ANNUAL REPORT 2005

INTERNATIONAL ENTERTAINMENT CORPORATION
國際娛樂有限公司
(Incorporated in the Cayman Islands with limited liability)

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This report, for which the directors (the "Directors") of International Entertainment Corporation (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Dr. CHENG Kar Shun *(Chairman)*
Mr. LO Lin Shing, Simon
Mr. CHOI Wing Kin
Mr. SO Kam Wing

NON-EXECUTIVE DIRECTOR
Mr. WU Wing Kin

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. CHEUNG Hon Kit
Mr. KWEE Chong Kok, Michael
Mr. WONG Chi Keung

REGISTERED OFFICE
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British West Indies

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COMPANY WEBSITE
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COMPANY SECRETARY
Mr. KWOK Chi Kin CPA, ACCA

AUTHORISED REPRESENTATIVES
Mr. LO Lin Shing, Simon
Mr. KWOK Chi Kin

COMPLIANCE OFFICER
Mr. CHOI Wing Kin

QUALIFIED ACCOUNTANT
Mr. KWOK Chi Kin CPA, ACCA

AUDIT COMMITTEE MEMBERS
Mr. CHEUNG Hon Kit
Mr. WONG Chi Keung
Mr. WU Wing Kin

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83 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

AUDITORS

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

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

I am pleased to announce the audited consolidated financial results of International Entertainment Corporation (8118) (the "Company") and its subsidiaries (together the "Group") for the year ended 31 March 2005.

This year was a special year for the Group. The Group took a major step into the media/entertainment industry through investing in a motion picture and an established independent picture production/distribution group in North America. In November 2004, the Company further entered into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau.

On 17 December 2004, the name of the Company was changed from Cyber On-Air Group Company Limited to International Entertainment Corporation. We consider the change of name would better reflect the nature of the business of the Group.

During the financial year, the Company set out a strategy to exploit the significant potential in the entertainment market.

- On 20 July 2004, the Company entered into an investment agreement to invest in motion picture titled "Lovewrecked".

- On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc., a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. The acquisition was completed on 22 December 2004.

- On 23 November 2004, the Company entered into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau, including the right to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau. On 17 March 2005, the Company exercised the right in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited. The transactions are still pending approval from the listing committee of The Stock Exchange of Hong

CHAIRMAN'S STATEMENT

Kong Limited and the independent shareholders. Meanwhile, the Group has successfully turned itself into one of the emerging entertainment groups in Asia.

➢ The Macau assets comprise a 40% equity stake in Arc of Triumph Development Company Limited, which owns a prime-location land parcel of approximately 7,128 square metres, located at Novos Aterros do Porto Exterior (新口岸外港填海區). According to the current development plan, the property will be developed into a super deluxe hotel and residential complex, comprising about 400 hotel rooms and casino facilities. This landmark project is set to position the Company as a significant player in Macau's burgeoning entertainment industry.

➢ The Philippine assets consist of a 51% equity stake in "Hyatt Hotel and Casino Manila". The property is the Philippines' largest purpose-built luxury casino hotel with a total floor area of approximately 92,800 square metres, comprising 66 suites and 312 deluxe rooms, a casino and entertainment areas. The hotel is managed and operated as a super deluxe Hyatt hotel and the casino is operated by Philippine Amusement and Gaming Corporation, the only authorised casino operator in the Philippines. The casino commenced operation in February 2004 whereas the hotel commenced to receive guests in September 2004 upon the completion of its primary fit out.

- On 28 February 2005, the Group acquired 75% interest in Gugo Entertainment Company Limited, a cartoon production house in Hong Kong.

PROSPECTS

The outlook for the entertainment industry in Asia – with gaming deregulation and rapidly rising disposable incomes – is very positive and opportunities are fast emerging. The Company is now set on course to become one of the major entertainment groups in Asia over the coming years. I believe that with the foundation stones we have laid over the past year, the Company is well positioned to deliver substantial value to shareholders in the years ahead.

