlement of each participant under the Share Option Scheme in any 12-month period is 1% of the shares of the Company in issue from time to time. As at the date of this report, a total of 215,422,444 shares of the Company (representing 10% of the existing issued share capital of the Company) are available for issue under the Share Option Scheme. The Share Option Scheme will expire on 23 November 2011.

During the year, no share option was granted.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

17. INTANGIBLE ASSETS

The Group

	Trademark HK$'000	Artiste contract rights HK$'000	Total HK$'000
Cost:			
At 1 July 2004	–	–	–
Additions	1,169	120	1,289
At 30 June 2005 and 1 July 2005	1,169	120	1,289
Additions	76	–	76
At 30 June 2006	**1,245**	**120**	**1,365**
Accumulated amortisation and impairment:			
At 1 July 2004	–	–	–
Provided for the year	20	3	23
At 30 June 2005 and 1 July 2005	20	3	23
Provided for the year	233	8	241
Impairment loss	–	109	109
At 30 June 2006	**253**	**120**	**373**
Net book value:			
At 30 June 2006	**992**	**–**	**992**
At 30 June 2005	1,149	117	1,266

The Company

	Trademark HK$'000
Cost:	
At 1 July 2004, 30 June 2005 and 1 July 2005	–
Additions	76
At 30 June 2006	**76**
Accumulated amortisation and impairment:	
At 1 July 2004, 30 June 2005, 1 July 2005 and 30 June 2006	–
Net book value:	
At 30 June 2006	**76**
At 30 June 2005	–

The carrying amount of the Company's trademark at 30 June 2006 was approximate to its fair value.

18. LEASEHOLD LAND

The Group

	HK$'000
Cost:	
At 1 July 2004, as previously reported	–
Effect of adoption of HKAS 17	14,321
At 30 June 2005, as restated, 1 July 2005 and 30 June 2006	14,321
Accumulated amortisation:	
At 1 July 2004, as previously reported	–
Effect of adoption of HKAS 17	7
At 30 June 2005, as restated and 1 July 2005	7
Charge for the year	17
At 30 June 2006	24
Net book value:	
At 30 June 2006	**14,297**
At 30 June 2005	14,314

The Group's leasehold land was located in Hong Kong which represents operating lease payments under long-term lease and the lease payments are amortised on a straight-line method over the remaining term of lease.

At 30 June 2006, the Group's leasehold land with a net book value of approximately HK$14,297,000 (2005: HK$14,314,000) was pledged to secure the banking facilities granted to the Company.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

19. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000 (Restated)	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Tools and moulds HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
Cost:						
At 1 July 2004, as previously reported	–	30	288	258	1,090	1,666
Acquisition of subsidiaries	–	–	3,157	–	–	3,157
Additions	21,879	1,805	934	–	–	24,618
Effect on adoption of HKAS 17	(14,321)	–	–	–	–	(14,321)
Disposals	–	(30)	(201)	–	(1,090)	(1,321)
At 30 June 2005, as restated and 1 July 2005	7,558	1,805	4,178	258	–	13,799
Additions	–	584	731	–	900	2,215
Disposal of subsidiaries	–	–	(3,231)	–	–	(3,231)
Disposals	–	–	(91)	(258)	–	(349)
At 30 June 2006	**7,558**	**2,389**	**1,587**	**–**	**900**	**12,434**
Accumulated depreciation and impairment:						
At 1 July 2004, as previously reported	–	7	71	13	207	298
Charge for the year	119	90	598	52	–	859
Acquisition of subsidiaries	–	–	559	–	–	559
Written back on disposals	–	(7)	(60)	–	(207)	(274)
	119	90	1,168	65	–	1,442
Effect on adoption of HKAS 17	(40)	–	–	–	–	(40)
At 30 June 2005, restated and at 1 July 2005	79	90	1,168	65	–	1,402
Charge for the year	189	394	548	30	45	1,206
Disposal of subsidiaries	–	–	(1,370)	–	–	(1,370)
Written back on disposals	–	–	(34)	(95)	–	(129)
At 30 June 2006	**268**	**484**	**312**	**–**	**45**	**1,109**
Net book value:						
At 30 June 2006	**7,290**	**1,905**	**1,275**	**–**	**855**	**11,325**
At 30 June 2005	7,479	1,715	3,010	193	–	12,397

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 July 2004	30	233	1,090	1,353
Additions	1,805	777	–	2,582
Disposals	(30)	(201)	(1,090)	(1,321)
At 30 June 2005 and 1 July 2005	1,805	809	–	2,614
Additions	183	359	–	542
Disposals	–	–	–	–
At 30 June 2006	**1,988**	**1,168**	**–**	**3,156**
Accumulated depreciation and impairment:				
At 1 July 2004	7	64	207	278
Charge for the year	90	55	–	145
Written back on disposals	(7)	(60)	(207)	(274)
At 30 June 2005 and 1 July 2005	90	59	–	149
Charge for the year	380	204	–	584
Written back on disposals	–	–	–	–
At 30 June 2006	**470**	**263**	**–**	**733**
Net book value:				
At 30 June 2006	**1,518**	**905**	**–**	**2,423**
At 30 June 2005	1,715	750	–	2,465

