中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2005

FINAL RESULTS

The board of directors of China Star Entertainment Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2005 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	Notes	**2005** **HK$'000**	2004 HK$'000 (restated)
Turnover	3	**92,234**	165,307
Cost of sales		**(60,825)**	(131,849)
Gross profit		**31,409**	33,458
Other revenue		**8,204**	5,597
Other income		**5,919**	1,299
Administrative expenses		**(37,012)**	(49,018)
Marketing and distribution expenses		**(22,353)**	(51,885)
Share-based payment expenses		**(24,057)**	–
Amortisation of goodwill arising on acquisition of subsidiaries		**–**	(15,451)
Impairment of trade receivables		**(1,101)**	(3,961)
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries		**–**	(33,500)
Impairment loss recognised in respect of film rights		**–**	(30,104)
Impairment loss recognised in respect of films in progress		**–**	(9,042)
Net gain/(loss) on disposals of financial assets at fair value through profit or loss		**1,493**	(893)
Revaluation surplus on investment properties		**3,540**	2,381
Unrealised loss on available for sale financial assets		**(5,510)**	(4,744)
Loss from operations		**(39,468)**	(155,863)
Finance costs		**(1,929)**	(1,479)
Share of results of associates		**(10,013)**	(99,128)
Amortisation of goodwill arising on acquisition of associates		**–**	(13,281)
Impairment of convertible notes receivables		**(10,000)**	–
Impairment (loss) recognised in respect of goodwill arising on acquisition of associates		**(4,500)**	(40,925)
Gain on deemed disposal of an associate		**45,021**	–
Gain on disposal of subsidiaries		**–**	7,524
Loss before taxation		**(20,889)**	(303,152)
Taxation	5	**(124)**	(268)
Loss for the year		**(21,013)**	(303,420)
Attributable to:			
Equity holders of the Company		**(20,961)**	(303,219)
Minority interests		**(52)**	(201)
		(21,013)	(303,420)
Loss per share for loss attributable to the equity holders of the Company during the year			
Basic and diluted	6	**(HK$0.04)**	(HK$0.99)

CONSOLIDATED BALANCE SHEET

As at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**19,147**	23,147
Interest in leasehold land		**13,684**	9,036
Investment properties		**42,190**	38,650
Goodwill		**59,203**	59,203
Interests in associates		**166,473**	75,314
Loan receivable		**–**	25,000
Deposit for investment		**–**	12,000
		300,697	242,350
Current assets			
Loan receivable		**25,000**	–
Inventories		**362**	991
Convertible notes receivables		**42,000**	85,800
Film rights		**135,998**	153,878
Films in progress		**47,461**	31,608
Trade receivables	7	**14,597**	11,968
Deposits, prepayments and other receivables		**80,547**	44,198
Financial assets at fair value through profit or loss		**23,345**	33,816
Amounts due from associates		**41,760**	9,112
Taxation recoverable		**129**	51
Cash and cash equivalents		**31,500**	54,108
		442,699	425,530
Total assets		**743,396**	667,880
Equity			
Share capital		**26,027**	18,270
Reserves		**571,529**	494,369
		597,556	512,639
Minority interests		**1,432**	1,464
		598,988	514,103
Non-current liabilities			
Borrowings – due after one year		**13,193**	16,407
Unsecured convertible loan notes		**19,434**	19,434
Deferred taxation		**–**	–
		32,627	35,841
Current liabilities			
Trade payables	8	**18,892**	25,287
Deposits received, accruals and other payables		**80,692**	67,856
Borrowings – due within one year		**12,197**	19,793
Deposit from an associate		**–**	5,000
		111,781	117,936
Total equity and liabilities		**743,396**	667,880
Net current assets		**330,918**	307,594
Total assets less current liabilities		**631,615**	549,944

Notes:

1. **BASIS OF PREPARATION**

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 China Star Entertainment Limited 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 ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. CHANGES IN ACCOUNTING POLICIES

A summary of the new and revised HKFRSs which are adopted for the first time and are relevant to the Group's operation is set out as below:–

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	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new and revised HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, HKAS-Int 15 and HKFRS 5 did not result in substantial changes to the Group's accounting policies. The impact of adopting the other HKFRSs is summarised as follows:

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

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

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

– The adoption of 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 when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, leasehold land was classified under property, plant and equipment at cost less impairment.