APPRECIATION

The important transformational steps we have taken could not have been accomplished without the devotion and commitment of all our staff who contributed tremendously in steering the Company to ongoing growth. For and on behalf of the Board, I would like to express my sincere gratitude to our management and staff, as well as our shareholders, customers and suppliers, for their commitment and support extended to the Company in our achievements over the past year.

Dr. Cheng Kar Shun
Chairman

Hong Kong, 28 June 2005

MANAGEMENT
DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2005 was approximately HK$34.4 million, representing an increase of approximately 113.6%, as compared with approximately HK$16.1 million for the last year. The increase in turnover was mainly contributed by the licensing income from theatrical feature films.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 78.0% to approximately HK$31.9 million for the year ended 31 March 2005 from approximately HK$17.9 million in the last year. The increase was mainly attributable to the inclusion of the expenses incurred by M8 Entertainment Inc. and its subsidiaries after the completion of the acquisition in December 2004.

The operating loss was approximately HK$28.8 million for the year ended 31 March 2005, which represented a decrease of approximately 15.2% when compared with approximately HK$33.9 million in the last year. This was mainly due to the recognisation of impairment loss of HK$20.7 million in last year.

With a view to expanding the Group's long-term growth, the Group intents to execute some new plans in order to achieve better results; such as concentrating on projects with higher margin rather than engaging in lower margin projects. The other policy of the Group is to implement effective cost control policy so as to reinforce the Group's various projects.

BUSINESS REVIEW

1. **Wireless application and network solutions**

   Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks ("WLAN") whereas network solutions include solutions for computer networks, data communication networks, WLAN and synchronization networks.

   During the year ended 31 March 2005, revenue derived from the network solutions was decreased to approximately HK$5.5 million from approximately HK$8.3 million in the last year. The decrease was due to strong competition for projects.

   Apart from the continuous sales of WLAN security system to customers, the vendor of the Group also re-position of the existing WLAN security system to an adaptive security platform for both wired and wireless network. The new positioning will help the Group to broaden sales market from wireless to wired network.

   With the introduction of new products from one of existing vendor, the Group has figured out a new networking solution from one of the new products which enable to help mobile operators to increase their network coverage for remote areas or areas where leased circuits are difficult to be provided by fixed network operators. In addition to the network solutions, the Group also fully utilise its engineer's expertise in both wireless and synchronization to provide service to its customers.

2. **Project and engineering services**

   The competition is still very keen in the market. The turnover from project services increased to approximately HK$8.6 million from approximately HK$6.8 million in the last year.

   With the introduction of 3G service by mobile operators in Hong Kong, other operators that do not have the 3G license become more aggressive to improve their network by improving their network coverage, optimization of existing networks as well as replacing existing systems to new systems in order to provide more value-added services to customers.

MANAGEMENT
DISCUSSION AND ANALYSIS

During the year ended 31 March 2005, the Group has completed several projects including the radio communication systems at Tate's Cairns Tunnel, Lai King MTR Station and Parkland.

3. **Media/Entertainment business**

   On 20 July 2004, the Company has entered into an investment agreement to invest US$5.0 million (equivalent to approximately HK$39.0 million) in a motion picture titled "Lovewrecked".

   On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc. ("M8") for a total consideration of US$11.6 million (equivalent to approximately HK$90.7 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. The acquisition of M8 was completed on 22 December 2004.

   The acquisition of M8 enables the Group to take a further step into the media/entertainment industry through investing in an established independent picture production/distribution group in North America. M8 can also contribute to the business growth and broaden the revenue base of the Group.

   Since the acquisition of M8 was completed on 22 December 2004, only the results of M8 during the period from 1 January 2005 to 31 March 2005 were taken up in the consolidated results of the Group for the year ended 31 March 2005. The revenue derived from the media/entertainment business during that period was approximately HK$18.5 million. The revenue comprised primarily from sales of the theatrical feature films, The Upside of Anger and Monster.

FUTURE OUTLOOK

In addition to looking for new products which are price competitive, the Group has also introduced new solutions from one of the existing vendors for mobile operators which assists them in quickly launching new coverage for those areas that they are having difficulty in setting up base stations.

A trial run has been conducted by one of the mobile operators and demostration has been carried out with other fixed network operators and government departments. The result is promising and the Group believes this solution may raise the demand from other mobile operators as well.