As at 30 June 2006, the Group's buildings with carrying amounts of HK$7,290,000 were pledged to secure the banking facilities granted to the Company.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

20. INTERESTS IN ASSOCIATES

	2006 **HK$'000**	2005 HK$'000
Share of net assets of associates *(Note a)*	**75,654**	–
Goodwill arising on acquisition of associates *(Note b)*	**72,365**	–
	148,019	–

Notes:

(a) Share of net assets of associates

	HK$'000
At 1 July 2005	–
Acquisition of 49% interests in associates *(Note c)*	223,649
Share of results of associates for the year	(147,995)
Share of net assets of associates at 30 June 2006	**75,654**

(b) Goodwill arising on acquisition of associates

	HK$'000
At 1 July 2005	–
Acquisition of 49% interests in associates *(Note c)*	112,626
Impairment loss recognised during the year	(40,261)
At 30 June 2006	**72,365**

(c) Acquisition of 49% interests in associates

On 21 April 2005, Enjoy Profits Limited, a wholly-owned subsidiary of the Company entered into an acquisition agreement with TVB Satellite TV Holdings Limited to acquire 49% interests in TVB Pay Vision Holdings Limited (formerly known as Galaxy Satellite TV Holdings Limited) and its subsidiary ("TVB Pay Vision Group") for a cash consideration of approximately HK$336,275,000 ("Acquisition"). Subsequent to the completion of the acquisition on 12 August 2005, TVB Pay Vision Group became associate companies of the Group. The net assets of TVB Pay Vision Group as at the date of the acquisition was approximately HK$223,649,000. Accordingly, goodwill arising from the Acquisition was approximately HK$112,626,000.

(d) At 30 June 2006, the directors of the Company assessed the recoverable amount of goodwill arising on the acquisition of associates by reference to the valuation as at 30 June 2006 performed by Norton Appraisals Limited ("Norton Appraisals"), an independent firm of professional valuers, and impairment loss of approximately HK$40,261,000 was provided according to the opinion of Norton Appraisals and the directors of the Company. The valuation of the goodwill was determined based on the present value of the expected future revenue arising from the business of the associates.

20. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(d) (Continued)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of six years. Cash flows beyond the 6 years period is represented by its continuing value.

The projections adopted various growth rates over the period which is equivalent to any average growth rate as below.

Key assumptions used for value-in-use calculations:

Average growth rate	18.50%
Discount rate	16.25%

The management determined the budgeted growth rate based on past performance and its expectation for market development. The discount rate used is after tax and reflects specific risks relating to the CGU.

The resulting value of the Group's share of the recoverable amount of TVB Pay Vision Group is lower than the carrying amount of the Group's interests in TVB Pay Vision Group based on value-in-use calculations and an impairment loss of HK$40,261,000 was recognised.

(e) Details of the Group's interests in associates as at 30 June 2006 are as follows:

Name	Place of incorporation	Registered capital	Attributable to equity interest of the Group %	Profit sharing %	Principal activities
TVB Pay Vision Holdings Limited (formerly known as "Galaxy Satellite TV Holdings Limited")	Hong Kong	HK$1,085,867,759	49	49	Investment holding in Hong Kong
TVB Pay Vision Limited (formerly known as "Galaxy Satellite TV Broadcasting Limited")	Hong Kong	HK$2*	49	49	Domestic pay television programme service in Hong Kong

* an associate held indirectly by the Group

Notes to the Financial Statements (Continued)
For the year ended 30 June 2006

20. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(e) (Continued)

The summarised financial information in respect of the Group's interests in associates from the date of financial statements for the year ended 30 June 2006 is set out below:

	HK$'000
Turnover	164,271
Loss for the year	(356,990)
Loss attributable to the Group from the date of acquisition	(147,995)
Total assets	560,264
Total liabilities	(405,867)
Net assets	154,397
Net assets attributable to the Group	75,654

21. HELD-TO-MATURITY INVESTMENTS

	2006 **HK$'000**	2005 HK$'000
Debt element of convertible notes	**14,819**	–

During the year ended 30 June 2006, the Company has subscribed convertible notes with an aggregate amount of HK$20,000,000 from Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability with its shares listed on the main board of The Stock Exchange of Hong Kong Limited, which bears interest at 4% per annum. The interest is payable semi-annually in arrears.

In accordance to HKAS 39, an embedded derivative in a combined instrument shall be separated from the host contract and account for as a derivative. Upon receipt of the above convertible notes issued by the note issuer, the Company separated the debt element and the conversion option element. The Company has classified all the debt element of the convertible notes as held-to-maturity investments and the conversion option element of the convertible notes as financial assets at fair value through profit or loss. The fair value of the convertible notes is determined by the directors of the Company with reference to the valuation performed by Norton Appraisals, a firm of independent valuer.