– The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Under HKAS 32, convertible loan 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 recognized in the convertible loan notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes and redeemed (in which case it is released directly to retained earnings). In prior years, convertible notes were stated at face value. The finance cost was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible loan notes were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32.

Under HKAS 39, equity investments held on a continuing basis for an identifiable long-term purpose are classified as available-for-sale financial assets and are continued to be stated at cost less impairment as the fair value cannot be reliably measured. If there is objective evidence that an individual investment has been impaired, such impairment would be recognised in the income statement. Listed equity securities held for trading purpose are classified as financial assets held for trading and are continued to be stated at closing price with all realised and unrealised gains or losses to be recognised in the income statement. Long-term receivables are classified as other receivables and are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long-term purpose were disclosed as long-term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as investments in securities and were stated at market value with changes to such value accounted through profit or loss. Short-term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of accumulated losses as at 1st January, 2005. Comparative amounts have not been restated.

– The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as gain or loss on revaluation of investment properties. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

  – The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

  – The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1st January, 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognized when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. As a transitional provision, the cost of share option granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the income statement of the respective periods.

– The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31st December, 2004:

  – positive goodwill was capitalised and amortised on a straight line basis over its useful economic life of 10 years and was subject to impairment testing when there were indications of impairment; and

  – negative goodwill was amortised over the weighted average useful life of 10 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the income statement as those expected losses were incurred.

  In accordance with the provisions of HKFRS 3:

  – the Group ceased amortisation of goodwill from 1st January, 2005;

  – accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

  – from the year ended 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and

  – in accordance with the transitional provision in HKFRS 3, all negative goodwill was derecognized as 1st January, 2005 with a corresponding increase in retained earnings.

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, wherever applicable. All standards adopted by the Group require retrospective application other than:

– 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. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January, 2005;

– HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January, 2005, including the reclassification of any amount held in revaluation surplus for investment property; and

– HKFRS 3 – prospectively after 1st January, 2005.

(a) Effect on the consolidated balance sheet

Effect of new policies	Effect of adopting HKAS 17 Interest in leasehold land *HK$'000*	HKAS 32 Financial Instruments *HK$'000*	HKAS 40 Revaluation surplus on investment properties *HK$'000*	HKFRS2 Employee share-based payment *HK$'000*	HKFRS 3 Negative goodwill on consolidation *HK$'000*	Total *HK$'000*
At 1st January, 2005						
Assets						
Property, plant and equipment	(9,036)	–	–	–	–	(9,036)
Interest in leasehold land	9,036	–	–	–	–	9,036
Investments in securities	–	(33,816)	–	–	–	(33,816)
Financial assets at fair value through profit or loss	–	33,816	–	–	–	33,816
	–	–	–	–	–	–
Liabilities/equity						
Convertible loan notes	–	(566)	–	–	–	(566)
Investment properties revaluation reserve	–	–	(4,909)	–	–	(4,909)
Convertible loan notes reserve	–	566	–	–	–	566
Negative goodwill on consolidation	–	–	–	–	(6,326)	(6,326)
Employee share-based payment reserve	–	–	–	7,841	–	7,841
Accumulated losses	–	–	4,909	(7,841)	6,326	3,394
	–	–	–	–	–	–
At 31st December, 2004						
Assets						
Property, plant and equipment	(9,036)	–	–	–	–	(9,036)
Interest in leasehold land	9,036	–	–	–	–	9,036
Investments in securities		(33,816)	–	–	–	(33,816)
Financial assets at fair value through profit or loss		33,816	–	–	–	33,816
	–	–	–	–	–	–
Liabilities/equity						
Convertible loan notes	–	(566)	–	–	–	(566)
Convertible loan notes reserve	–	566	–	–	–	566
	–	–	–	–	–	–

(b) Effect on the balances of equity at 1st January, 2004 and at 1st January, 2005