On the other hand, the Group is also utilizing its engineer's expertise to provide professional service which has a higher margin. With such professional service, sales are expected to be increased as network solutions can be introduced to customers by its engineers.

Since the Company announced the acquisition of M8, on 23 November 2004, the Company has taken a further step into the media/entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau. Details of the acquisition are set out in the announcement of the Company dated 23 November 2004. As at the date of this report, the acquisition has not been completed.

The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

MANAGEMENT
DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2005, the Group's net current assets amounted to approximately HK$439.4 million. Current assets amounted to approximately HK$909.4 million, of which approximately HK$362.0 million was cash, bank deposits and pledged deposits; and approximately HK$441.3 million was firm costs.

The Group had current liabilities amounted to approximately HK$470.0 million, of which approximately HK$52.7 million was trade payables, approximately HK$110.5 million was other payables and accrued charges, approximately HK$268.5 million of bank and other borrowings, and approximately HK$36.1 million of promissory notes.

As at 31 March 2005, the Group had bank overdraft of approximately HK$2.1 million. The bank loans of the Group was approximately HK$247.4 million, which will be due within one year, of which approximately HK$31.0 million bore interest at 0.75% in excess of the announced base rate of interest of Bank of America; approximately HK$5.7 million bore interest at 1.5% in excess of the announced base rate of interest of Bank of America; approximately HK$30.4 million bore interest at 1.0% in excess of the announced base rate of interest of Bank of America; and approximately HK$180.3 million bore interest at 1.25% in excess of the announced base rate of interest of Bank of America.

The Group had loans from Directors of approximately HK$3.0 million, of which approximately HK$1.8 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK$12.6 million, of which approximately HK$9.8 million was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on 30 June 2005; approximately HK$1.2 million was unsecured, bore interest at the Prime Rate per annum and was repayable on 30 June 2005; approximately HK$1.2 million was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand and the remaining balance was unsecured, interest-free and repayable on demand. Guarantees were given to a related company in respect of loans utilized by subsidiaries of the Group amounting to HK$11.0 million.

In addition, the Group had other loans of approximately HK$3.4 million, of which approximately HK$2.0 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

During the year, the Group issued two non-interest bearing promissory notes of approximately HK$36.1 million which were repaid on 21 June 2005.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 32.0% as at 31 March 2005.

The Group financed its operations generally with internally generated cash flows, the present available credit facilities and proceeds from issue of new shares.

Pursuant to resolutions passed at an extraordinary general meeting held on 22 April 2004, every 100 issued shares of HK$0.01 each in the capital of the Company were consolidated into one new share of HK$1.00 each (the "Share Consolidation"); the 2,000 unissued non-voting preference shares of HK$0.05 each in the authorised share capital of the Company were cancelled (the "Cancellation"); and after the Share Consolidation and Cancellation became effective, the authorised share capital of the Company was increased from HK$20,000,000 to HK$500,000,000 by the creation of 480,000,000 unissued new shares of HK$1.00 each.

MANAGEMENT
DISCUSSION AND ANALYSIS

On 30 April 2004, the Company has issued 120,000,000 shares of HK$1.00 each in the share capital of the Company pursuant to a conditional subscription agreement (the "Subscription Agreement") entered into by the Company with Mediastar International Limited, a wholly owned subsidiary of Chow Tai Fook Enterprises Limited on 8 March 2004 relating to the subscription by Mediastar of 120,000,000 shares of HK$1.00 each in the Company.

On 30 April 2004, the Company has also issued 4,000,000 shares of HK$1.00 each in the share capital of the Company pursuant to conditional settlement agreements ("Settlement Agreements") entered into by the Company with Messrs. Wong Kwok Kin, Choi Wing Kin, So Kam Wing, Cyber Network Technology Limited and Wellington Equities Inc. (collectively the "Loan Notes Holders") on 8 March 2004 for the full and final settlement of all amounts outstanding under the loan notes, including unpaid accrued interest, and the discharge and release of the share charges in respect of all the shares in Cyber On-Air Group Limited granted by the Company in favour of each of the Loan Notes Holders.