21. HELD-TO-MATURITY INVESTMENTS (Continued)

At 30 June 2006, the fair value of the debt element was approximately HK$14,819,000 by reference to valuation performed by Norton Appraisals which applied net present value and Black-Scholes Model rates for the valuation of the debt element.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted securities:				
– Debt securities *(Notes a and b)*	**3,531**	–	**3,531**	–
Listed securities:				
– Equity securities listed in Hong Kong *(Note c)*	**3,143**	–	**–**	–
	6,674	–	**3,531**	–

Notes:

(a) The unlisted securities represents conversion option element of the convertible notes as per Note 21 to the financial statements. Upon the issuance of the convertible notes, a conversion option element of the convertible notes of value HK$5,517,000 was recognised by reference to valuation performed by Norton Appraisals.

(b) The fair value of the unlisted securities as at 30 June 2006 is determined by the directors of the Company with reference to the revaluation performed by Norton Appraisals. Accordingly, a decrease in fair value of approximately HK$1,986,000 was recognised in profit or loss.

(c) The equity securities listed in Hong Kong represented the Group's investment in Big Media Group Limited ("Big Media Group"), a company incorporated in Cayman Islands with limited liability and its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. At 30 June 2006, the Group's investment represented 17.08% of the issued ordinary shares of Big Media Group.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

23. GOODWILL

	HK$'000
Costs:	
At 1 July 2004	107
Additions	5,767
At 30 June 2005, as previously reported	5,874
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(973)
Additions	153
At 1 July 2005, as restated and at 30 June 2006	5,054
Amortisation:	
At 1 July 2004	27
Provided for the year	946
At 30 June 2005, as previously reported	973
Eliminated against costs upon adoption of HKFRS 3	(973)
At 1 July 2005, as restated and at 30 June 2006	–
Impairment:	
At 1 July 2004	–
Impairment loss recognised for the year	3,809
At 30 June 2005 and at 1 July 2005	3,809
Impairment loss recognised for the year *(Note c)*	153
At 30 June 2006	**3,962**
Carrying amount:	
At 30 June 2006	**1,092**
At 30 June 2005	1,092

23. GOODWILL (Continued)

Notes:

(a) In prior years, the goodwill was either amortised over a period from 5 to 15 years or written off against reserves. Following the adoption of the HKFRS 3, the Group ceased amortisation of goodwill from 1 July 2005. The accumulated amortisation of goodwill at 30 June 2005 of approximately HK$973,000 was eliminated against the costs of goodwill. From the year ended 30 June 2006 onwards, goodwill is tested annually for impairment.

(b) Goodwill is allocated to the Group's CGU identified according to the operation in a business segment as follows:

	2006 **HK$'000**	2005 HK$'000
Provision of model agency services	**1,092**	1,092

The recoverable amount of goodwill in a CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a 5-year period. Cash flow beyond 5-year period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculation:

Average growth rate	**3%**
Discount rate	**18%**

The management determined the budget gross profit margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(c) During the year, an impairment loss on goodwill arising on acquisition of subsidiaries of approximately HK$153,000 was recognised.

At 30 June 2006, the directors of the Company assessed the recoverable amount of goodwill arising on the acquisition of subsidiaries by reference to the valuation as at 30 June 2006 performed by Norton Appraisals Limited ("Norton Appraisals"), an independent firm of professional valuers, and concluded that no impairment shall be recognised further to the impairment loss of approximately HK$153,000 recognised during the year. The valuation of the goodwill was determined based on the present value of the expected future revenue arising from the business of the associates.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

24. INVESTMENT IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Net amounts due from subsidiaries	**471,503**	57,378
Less: Impairment loss recognised	**(264,928)**	–
	206,576	57,379

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The directors of the Group had reviewed the net asset values of the Company's subsidiaries for the year ended 30 June 2006 and considered provision for impairment in values be made in respect of the investment cost to their recoverable amounts.

The following is a list of the significant subsidiaries at 30 June 2006:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares/ registered capital	Proportion of nominal value of issued shares/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Anyone Holdings Limited	British Virgin Islands ("BVI")	US$1	100%	–	Property holding
Cross Challenge Limited	BVI	US$2	100%	–	Investment holding
Day Achieve Limited	BVI	US$1	100%	–	Investment holding
Ease Strong Limited	Hong Kong	HK$1	100%	–	Provision of secretarial services
Enjoy Profits Limited	BVI	US$1	100%	–	Investment holding

24. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares/ registered capital	Proportion of nominal value of issued shares/registered capital held by the Company Directly	Indirectly	Principal activities
Future Alliance Limited	BVI	US$1	100%	–	Investment holding
Grand Class Investment Limited	BVI	US$1	100%	–	Investment holding
Look Models Hong Kong Limited	Hong Kong	HK$500,000	–	100%	Provision of modelling agency services
Media Platform Limited	BVI	US$1	100%	–	Investment holding
Mega-Vision Pictures Limited	Hong Kong	HK$1	–	100%	Media and entertainment business
Mega-Vision Productions Limited	Hong Kong	HK$10,000,000	–	80%	Film and TV programme production
See Entertainment Limited	Hong Kong	HK$1	–	100%	Investment in film production and provision of event management services
See Movie Limited	Hong Kong	HK$1	–	100%	Distribution of motion pictures and television drama series
See Music Limited	Hong Kong	HK$1	–	100%	Production of music video, music record and provision of promotion services

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

24. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares/ registered capital	Proportion of nominal value of issued shares/registered capital held by the Company Directly	Indirectly	Principal activities
See People Limited	Hong Kong	HK$1	–	100%	Provision of artiste management services
Seethru Limited	Hong Kong	HK$1	–	100%	Production of TV commercials
Shineidea Limited	BVI	US$1	100%	–	Investment in securities
Snazz Artistes Limited	Hong Kong	HK$100	–	100%	Provision of artiste management services
Snazz Entertainment Group Limited (Formerly known as Joybase Investments Limited)	BVI	HK$7,800	–	100%	Provision of entertainment and modelling services
Snazz Music Limited	Hong Kong	HK$100	–	100%	Production of music record and provision of promotion services
Talent Bang Limited	Hong Kong	HK$100	–	100%	Provision of modelling agency services
The Metropolis Wedding Group Limited	Hong Kong	HK$1	–	100%	General investment, trading and management services
Wise Novel Investments Limited	BVI	US$1	100%	–	Investment holding

24. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

(i) All are ordinary share capital unless otherwise stated.

(ii) The investments in Profit Charter Holdings Limited, Widax (Hong Kong) Limited, Digital Infinity Limited, Transfer Networks Limited, 深圳銀河通信息技術有限公司, Cristine Holdings Ltd. and Fine Apex Limited were disposed of during the year.

(iii) None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

(iv) The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

25. FILM RIGHTS

	The Group HK$'000
Cost:	
At 1 July 2004	–
Additions	5,000
At 30 June 2005 and 1 July 2005	5,000
Additions	43,164
At 30 June 2006	**48,164**
Accumulated amortisation:	
At 1 July 2004	–
Provided for the year	2,500
At 30 June 2005 and 1 July 2005	2,500
Impairment loss recognised for the year	4,409
Provided for the year	18,796
At 30 June 2006	**25,705**
Carrying amount:	
At 30 June 2006	**22,459**
At 30 June 2005	2,500

Note:

(a) At 30 June 2006, the directors of the Company reassessed the recoverable amount of film rights by reference to the valuation as at 30 June 2006 performed by Norton Appraisals and determined an impairment loss of approximately HK$4,409,000 (2005: HK$nil) has been provided.

The valuation was determined based on the present value of the expected future revenue arising from the sub-licensing and distribution of film rights, which was derived from discounting the project cash flows.

26. FILM PRODUCTION IN PROGRESS

	The Group	
	2006	2005
	HK$'000	HK$'000
Film production in progress	**29,103**	12,903

Note:

(a) At 30 June 2006, the directors of the Company reassessed the recoverable amount of film production in progress by reference to the valuation as at 30 June 2006 performed by Norton Appraisals and determined that no impairment loss shall be recognised (2005: HK$nil).

The valuation was determined based on the present value of the expected future revenue arising from the sub-licensing and distribution of film rights, subsequent to the completion of film production, which was derived from discounting the project cash flows.

27. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Finished Goods	**196**	12,316
Less: Impairment loss recognised	**–**	(9,617)
	196	2,699

The finished goods were carried at the lower of cost or net realisable value.

28. TRADE AND OTHER RECEIVABLES

At 30 June 2006 the balances of trade and other receivables included trade receivables of approximately HK$12,518,000 (2005: HK$4,750,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
0 – 90 days	**5,330**	4,077
91 days or above	**10,862**	16,641
	16,192	20,718
Less: Impairment loss on trade receivables	**(3,674)**	(15,968)
	12,518	4,750

The Group allows an average credit period of 90 – 180 days (2005: 90 – 180 days) to its trade customers.

The directors of the Company have assessed the recoverability of other receivables and opined that the recoverability of which were in doubt and an impairment loss on other receivables of approximately HK$9,985,000 (2005: HK$13,036,000) has been recognised during the year.

The carrying amounts of the Group's trade and other receivables at 30 June 2006 were approximate to their fair values.

29. PLEDGED OF BANK DEPOSITS

At 30 June 2006, the Group's bank deposits amounted to HK$718,000 has been pledged to a bank as guarantee of the operating lease commitments. The details of the operating lease commitments are set out in note 36 to the financial statements.

30. TRADE AND OTHER PAYABLES

At 30 June 2006, the balances of trade and other payables included trade payables of approximately HK$11,254,000 (2005: HK$4,731,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**5,971**	3,887
91 days or above	**5,283**	844
	11,254	4,731

The carrying amounts of the Group's trade and other payables at 30 June 2006 were approximate to their fair values.