Effect of new policies	Effect of adopting HKAS 32 Convertible loan notes *HK$'000*	HKAS 40 Revaluation Surplus on investment properties *HK$'000*	HKFRS2 Employee share-based payment *HK$'000*	HKFRS3 Negative goodwill on consolidation *HK$'000*	Total *HK$'000*
At 1st January, 2004					
Convertible loan notes reserve	566	–	–	–	566
At 1st January, 2005					
Negative goodwill on consolidation	–	–	–	(6,326)	(6,236)
Investment properties revaluation reserve	–	(4,909)	–	–	(4,909)
Convertible loan notes reserve	566	–	–	–	566
Employee share-based payment reserve	–	–	7,841	–	7,841
Accumulated losses	–	4,909	(7,841)	6,326	3,394
	566	–	–	–	566

(c) Effect on the consolidated income statement for the years ended 31st December, 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of associates result net of tax HK$'000	HKAS 40 Revaluation surplus on investment properties HK$'000	HKFRS2 Employee share-based payment HK$'000	Total HK$'000
Year ended 31st December, 2005				
Increase in administrative expenses	–	–	(24,057)	(24,057)
Increase in revaluation surplus of investment properties	–	3,540	–	3,540
Increase in tax	–	–	–	–
Total increase/(decrease) in profit	–	3,540	(24,057)	(20,517)
Increase/(decrease) in basic and diluted loss per share (HK cents)	–	0.7	(4.8)	(4.1)
Year ended 31st December, 2004				
Share of associate result net of tax	(594)	–	–	(594)
Decrease in tax	594	–	–	594
Total increase/(decrease) in profit	–	–	–	–

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 4	Determining whether an Arrangement contain a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31st December, 2005 and 2004.

HKAS 39 (Amendment), The Fair Value Option. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning 1st January, 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee. This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1st January, 2007.

3. TURNOVER

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Distribution fee income	**85,970**	153,745
Sales of video products	**661**	1,387
Service income	**240**	1,419
Production fee income	**5,363**	8,756
	92,234	165,307

4. SEGMENT INFORMATION

The directors report the geographical segments as the Group's primary segment information.

Geographical segments

The following table provides an analysis of the Group's sales by location of markets:

Income statement for the year ended 31st December, 2005:

	Hong Kong and Macau HK$'000	People's Republic of China excluding Hong Kong, Macau and Taiwan ("PRC") HK$'000	America and Europe HK$'000	South-East Asia HK$'000	Other HK$'000	Consolidated HK$'000
Turnover	49,805	10,217	8,046	22,589	1,577	92,234
Cost of sales and services	(33,925)	(6,915)	(4,878)	(14,320)	(787)	(60,825)
Marketing and distribution expenses	(10,505)	(9,666)	(529)	(1,552)	(101)	(22,353)
Segment results	5,375	(6,364)	2,639	6,717	689	9,056
Unrealised loss on available for sale financial assets						(5,510)
Share-based payment expenses						(24,057)
Net gain on disposals of financial assets of fair value through profit or loss						1,493
Other revenue						8,204
Other income						5,919
Revaluation surplus on investment properties						3,540
Unallocated corporate expenses						(38,113)
Loss from operations						(39,468)
Finance costs						(1,929)
Share of results of associates	669	(10,682)	–	–	–	(10,013)
Impairment of convertible notes receivables	(10,000)	–	–	–	–	(10,000)
Impairment loss recognised in respect of goodwill arising on acquisition of associates	(4,500)	–	–	–	–	(4,500)
Gain on deemed disposal of associates						45,021
Loss before taxation						(20,889)
Taxation charge						(124)
Loss before minority interests						(21,013)

Income statement for the year ended 31st December, 2004:

	Hong Kong and Macau HK$'000	PRC HK$'000	America and Europe HK$'000	South-East Asia HK$'000	Other HK$'000	Consolidated HK$'000 (Restated)
Turnover	104,928	17,029	11,175	28,582	3,593	165,307
Cost of sales and services	(77,581)	(27,022)	(1,918)	(20,979)	(4,349)	(131,849)
Marketing and distribution expenses	(36,147)	(12,872)	(616)	(2,009)	(241)	(51,885)
Segment results	(8,800)	(22,865)	8,641	5,594	(997)	(18,427)
Unrealised loss in available for sale financial assets						(4,744)
Amortisation of goodwill arising on acquisition of subsidiaries						(15,451)
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries						(33,500)
Impairment loss recognised in respect of films in progress						(9,042)
Impairment loss recognised in respect of films rights						(30,104)
Net loss on disposals of financial assets at fair value through profit or loss						(893)
Other revenue						5,597
Other income						1,299
Revaluation surplus on investment properties						2,381
Unallocated corporate expenses						(52,979)
Loss from operations						(155,863)
Finance costs						(1,479)
Share of results of associates	9,326	(108,454)	–	–	–	(99,128)
Amortisation of goodwill arising on acquisition of associates	(6,541)	(6,740)	–	–	–	(13,281)
Impairment loss recognized in respect of goodwill on acquisition of associates	–	(40,925)	–	–	–	(40,925)
Gain on disposal of subsidiaries						7,524
Loss before taxation						(303,152)
Taxation charge						(268)
Loss before minority interests						(303,420)