On 5 May 2004, the Company has issued 80,000,000 shares of HK$1.00 each in the share capital of the Company a conditional placing agreement ("Placing Agreement") entered into by the Company with Tai Fook Securities Company Limited on 8 March 2004 relating to the placing of up to 80,000,000 shares of HK$1.00 each in the Company.

On 18 January 2005, the Company announced the signing of a placing and subscription agreement. The Company issued a total of 31,000,000 shares of the Company at subscription price of HK$8.50 per share. The net proceeds from the subscription of approximately HK$256 million would be for the general working capital of the Company and its subsidiaries.

CHARGES ON GROUP ASSETS

As at 31 March 2005, the Group's bank deposit of approximately HK$9.0 million, trade receivables, deposits and prepayment of HK$78.6 million, and film assets of HK$160.8 million have been pledged to banks to secure banking facility granted to the Group.

In addition, 79,414,501 Class B shares of M8 Entertainment Inc., a subsidiary of the Company, and 130,891,920 Class C shares of M8 Entertainment Inc. are pledged to the holders of the non-interest bearing promissory note in the amount of approximately US$2,794,279 (equivalent to approximately HK$21.8 million) in favour of Music Box Entertainment Limited and the non-interest bearing promissory note in the amount of approximately US$1,831,924 (equivalent to approximately HK$14.3 million) in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust.

MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 20 July 2004, the Company has entered into an investment agreement to invest US$5.0 million (equivalent to approximately HK$39.0 million) in motion picture titled "Lovewrecked". Details of the investment in the motion picture are set out in the circular of the Company dated 13 August 2004.

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc. ("M8") for a total cash consideration of US$11,626,203 (equivalent to approximately HK$90.6 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. The acquisition of M8 was completed on 22 December 2004.

MANAGEMENT
DISCUSSION AND ANALYSIS

On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and Chow Tai Fook Enterprises Limited ("CTF") entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entired issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due as at the date of completion of the acquisition agreement from members of Fortune Gate Overseas Limited and its subsidiaries to CTF and its subsidiaries and, in addition to making cash payment of HK$450.0 million (subject to adjustments), to issue a HK$400.0 million convertible note due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK$2 per share (subject to adjustments) (the "Convertible Note") as consideration to satisfy part of the purchase consideration of HK$850.0 million (the "Purchase Price"). As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau (the "Purchase Option") on 17 March 2005 and the Purchase Price will be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004 and 17 March 2005. As at the date of this report, the acquisition has not been completed.

On 28 February 2005, the Group acquired 75% interest in Gugo Entertainment Company Limited, a cartoon production house in Hong Kong for a total cash consideration of HK$4.5 million.

Same as disclosed above, there were neither significant investments held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the year ended 31 March 2005.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's assets and liabilities were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has no significant exposure to foreign exchange fluctuations.

CONTINGENT LIABILITIES

As at 31 March 2005, the Company has provided corporate guarantees of approximately HK$11.0 million (2004: HK$10.5 million) to secure loans and other borrowings granted to its subsidiaries. The Group has also provided guarantee to a promissory note holder amounted to approximately US$1,831,924 (equivalent to approximately HK$14.3 million).

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group was 52 as at 31 March 2005 (as at 31 March 2004: 35). The staff cost for the year ended 31 March 2005 was approximately HK$10.2 million (for the year ended 31 March 2004: approximately HK$6.7 million). The Group remunerated its employees on the basis of performance, experience and the prevailing industry practice. In addition to salaries, employee benefits included bonus, medical scheme, insurance, Mandatory Provident Fund and share option schemes.

BOARD OF
DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Cheng Kar Shun, aged 58, was appointed as an executive Director in July 2004. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited and the chairman of New World Mobile Holdings Limited, New World TMT Limited, NWS Holdings Limited and Tai Fook Securities Group Limited and the independent non-executive director of HKR International Limited, all of which are companies whose shares are listed on the Stock Exchange. He is also a director of CTF. Dr. Cheng is the chairman of the Advisory Council for the Better Hong Kong Foundation and a committee member of the Tenth Chinese People's Political Consultative Conference of the PRC. In 2001, he was awarded the Gold Bauhinia Star by the Government of Hong Kong.