31. SHORT-TERM LOAN – UNSECURED

On 11 August 2005, the Company entered into a loan agreement with ITC Management Limited for a loan facility in the principal amount of HK$25,000,000. The Company further entered into a supplemental loan agreement with ITC Management Limited on 28 February 2006. Pursuant to the supplemental loan agreement, ITC Management Limited has agreed to increase the loan facility by HK$84,000,000 from the initial principal amount of HK$25,000,000 to HK$109,000,000.

The short-term loan is unsecured, chargeable with interest at 2% over the best lending rate of Hong Kong dollar and repayable on demand. On 28 July 2006, an amount of HK$109,000,000 has been repaid to ITC Management Limited.

The carrying amount of the short-term loan is denominated in Hong Kong dollars.

The carrying amount of the short-term loan was approximate to its fair value.

32. BANK OVERDRAFT – SECURED

During the year ended 30 June 2006, the Company had been granted an overdraft facility from a bank. The bank overdraft is secured by the Group's building and leasehold land in Hong Kong with carrying amounts at 30 June 2006 of approximately HK$7,290,000 and HK$14,297,000 respectively, chargeable with interest at the lending bank's prime rate per annum or 1% per annum over Hong Kong Inter-bank Offer Rate, whichever is higher and repayable on demand.

The carrying amount of the bank overdraft is denominated in Hong Kong dollars.

The carrying amount of the bank overdraft was approximate to its fair value.

33. CONVERTIBLE NOTES

	The Group and the Company	
	2006	2005
	HK$'000	HK$'000
Face value of convertible notes issued on 10 August 2005	**170,000**	–
Equity component	**(45,920)**	–
Liability component on initial recognition on 10 August 2005	**124,080**	–
Interest expense	**11,590**	–
Liability component at 30 June 2006	**135,670**	–

Pursuant to the convertible notes subscription agreement dated 21 April 2005, the Company issued convertible notes in the principal of HK$170,000,000 (the "Convertible Notes") to Hanny Holdings Limited (the "Noteholder"). The Noteholder may at any business day after the date of issue of the Convertible Notes up to and including the date prior to the fifth anniversary of the date of issue of the Convertible Notes convert the whole or any part in an amount or integral multiple of HK$500,000 of the principal amount of the Convertible Notes into shares of HK$0.01 each in the share capital of the Company, at the conversion price of HK$0.12 per share.

The conversion price of the Convertible Notes had been adjusted from HK$0.12 per share to HK$0.0406 per share as a result of the Rights Issue taken place on 30 June 2006. For details please refer to the Company's announcement entitled "Results of the Rights Issue and Adjustments in relation to the Hanny Convertible Notes" dated 3 July 2006.

The fair value of the liability component of the convertible notes at 30 June 2006 amounted to approximately HK$135,670,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 7.75%.

Interest expense on the notes is calculated using the effective interest method by applying the effective interest rate of 7.75% to the liability component.

34. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 July 2004		20,000,000,000	200,000
Share consolidation	*(c)*	(19,500,000,000)	–
		500,000,000	200,000
Increase in authorised share capital	*(d)*	750,000,000	300,000
		1,250,000,000	500,000
Capital reorganisation			
– cancellation of unissued shares	*(g)(ii)*	(711,443,889)	(284,578)
– capital reduction	*(g)(i)*	–	(210,036)
– increase in authorised share capital	*(g)(ii)*	49,461,443,889	494,614
At 30 June 2005, 1 July 2005 and 30 June 2006		**50,000,000,000**	**500,000**
Issued:			
At 1 July 2004		10,614,124,132	106,141
Exercise of share options	*(a)*	50,000,000	500
Conversion of convertible bonds	*(b)*	888,888,888	8,889
Share consolidation	*(c)*	(11,264,187,695)	–
Placing of shares	*(e)*	225,000,000	90,000
Settlement of short-term borrowings	*(f)*	24,730,786	9,892
Capital reduction	*(g)(i)*	–	(210,036)
At 30 June 2005 and 1 July 2005		538,556,111	5,386
Rights issue on 22 July 2005	*(h)*	1,615,668,333	16,156
Rights issue on 30 June 2006	*(i)*	10,771,122,220	107,711
At 30 June 2006		**12,925,346,664**	**129,253**

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

34. SHARE CAPITAL (Continued)

Notes:

The following movements in the Company's issued share capital took place during the year ended 30 June 2005 and 2006:

(a) On 29 November 2004, the Company received notice from a holder of the share options to fully exercise rights attached to the 50,000,000 share options granted under the Share Option Scheme. A total of 50,000,000 ordinary shares of HK$0.01 each were duly issued and allotted at the exercise price of HK$0.017 per share in accordance with the rules of the Share Option Scheme. The consideration received by the Company for the issue of the 50,000,000 shares amounted to HK$850,000.