No analysis of assets and liabilities by location of markets is disclosed as, in the opinion of the directors, there is no appropriate basis in allocating the assets and liabilities by location of markets.

The following is an analysis of the carrying amount of segment assets, additions of property, plant and equipment and interest in leasehold land, and the carrying amount of segment liabilities analysed by the geographical area in which the assets are located:

Balance sheet as at 31st December, 2005

	Hong Kong And Macau	**PRC**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	743,086	310	743,396
Segment liabilities	142,637	1,771	144,408
Additions of property, plant and equipment	5,606	–	5,606
Additions of interest in leasehold land	4,967	–	4,967

Balance sheet as at 31st December, 2004

	Hong Kong And Macau	PRC	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	663,090	4,790	667,880
Segment liabilities	148,379	5,398	153,777
Additions of property, plant and equipment	2,512	–	2,512

Business segments

As the Group's turnover and results are substantially derived from film distribution, no analysis by business segment is presented.

5. TAXATION

	2005	2004
	HK$'000	*HK$'000* (Restated)
The taxation charge is as follows:		
Taxation in other jurisdictions:		
Provision for the year	**124**	239
Underprovision for prior years	**–**	29
Taxation attributable to the Company and its subsidiaries	**124**	268

No provision for Hong Kong Profits Tax has been made for both years either as the Company and its subsidiaries have no assessable profits arising in Hong Kong or as assessable profits were wholly absorbed by estimated tax losses brought forward.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

6. LOSS PER SHARE

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

	2005	2004
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company	**20,961**	303,219
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**501,724,214**	306,504,409

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and convertible loan notes existed during the year since their exercise would reduce loss per share.

7. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The aged analysis of the trade receivables is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
The Riche Group		
0 to 30 days	**18**	123
31 to 60 days	**–**	116
61 to 90 days	**–**	85
91 to 180 days	**–**	1
Over 180 days	**–**	–
	18	325
Others		
0 to 30 days	**1,148**	1,004
31 to 60 days	**4,471**	270
61 to 90 days	**300**	333
91 to 180 days	**393**	2,316
Over 180 days	**8,267**	7,720
	14,579	11,643
	14,597	11,968

The carrying amounts of trade receivables approximate to their fair value.

8. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
0 to 30 days	**2,680**	1,875
31 to 60 days	**836**	4,391
61 to 90 days	**1,368**	4,135
91 to 180 days	**3,123**	3,480
Over 180 days	**10,885**	11,406
	18,892	25,287

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December, 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the year ended 31st December 2005, the Group's turnover decreased by 44% to approximately HK$92.2 million (2004: HK$165.3 million). Loss attributable to equity holders of the Company amounted to approximately HK$21.0 million, representing a 93% improvement over the last year of HK$303.2 million. Loss from operations amounted to approximately HK$39.5 million (2004: HK$155.9 million). Loss for the year of approximately HK$21.0 million (2004: HK$303.4 million) was recorded. The directors do not recommend the payment of a dividend for the year.

The decrease in current year's loss was mainly attributable to the substantial reduction in the impairment loss recognised and the share of attributable loss in associates which totally amounted to approximately HK$15.6 million (2004: HK$117.5 million) and HK$10.0 million (2004: HK$99.1 million, restated) respectively. The Group had also recognised a gain on deemed disposal of an associate of HK$45.0 million from Riche Multi-Media Holdings Limited ("Riche Multi-Media" and collectively with its subsidiaries, "Riche Group"). Following the adoption of new and revised Hong Kong Financial Reporting Standards, no amortisation of goodwill held by the Group was required. Amortisation of goodwill in the year ended 31st December, 2004 amounted to HK$28.7 million. The effect was mitigated by the Group required to recognise the fair value of share options granted as an expense in the income statement which amounted to HK$24.1 million in the year.