Mr. Lo Lin Shing, Simon, aged 49, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. Mr. Lo is the chairman of New World CyberBase Limited, the deputy chairman of Tai Fook Securities Group Limited and a non-executive director of New World Mobile Holdings Limited, Cheung Tai Hong Holdings Limited and Beijng Beida Jade Bird Universal Sci-Tech Company Limited, all of which are companies whose shares are listed on the Stock Exchange. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries.

Mr. Choi Wing Kin, aged 43, was appointed as executive Director in May 2001. He was the founder and an executive director of Cyber On-Air Limited (a wholly owned subsidiary of the Company). Mr. Choi holds the position of Chief Operating Officer of New World CyberBase Limited (a company whose shares are listed on the Stock Exchange). He has over 19 years' experience in information technology and telecommunications industry. Professionally, Mr. Choi possesses a Chartered Engineer qualification from the Engineering Council (UK) and is a member of The Institution of Electrical Engineers (UK), The Hong Kong Institution of Engineers (HK), and The Institution of Engineers (Australia). He has a Bachelor of Science degree in Electronics and Computer Science from the Chinese University of Hong Kong.

Mr. So Kam Wing, aged 45, joined the Group in January 2002 as vice president of technical operations and was appointed as an executive Director in October 2002. He is responsible for direction steering and management of the overall daily operation of the Group in Hong Kong and Asia Pacific region. Mr. So obtained several academic qualifications including Master of Science in E-Commerce for Executives and Higher Diploma in Marine Electronics from Hong Kong Polytechnic University, Graduate Diploma in Management in Hong Kong University of Science and Technology, Professional Diploma in Telecommunication Technology from Hong Kong Management Association. Mr. So has over 15 years of experience in the field of telecommunications.

NON-EXECUTIVE DIRECTORS

Mr. Wu Wing Kin, aged 49, was appointed as a non-executive Director in May 2001. Mr. Wu has more than 20 years of working experience in the financial, securities and futures industries.

BOARD OF
DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Hon Kit, aged 51, joined the Group in May 2001. Mr. Cheung has over 27 years of experience in real estate development and property investment. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked in key executive position in various leading property development companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and Paul Y. - ITC Construction Holdings Limited and the managing director of Wing On Travel (Holdings) Limited and chairman and executive director of Cheung Tai Hong Holdings Limited. He is also a director Hanny Holdings Limited, Panva Gas Holdings Limited and Innovo Leisure Recreation Holdings Limited. The shares of all the abovementioned companies are listed on the Stock Exchange.

Mr. Kwee Chong Kok, Michael, aged 58, was appointed as an independent non-executive Director in September 2004. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Gradate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States. Mr. Kwee is the chairman and chief executive officer of PAMA Group Inc. He served as a member of the Hong Kong Advisory Committee on Legal Education and Hong Kong Financial Secretary's Economic Advisory Committee from 1995 and 2004.

Mr. Wong Chi Keung, aged 50, was appointed as an independent non-executive Director in September 2004. Mr. Wong holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong was also a Responsible Officer for advising on securities and corporate finance for Yue Xiu Securities Company Limited under the SFO.

Mr. Wong was as a director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited, which is a listed company on the Stock Exchange, for over ten years. He is the managing director of BVD Corporate Consultancy & Services Company Limited and Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Treasure (Greater China) Investments Limited, FU JI Food and Catering Services Holdings Limited, Great Wall Automobile Holding Company Limited, PacMOS Technology Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies whose shares are listed on the Stock Exchange. Mr. Wong has over 28 years of experience in finance, accounting and management.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lee Sammy Sean, aged 46, is the Chairman of Media 8 Entertainment. He has joined the M8 Group since July 2002 and has secured financing from different media funds for the films of the M8 Group through his worldwide network of potential financiers.