(b) On 29 November 2004, the Company received notice from the holders of the Bonds. 888,888,888 ordinary shares were duly issued and allotted at the conversion price of HK$0.018 per share in accordance with the terms of the Bonds. The consideration received by the Company for the issue of the 888,888,888 shares amounted to HK$16,000,000.

(c) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting held on 17 December 2004, every forty issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into one share of HK$0.40 each.

(d) On 20 December 2004, the authorised share capital was increased from HK$200,000,000 to HK$500,000,000 by the creation of 750,000,000 new consolidated shares of HK$0.40 each.

(e) On 21 January 2005, 225,000,000 new consolidated shares of par value of HK$0.40 each were issued by the Company through placement to independent third parties at par value pursuant to a placing agreement entered into between the Company and Tai Fook Securities Company Limited as the placing agent on 12 November 2004. The consideration received by the Company for the issue of the shares 225,000,000 amounted to HK$90,000,000.

(f) On 7 February 2005, the Company entered into settlement agreements with Ms. Tsim Shui Ting ("Ms. Tsim") and Asano (Pte) Ltd ("APL"), pursuant to which the Company agreed to allot and issue 21,732,430 shares and 2,998,356 shares, all credited as fully paid, at HK$0.40 each to Ms. Tsim and APL respectively in settlement of the loans owed to them. Such shares were issued on 9 March 2005. The consideration received by the Company for the issue of the shares 24,730,786 amounted to HK$9,892,314.

(g) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting held on 27 June 2005, a capital reorganisation which involves, inter alia, (i) a reduction of the nominal value of each of the 538,556,111 the issued shares from HK$0.40 to HK$0.01 by cancelling the Company's paid up capital to the extent of HK$0.39 on each issued share and (ii) the cancellation of all of the authorised but unissued 711,443,889 shares with the subsequent increase of the authorised share capital to HK$500,000,000 of HK$0.01 each by the creation of 49,461,443,889 shares of HK$0.01 each was approved by the shareholders of the Company.

34. SHARE CAPITAL (Continued)

Notes: (Continued)

(h) Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting on 27 June 2005, rights issue of 1,615,668,333 rights shares at price of HK$0.10 each payable in full on acceptance on the basis that three rights shares for every existing share has been approved by the shareholders at the special general meeting. The rights issue has been completed on 22 July 2005.

(i) Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting on 12 June 2006, rights issue of 10,771,122,220 rights shares at price of HK$0.014 each payable in full on acceptance on the basis that five rights shares for every existing share has been approved by the shareholders at the special general meeting. The rights issue has been completed on 30 June 2006.

All new shares issued ranked pari passu with the then existing shares in all respects.

Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Equity Compensation Benefits" in note 16 to the financial statements.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

35. RESERVES

The Group

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated deficits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 July 2004, as previously reported as equity	115,672	–	–	(228,267)	(112,595)
Premium arising on issue of shares pursuant to exercise of share options	350	–	–	–	350
Premium arising on issue of shares pursuant to conversion of convertible bonds	7,111	–	–	–	7,111
Shares issue expenses on placing of shares	(2,610)	–	–	–	(2,610)
Capital reduction	–	210,036	–	–	210,036
Amount transferred to write off accumulated deficits	–	(210,036)	–	210,036	–
Net loss for the year	–	–	–	(36,832)	(36,832)
At 30 June 2005, as previously reported	120,523	–	–	(55,063)	65,460
Effect on adoption of HKAS 17	–	–	–	33	33
At 30 June 2005, as restated	120,523	–	–	(55,030)	65,493
Capital reorganisation	(28,663)	28,663	–	–	–
Amount transferred to written off accumulated deficits	–	(28,663)	–	28,663	–
Premium arising on issue of shares to rights issue	185,619	–	–	–	185,619
Shares issue expenses on rights issue	(9,350)	–	–	–	(9,350)
Convertible notes – equity component	–	–	45,920	–	45,920
Net loss for the year	–	–	–	(261,914)	(261,914)
At 30 June 2006	**268,129**	**–**	**45,920**	**(288,281)**	**25,768**

35. RESERVES (Continued)

The Company

	Share premium HK$'000	Contributed surplus HK$'000 *(Note a)*	Convertible notes reserve HK$'000	Accumulated deficits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 July 2004, as previously reported as equity	115,672	–	–	(247,721)	(132,049)
Premium arising on issue of shares pursuant to exercise of share options	350	–	–	–	350
Premium arising on issue of shares pursuant to conversion of convertible bonds	7,111	–	–	–	7,111
Shares issue expenses on placing of shares	(2,610)	–	–	–	(2,610)
Capital reduction *(Note b)*	–	210,036	–	–	210,036
Amount transferred to write off accumulated deficits *(Note b)*	–	(210,036)	–	210,036	–
Net loss for the year	–	–	–	(8,593)	(8,593)
At 30 June 2005	120,523	–	–	(46,278)	74,245
Capital reorganisation *(Note c)*	(28,663)	28,663	–	–	–
Amount transferred to write off accumulated deficits *(Note c)*	–	(28,663)	–	28,663	–
Premium arising from issue of shares on rights issue *(Note d & e)*	185,619	–	–	–	185,619
Shares issue expenses on rights issue	(9,350)	–	–	–	(9,350)
Convertible notes – equity component *(Note f)*	–	–	45,920	–	45,920
Net loss for the year	–	–	–	(298,592)	(298,592)
At 30 June 2006	**268,129**	**–**	**45,920**	**(316,207)**	**(2,158)**

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

35. RESERVES (Continued)

Notes:

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

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) 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.