Business Review

For the year ended 31st December, 2005, total turnover was HK$92.2 million, of which HK$86.0 million or 93% were generated from film distribution, HK$0.7 million or 1% was generated from video distribution and HK$5.6 million or 6% was generated from other production services. Although the turnover from film distribution division had decreased by 44% when compared with HK$153.7 million for the year ended 31st December, 2004, gross profit maintained at similar amount of HK$31.4 million when compared with HK$33.5 million for last year. The decrease in turnover was mainly attributable to the decline in number of new films released. This year, the Group had released eight films including popular films like "The Shopaholic" and "Election" when compared with eleven films in last year. In response to the weak market condition of the entertainment industry, especially for the Chinese language films, the Group has adopted cautious measures to secure the revenue and control budget for each new film. These measures were proved effective and better gross profit was achieved. Nevertheless, the performance of film industry still threaten by growing popularity of advance technology in privacy activities such as "Bit Torrent" and "peer-to-peer" downloading, resulting in the overall loss generated by the Group.

In year 2005, Hong Kong remained the Group's largest market. Turnover from Hong Kong and Macau decreased by 53% to approximately HK$49.8 million (2004: HK$104.9 million) and its segment result recorded a profit of HK$5.4 million (2004: loss of HK$8.8 million). The achievement in the performance of the market was mainly attributable to the cautious selection in film production and the tight control on marketing and distribution expenses. The marketing and distribution expenses spent on Hong Kong market decreased from HK$36.1 million in the year 2004 to HK$10.5 million in the year 2005, a drop of 71%.

The turnover from the PRC decreased by 40% to approximately HK$10.2 million (2004: HK$17.0 million) and its segment result recorded a loss of approximately HK$6.4 million (2004: HK$22.9 million). The segment loss was mainly attributed to the unfavorable cinema locations and screening period in exhibiting the Group's films in the PRC as Chinese first-tier cinemas have strong preference for exhibiting Hollywood films. This preference has little improvement in the year 2005. Recently, the Group has sub-licensed China theatrical rights to other distributor for a fixed amount of distribution fees in order to secure the margin received by the Group. Besides, the territory supply agreement entered into between the Group and the Riche Group on 5th February, 2002 expired in April 2005. In view of the current market condition in the PRC, both parties agreed not to renew the territory supply agreement. The Group believes that the non-renewal of the territory supply agreement provides a greater flexibility in formulating the Group's distribution strategy.

The turnover from South-east Asia decreased by 21% to approximately HK$22.6 million (2004: HK$28.6 million) and its segment result recorded a profit of approximately HK$6.7 million (2004: HK$5.6 million). The improvement in segment profit was mainly attributed to the costs of certain films had been reduced by impairment losses recognised in previous years. In addition, some of the Group's films released in previous years have been re-licensed during the year which carried minimal royalties in the accounts of the Group.

The turnover from America and Europe decreased by 28% to approximately HK$8.0 million (2004: HK$11.2 million) and its segment result recorded a profit of HK$2.6 million (2004: HK$8.6 million). The decrease in segment profit was attributed to certain films had been sub-licensed in last year which the costs had fully amortised in previous years. Comparatively, less sub-license titles were distributed for the year ended 31st December, 2005.

To stay competitive in the market, the Group has regularly review its costs structure. During the year ended 31st December, 2005, the Group had exercised prudence measures on cost policies and reduced its headcount. As a result, administrative expenses decreased to HK$37 million, a 24% decrease from HK$49.0 million in last year.