Media 8's first production under Mr. Lee's leadership was Monster, for which Charlize Theron won the Academy Award for Best Actress. Following the worldwide critical and box office success of Monster, Mr. Lee has served as a producer on all Media 8 projects, including the critically acclaimed The Upside of Anger, written and directed by Mike Binder and starring Kevin Costner and Joan Allen, released by New Line Cinema in March 2005. Mr. Lee also produced Media 8's upcoming action-drama Running Scared, which stars Paul Walker and is writer-director Wayne Kramer's follow up to his critically acclaimed debut The Cooler, and which will be released in North America by New Line Cinema. Mr. Lee also served as a producer on Media 8's forthcoming Lovewrecked, directed by Randal Kleiser and starring Amanda Bynes; and Havoc, directed by two-time Oscar winner Barbara Kopple, and starring Anne Hathaway and Bijou Philips. Most recently, Mr. Lee served as a producer on Media 8's Man About Town, which reunites Media 8 with writer-director Mike Binder, and stars Ben Affleck and Rebecca Romijn.

Mr. Lee is a lawyer by training and is experienced in business transaction structuring and corporate consulting. Mr. Lee is a non-executive director of New World TMT Limited, a company whose shares are listed on the Stock Exchange.

Ms. Jenna Sanz-Agero, aged 35, is the President of Media 8 Entertainment. Ms. Sanz-Agero was formerly Senior Vice President of Business & Legal Affairs for Media 8 Entertainment and has worked with the company since 1995. Ms. Sanz-Agero is primarily responsible for overseeing the company's day-to-day operations, as well as the negotiation of primary acquisition, production, distribution and finance transactions relating to Media 8 productions. Before joining Media 8 in 2003, Ms. Sanz-Agero was a partner in the law firm Business Affairs, Inc., which provided business and legal affairs services related to the development, production, finance and distribution of television and motion picture projects. Prior to opening Business Affairs, Inc., she served as Vice President of Business and Legal Affairs for MDP Worldwide. Ms. Sanz-Agero received her B.S. in Finance, summa cum laude, from Sacred Heart University and her J.D., magna cum laude, from Pepperdine University, and was admitted to the California Bar in 1995.

Mr. Stewart Hall, aged 51, is an executive director and producer of M8. He has joined the M8 Group since July 2002. His recent producer and executive producer credits include Lovewrecked, Santa's Slay, The Upside of Anger, Monster, Havoc, and 11:14.

Mr. Louis Gascon, aged 61, is an executive director of M8 and has joined the M8 Group since May 2001. He is a senior partner of Gascon & Associes. Mr. Gascon cofounded Legal Network International, an association of law firms operating in approximately thirty countries. He is a director of several other Canadian corporations and serves as corporate counsel to several public companies.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Antony Chiu, aged 61, is an executive director of M8 and has joined the M8 Group since July 2002. Mr. Chiu graduated from McGill University in Montreal, Canada with a Bachelor of Architecture Degree, and from Florida Atlantic University in Boca Raton, Florida, the US with a MBA Degree. For over 25 years, he has been actively engaged in real estate development in Canada in various senior management capacities. From 1986 to 1993, he was the chief architect of the Royal Bank of Canada in Montreal, overseeing numerous major developments on behalf of the bank. Mr. Chiu has also served as a senior consultant to several major real estate projects in recent years, including the Headquarters Building of the Construction Bank of China in Pudong, Shanghai, China.

Mr. Li Ping Yiu, Jimmy, aged 37, is the senior vice president of strategic and financial planning of M8 and has joined the M8 Group since August 2002. Mr. Li is responsible for the overall corporate strategic and financial planning of M8. Mr. Li received a Bachelor of Science degree in Computer Engineering from The University of Washington and an MBA degree from Southeastern University.

Mr. Kwok Chi Kin, aged 28, joined the Group as Chief Financial Officer and was appointed as Qualified Accountant and Company Secretary in May 2004. He is responsible for the finance and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. He has about 6 years of auditing experience and accounting experience in listed companies in Hong Kong.

REPORT
OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 17 December 2004, the name of the Company was changed from "Cyber On-Air Group Company Limited 創博數碼科技集團有限公司" to "International Entertainment Corporation 國際娛樂有限公司".

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries and associate are set out in notes 18 and 19 respectively to the financial statements.