(b) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting held on 27 June 2005, a capital reorganisation which involves (i) a reduction of the nominal value of each of the 538,556,111 issued shares from HK$0.40 to HK$0.01 by cancelling the Company's paid up capital to the extent of HK$0.39 on each issued share by standing credit of the Company's contributed surplus accounts, and (ii) transferring the amount to write off the accumulated deficits.

(c) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting held on 27 June 2005, a capital reorganisation which involves cancellation of approximately HK$28.7 million standing to the credit of the Company's share premium accounts against the accumulated deficits, and such cancellation became effective on 15 July 2005.

(d) On 21 April 2005, the Company proposed to raise approximately HK$161.6 million before expenses by way of the rights issue of 1,615,668,333 rights shares at a price of HK$0.10 each payable in full on acceptance on the basis that three rights shares for every existing share held on the record date. The rights issue was approved by the shareholders at the special general meeting held on 27 June 2005 and completed on 22 July 2005.

(e) On 26 May 2006, the Company proposed to raise approximately HK$150.8 million before expenses by way of the rights issue of 10,771,122,220 rights shares at a price of HK$0.014 each on the basis that five rights shares in nil-paid form for every share held on the record date. The rights issue was approved by the shareholders at the special general meeting held on 12 June 2006.

(f) In accordance with HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated deficits).

(g) In the opinion of directors, the Company did not have any reserves available for distribution to shareholders at 30 June 2006 and 2005.

36. OPERATING LEASE COMMITMENTS

At 30 June 2006, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**2,242**	255
In the second to fifth year inclusive	**15,362**	100
	17,604	355

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases and rentals were negotiated and fixed for an average term of two years (2005: two years).

37. CAPITAL COMMITMENTS

At 30 June 2006, the Group had the following commitments which were not provided for in the consolidated balance sheet:

	The Group	
	2006	2005
	HK$'000	HK$'000
Authorised and contracted for in respect of capital contribution in film production in progress	**7,828**	4,884
Authorised and contracted for in respect of music production in progress	**–**	1,400
	7,828	6,284

Notes to the Financial Statements (Continued)

For the year ended 30 June 2006

38. DISPOSAL OF SUBSIDIARIES

	2006	2005
	HK$'000	HK$'000
Net assets disposed of:		
Investment in subsidiaries	**–**	–
Property, plant and equipment	**1,766**	–
Trade and other receivables	**2**	1,003
Cash and bank balances	**572**	1
Trade and other payables	**(3,209)**	(8)
Amount due to the Group	**(34,865)**	(1,042)
Net liabilities	**(35,734)**	(46)
Amount due to the Group written off on disposal	**34,865**	42
Minority interests	**393**	–
Gain on disposal of subsidiaries	**476**	4
	–	–
Satisfied by:		
Cash consideration received	**1**	1
Net cash outflow in respect of the disposal of subsidiaries:		
Cash consideration received	**1**	1
Cash and bank balances disposed of	**(572)**	(1)
	(571)	–

The subsidiaries disposed of during the year do not have material effect on the Group's operating cash outflow, turnover and operating loss for the year ended 30 June 2006.

39. CONTINGENT LIABILITIES

(i) As at 30 June 2006, the Company provided corporate guarantees amounting to approximately HK$24 million to a financial institution in respect of banking facilities granted to WIIL group, approximately HK$5.5 million of which was utilized by members of the WIIL group and such amount was claimed by the financial institution as disclosed in point (iii) below.

(ii) The Company and its ex-subsidiary P.N. Electronics Ltd. ("PNE") have been involved in arbitration proceedings with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings were initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has upon legal advice, vigorously contested the alleged claims and has counterclaimed the said sum of HK$18 million as well as other damages. The arbitration proceedings have been dormant for a substantial period of time and the Company is considering whether any further action should be taken in respect of the same.

(iii) On 13 October 2003, a Writ of Summons and Statement of Claim was issued by BII Finance Company Limited ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain liabilities of Welback Enterprises Limited. The claim is for a sum of approximately HK$3,583,000 and US$248,000 (approximately HK$1,936,000), together with interest.

The Company has issued Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng, former directors of the Company, seeking a contribution to the extent of 49% of BII Finance's claim in the event that the Company is found liable to BII Finance (which is denied).

The Company will continue to defend BII Finance's claim, and will also continue to pursue the Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng. The parties have yet to exchange witness statements in the main action. The Company has filed its Reply in the Third Party proceedings on 20 March 2006.