Liquidity and Financial Resources
As at 31st December, 2005, the Group had total assets of approximately HK$743.4 million and a net current assets of HK$330.9 million, representing a current ratio of 4.0 (2004: 3.6). The Group had a total cash and cash equivalent of approximately HK$31.5 million (2004: HK$54.1 million). As at 31st December, 2005, the Group had total borrowings of HK$44.8 million comprising a bank mortgage loan of HK$15.3 million which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 97 monthly instalments; a revolving bank loan of HK$8.3 million which was secured by certain of the Group's leasehold land and buildings and investment properties, interest bearing at 1% per annum over Hong Kong Interbank Offered Rate and repayable on demand; an instalment loan from a bank of HK$1.8 million which was secured by a first legal charge over all copyrights on the Group's film, Himalaya Singh, interest bearing at 6.531% per annum and repayable by 7 monthly instalments; and unsecured convertible loan notes ("Notes") of HK$19.4 million (excluding equity component of HK$0.6 million) which is bearing interest at 4% per annum and will mature on 30th June, 2007. The Notes carry the right to convert into shares of HK$0.05 each in the share capital of the Company ("Shares") at the conversion price of HK$5.83 per share as of 31st December, 2005. The Group's gearing remained low during the year with total debts of HK$44.8 million against shareholders' funds of HK$597.6 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 0.08.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December, 2005, the Group had no contingent liability.

On 15th December, 2004, the Company had conditionally agreed to place 60,765,000 new Shares to independent investors at a price of HK$0.60 per Share. The issue of 60,765,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 21st January, 2005. The placing was completed on 27th January, 2005. The net proceeds of approximately HK$35.6 million were used as to approximately HK$20 million for the production of two movies and as to the balance of approximately HK$15.6 million for general working capital of the Group.

In January 2005, certain option holders exercised their option rights to subscribe for an aggregate of 7,969,939 Shares at an exercise price of HK$0.564 per Share and an aggregate of 9,800,000 Shares at an exercise price of HK$0.52 per Share. The net proceeds from the exercise of option rights amounted to HK$9.6 million.

On 24th February, 2005, Porterstone Limited, a substantial shareholder of the Company and Mr. Heung Wah Heung, a substantial shareholder and an executive director of the Company, entered into a top-up placing agreement with a placing agent and a subscription agreement with the Company respectively. Pursuant to the top-up placing agreement, Porterstone Limited and Mr. Heung Wah Heung placed an aggregate of 76,600,000 existing Shares to independent investors at a price of HK$0.50 per Share. Pursuant to the subscription agreement, Porterstone Limited and Mr. Heung Wah Heung subscribed for an aggregate of 76,600,000 new Shares at a price of HK$0.50 per Share. 76,600,000 new Shares issued for the subscription on 7th March, 2005. The net proceeds of approximately HK$37.3 million were used for general working capital of the Group and/or any future possible acquisition which is yet to be identified. These new Shares were issued under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 21st January, 2005.

Associates
Riche Multi-Media Holdings Limited
As at 31st December, 2005, the Group held approximately 41.07% equity interest in Riche Group. Riche Group is principally engaged in distribution of films, sub-licensing of film rights, and investments in securities. As at 31st December, 2005, Riche Group had net assets of approximately HK$167.6 million. Turnover and loss of Riche Group for the year ended 31st December, 2005 were approximately HK$38.3 million and HK$29.7 million respectively. Accordingly, the Group had shared a loss of approximately HK$12.2 million for the year ended 31st December, 2005. The Group had also recorded a gain of deemed disposal of an associate of HK$45.0 million from Riche Multi-Media upon the completion of the placing and subscription transactions on September 2005 as stated below.

On 31st March, 2006, Riche Multi-Media announced that it would not complete the conditional agreement with Leadfirst Limited and Mr. Benny Ki, pursuant to which the Riche Group would acquire 100% of the issued share capital of Best Winning Group Limited for a consideration of HK$600 million because the Riche Group did not satisfy with the results of the due diligence review.

On 7th September, 2005, Classical Statue Limited ("Classical"), a wholly owned subsidiary of the Company, entered into a placing and subscription agreement with a placing agent and Riche Multi-Media. Pursuant to the placing and subscription agreement, Classical has agreed to place 400,000,000 existing shares of Riche Multi-Media("Riche Shares") to not less than six independent investors at a price of HK$0.34 per Riche Share and conditionally agreed to subscribe for 400,000,000 new Riche Shares at a price of HK$0.34 per Riche Share. Immediately after the completion of the placing and subscription agreement, the Group interested in approximately 39.24% of the enlarged issued share capital of Riche Multi-Media.