During the year, the Group acquired 50.4% interest in M8 Entertainment Inc. ("M8"). M8 and its subsidiaries are engaged in acquisition, financing, production and licensing of theatrical motion pictures in a variety of genres.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 21% and 59% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Except for the project services income received from a company in which a director has beneficial interest at the time entering into the transactions, which are disclosed in note 43 to the financial statements, none of the director, their associates or any shareholders (which to the best knowledge of the directors owns more than 5% of the Company's share capital) have any interests in any of the Group's five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 26.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 88.

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

During the year, the Company issued 4,000,000 ordinary shares of HK$1.00 each to settle the loan notes and the unpaid accrual interest of the loan notes. The Company also issued 120,000,000 ordinary shares, 80,000,000 ordinary shares and 31,000,000 ordinary shares of HK$1.00 by subscription and two placements, for consideration per share of HK$1.00, HK$1.00 and HK$8.50 respectively. The shares were issued for the purpose of raising additional capital to finance expansion and general working capital of the Group.

Details of these and other movements during the year in the share capital of the Company are set out in note 33 to the financial statements.

DIRECTORS

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

Executive directors

Dr. Cheng Kar Shun	(appointed as executive director on 16 July 2004 and appointed as chairman on 19 November 2004)
Mr. Lo Lin Shing, Simon	(re-designated as executive director from non-executive director on 24 September 2004)
Mr. Choi Wing Kin	
Mr. So Kam Wing	

Non-executive director

Mr. Wu Wing Kin

Independent non-executive directors

Mr. Cheung Hon Kit	
Mr. Wong Chi Keung	(appointed on 24 September 2004)
Mr. Kwee Chong Kok, Michael	(appointed on 24 September 2004)
Mr. Ng Wai Hung	(resigned on 8 November 2004)

In accordance with article 86 of the Company's articles of association, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung will hold office until the forthcoming annual general meeting of the Company and shall then be eligible for re-election at that meeting.

In accordance with article 87A of the Company's articles of association, Mr. Lo Lin Shing, Simon and Mr. Cheung Hon Kit shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The terms of office of non-executive directors (including the independent non-executive directors) should be subject to retirement by rotation in accordance with the Company's articles of association.

No director has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT
OF THE DIRECTORS

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung an annual confirmation of his independence pursuant to the Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") and the Company considers the independent non-executive directors are independent.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Save as disclosed below, as at 31 March 2005, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

Long-position in the ordinary shares of the Company

Name of directors	Number of ordinary shares of HK$1.00 each in the share capital of the Company — Personal interest	Corporate interest	Total	Approximate percentage of the issued share capital of the Company
				%
Mr. Choi Wing Kin	1,329,600	–	1,329,600	0.56
Mr. So Kam Wing	91,200	–	91,200	0.04
Mr. Lo Lin Shing, Simon	–	364,800 *(Note)*	364,800	0.15

Note: These shares are held by Wellington Equities Inc., which is wholly owned by Mr. Lo Lin Shing, Simon.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Save as disclosed below, as at 31 March 2005, so far as is known to the directors or chief executives of the Company, no person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

Long positions in the ordinary shares of the Company

Name of shareholders	Capacity	Number of ordinary shares of HK$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	–	–	120,000,079	50.88%
Cross-Growth Co., Ltd.	Beneficial owner	–	–	200,000,000 *(Note 3)*	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	–	707,494,341 *(Note 4)*	–	1,027,494,420	435.69%
	Interest of a controlled corporation	120,000,079 *(Note 1)*	–	200,000,000 *(Note 3)*		
Young China Investments Ltd.	Beneficial owner	19,000,000	–	–	19,000,000	8.06%
Mr. Chow Shiu Leung	Interest of a controlled corporation	19,000,000 *(Note 2)*	–	–	19,000,000	8.06%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY – continued

Long positions in the ordinary shares of the Company – continued

Notes:

(1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.

(2) Young China Investments Ltd. is wholly owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company held by Young China Investments Ltd. under the SFO.