Save as disclosed above, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the directors of the Company to be pending or threatened by or against any member of the Group.

40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year, the Group had significant transaction with the following related parties, together with balances with them at the respective balance sheet date, details of which are as follows:

a) Entities with common directors:

	2006 **HK$'000**	2005 HK$'000
Sublicensing of film rights income *(note i)*	**406**	–
Travelling service expenses *(note i)*	**693**	293
Purchase of motor vehicle	**250**	–

Note:

i. The transactions were carried at price agreed between the parties.

b) Shareholders:

	2006 **HK$'000**	2005 HK$'000
TV programme production income *(note i)*	**1,600**	–
Management fee paid *(note i)*	**795**	847
Convertible notes at the end of the year *(note ii)*	**135,670**	–

Notes:

i. The transactions were carried at price agreed between the parties.

ii. The convertible notes payable by the Group is unsecured, interest free and repayable on 9 August 2010. The details of the convertible notes are set out in note 33 to the financial statements.

c) Compensation of key management personnel:

	2006 **HK$'000**	2005 HK$'000
Salaries and other short-term employee benefits	**5,994**	4,168
Provident fund contributions	**53**	49
	6,047	4,217

41. EVENTS AFTER THE BALANCE SHEET DATE

a) The board of Directors has entered into a placing agreement dated 22 April 2006 ("Placing Agreement") with Success Securities. Pursuant to the Placing Agreement, Success Securities will procure, on the best effort basis, places to subscribe by cash for the convertible notes up to an aggregate principal amount of HK$250 million ("Convertible Notes"). The date for completion of the placing was originally scheduled on or before 31 July 2006. As Success Securities requires additional time to identify subscribers for the Convertible Notes, the Company has agreed with Success Securities to extend the date for completion of the placing from 31 July 2006 to 29 September 2006, and further extend to 30 November 2006.

b) On 4 October 2006, the Board announced the proposed capital reorganisation ("Capital Reorganisation"), which included a capital reduction ("Capital Reduction") and a share consolidation ("Share Consolidation"), and the change of board lot size.

Pursuant to the Capital Reduction, the issued share capital of the Company will be reduced by HK$0.0099 per Existing Share by cancelling an equivalent amount of paid-up capital per Existing Share so that the nominal value of each Existing Share in issue will be reduced from HK$0.01 to HK$0.0001.

Immediately following the Capital Reduction, the Share Consolidation will be implemented whereby every 100 issued shares of HK$0.0001 each resulting from the Capital Reduction will be consolidated into one consolidated share of HK$0.01.

On the basis of 12,925,346,664 Existing Shares in issue as at 4 October 2006, a credit of approximately HK$128.0 million will arise from the Capital Reduction. Such amount will be transferred to the contributed surplus account of the Company upon implementation of the Capital Reduction. Part of the contributed surplus of the Company will be applied to eliminate the accumulated deficits of the Company, which amounted to approximately HK$27.5 million as at 31 December 2005. Based on the above, the accumulated deficits of the Company as at 31 December 2005 will be fully eliminated and there will be a surplus of approximately HK$100.5 million standing to the credit of the contributed surplus account of the Company following completion of the Capital Reorganisation.

42. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 October 2006.

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 30 June 2006:

RESULTS

	Year ended 30 June				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2)*	
Turnover	402,124	279,839	49,555	55,983	**37,334**
(Loss)/profit for the year from continuing operations	(106,211)	(104,571)	49,266	(26,602)	**(260,690)**
Loss for the year from discontinued operations	–	–	–	(18,110)	**(4,145)**
(Loss)/profit for the year	(106,211)	(104,571)	49,266	(44,712)	**(264,835)**
Attributable to:					
Equity holders of the Company	(106,133)	(104,571)	49,266	(36,799)	**(261,914)**
Minority interests	(78)	–	–	(7,913)	**(2,921)**
	(106,211)	(104,571)	49,266	(44,712)	**(264,835)**

ASSETS AND LIABILITIES

	At 30 June				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2)*	
Total assets	270,451	139,889	25,160	83,339	**437,594**
Total liabilities	(228,991)	(199,572)	(31,614)	(11,023)	**(281,512)**
Net assets/(liabilities)	41,460	(59,683)	(6,454)	72,316	**156,082**
Capital and reserve attributable to the Company's equity holders	41,460	(59,683)	(6,454)	70,879	**155,021**
Minority interests	–	–	–	1,437	**1,061**
	41,460	(59,683)	(6,454)	72,316	**156,082**

Notes:

1. The summary of the results, assets and liabilities of the Group for the year ended 30 June 2002, 2003 and 2004 have not been restated upon the adoption of the new/revised Hong Kong Financial Reporting Standards as the directors of the Company are of the opinion that the restatement would involve cost not in proportion to the benefit of the Group.

2. The amounts have been restated as a result of the adoption of the new/revised Hong Kong Financial Reporting Standards.