On 17th February, 2006, the Riche Group entered into a conditional sale and purchase agreement with Northbay Investments Holdings Limited ("Northbay"), pursuant to which the Riche Group would acquire (i) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and (ii) the debts owned by Shinhan-Golden to Northbay, at an aggregate consideration of HK$266,064,350 (the "Acquisition"). The consideration shall be satisfied by the allotment and issue of 1,330,321,745 Riche Shares at HK$0.20 per share. Shinhan-Golden's major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property (the "Property") located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Property is currently under renovation and being transformed from an apartment complex into serviced apartments. The renovation project is expected to be completed by the end of June 2006. Subject to the fulfillment of the conditions set out under the agreement, the Acquisition is expected to be completed in May 2006. Upon completion of the Acquisition, the equity interest in the Riche Group held by the Group will decrease from 41.07% to 32.64%.

Together Again Limited
As at 31st December, 2005, the Group held 49% equity interest in the group headed by Together Again Limited ("TAL Group"), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc. (formerly known as China Artists Agency Inc.), a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 31st December, 2005, TAL Group had net assets of HK$9.2 million. Turnover and profit of TAL Group for the year ended 31st December, 2005 were HK$23.5 million and HK$1.4 million respectively. Accordingly, the Group shared a profit of HK$0.7 million for the year ended 31st December, 2005.

Acquisition of Leasehold Land and Buildings
On 7th July, 2005, the Group completed the acquisition of the leasehold land and buildings from Riche Group at a total consideration of HK$9,000,000.The consideration has been agreed between the parties based on arms' length negotiations with reference to a property valuation done by an independent firm of professional chartered surveyors appointed by the Group. The acquisition permitted the Group to expand its post-production premises and business on film. The consideration was satisfied by internal resources of the Group.

Signing of a Non-binding Letter of Intent
On 15th September, 2005, the Company entered into a non-binding letter of intent with Mr. Phua Wei Seng, an independent third party, for the acquisition by the Company of an equity interest in a company involved in Macau gaming business. Pursuant to the non-binding letter of intent, a refundable deposit of HK$20,000,000 was placed by the Company with Mr. Phua Wei Seng. If the proposed transaction does not materialise or fails to complete by 14th December, 2005, the deposit will be returned to the Company. The parties to the letter of intent had agreed to extend the longstop date to 12th June, 2006. If the proposed transaction does not materialise or fails to complete by 12th June, 2006, the deposit will be returned to the Company.

Employees
As at 31st December 2005, the Group employed 51 staffs (2004: 76 staffs) of which 2 staffs (2004: 3 staffs) are based in China. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund and medical schemes, discretionary bonuses and options are awarded to certain staffs according to the assessment of individual performance.

Prospect
The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has, therefore, actively diversified the investment portfolio, in particular those that could generate a steady source of income in the long term.

Looking into the future, the Group will continue to produce best-selling original films which will rely greatly on our commitment to film-making, our understanding of the market needs, stringent control on capital investment and efficient management. The Group will also strive to explore new business opportunities; fully utilize the resources to strengthen business growth while minimizing risk for better return for the shareholders over the years.

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

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

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company is responsible for ensuring high standards of corporate governance are maintained and for accounting to shareholders. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the the Listing Rules for the year ended 31st December, 2005, except for the following deviations:

1. **Code Provision A.4.1**

   Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

2. **Code Provisions B.1.4 and C.3.4**

   Under the code provisions B.1.4 and C.3.4 of the Code, the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website.

   Since the Company has not yet established its own website, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

   The information on the Company's compliance of the Code and deviations from certain code provisions of the Code for the year ended 31st December, 2005 is set out in the Corporate Governance Report to be included in the Company's 2005 annual report which will be sent to the shareholders of the Company at the end of April 2006.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company at 31st December, 2005 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Fung Ho Sum, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The audit committee of the Company has reviewed with the management the Group's consolidated financial statements for the year ended 31st December, 2005, including the accounting principles and practices adopted by the Group, in conjunction with the Group's external auditors.

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2005. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's 2005 annual report containing the relevant information required by the Listing Rules will be despatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 24th April, 2006

As at the date hereof, the Board of Directors of the Company comprises three Executive Directors, namely Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung, and three Independent Non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Fung Ho Sum.