(3) These underlying shares of the Company represent the new shares to be issued upon full conversion at the initial conversion price of HK$2 per share of the convertible note to be issued by the Company to Cross-Growth Co., Ltd. (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth Co., Ltd., the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004.

Cross-Growth Co., Ltd. is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 200,000,000 underlying shares held by Cross-Growth Co., Ltd. under the SFO.

(4) These unissued Shares represent the rights shares underwritten by CTF in respect of a possible rights issue of the Company, details of which are set out in the announcement of the Company dated 23 November 2004.

SHARE OPTIONS

Particulars of the share option schemes of the Company and its subsidiaries are set out in note 38 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section headed "Share Options" above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 43 to the financial statements and the section headed "Connected Transactions" below, 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, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance were entered into between the Company, or any of its subsidiaries, and a controlling shareholder, or any of its subsidiaries.

COMPETING BUSINESS

None of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflicts of interest with the Group.

CONNECTED TRANSACTIONS

Connected Transactions

(1) On 14 October 2004, Mediamaster Limited ("Mediamaster"), wholly owned subsidiary of the Company, Music Box Entertainment Limited ("Music Box") and Mr. Lee Sammy Sean entered into an acquisition agreement pursuant to which Mediamaster conditionally agreed to acquire approximately 51.0% of total voting rights in M8 for a total consideration of US$11,626,203 (equivalent to approximately HK$90.6 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. The acquisition of M8 was approved by the shareholders on 17 December 2004 and completed on 22 December 2004.

Since Dr. Cheng Kar Shun, a director of the Company, is a substantial shareholder of Music Box, the acquisition of M8 constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

(2) On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and CTF entered into a conditional acquisition agreement (the "Acquisition Agreement") pursuant to which the Company agreed conditionally to acquire the share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due from members of Fortune Gate Overseas Limited and its subsidiaries (the "Hotel Group") to CTF and its subsidiaries (the "CTF Group") as at the date of completion of the Acquisition Agreement (the "Acquisition"). The total purchase price for the Acquisition in HK$850 million (the "Purchase Price") of which HK$450 million of the Purchase Price will be paid by cash and the Company will issue a convertible note of HK$400 million which will be due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK$2 per share (subject to adjustments) (the "Convertible Note"). In order to finance the Acquisition, the Company proposed to raise net proceeds of approximately HK$1,229 million by way of rights issue (the "Rights Issue") CTF also granted an option to the Company for the Company to purchase 40% of the issued share capital of Arc of Triumph Development Company Limited ("ATD"), a company incorporated in Macau from an associate of CTF at a price of HK$363.2 million (the "Purchase Option"). On 23 November 2004, CTF own 73% attributable interest in the Hotel Group and an associate of the CTF Group owns 40% attributable interest in ATD.

As announced on 17 March 2005, the Company exercised the Purchase Option in favour of the Company to purchase 40% equity interest in ATD and the Purchase Price would be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisitions are set out in the announcements of the Company dated 23 November 2004 and 17 March 2005.

Under the GEM Listing Rules, the Acquisition (including the exercise of the Purchase Option) will constitute a connected transaction and a very substantial acquisition of the Company which is treated as a reverse takeover and the Stock Exchange has indicated to the Company that it would treat the Company as a new listing applicant if the Acquisition proceeds.

As at the date of this report, the Acquisition and the Rights Issue have not been completed.

CONNECTED TRANSACTIONS – continued

Continuing Connected Transactions

(1) On 16 May 2003, Cyber On-Air (Asia) Limited ("COAA"), a wholly owned subsidiary of the Company, entered into an agreement with New World PCS Limited ("NWPCS"), an associate of CTF, for the provision of installation work of cellular base stations for NWPCS commencing from 1 May 2003 to 30 April 2004. Subsequently, on 22 April 2004 and 7 October 2004, NWPCS and COAA entered into addendums to the agreement to extend the contract period of the agreement by 12 months, from 1 May 2004 to 30 April 2005, and modify some of the terms of the agreement. The maximum aggregate annual values of the transactions for the periods from 1 May 2004 to 31 March 2005 and from 1 April 2005 to 30 April 2005 were HK$8,000,000 and HK$1,000,000 respectively. During the period from 1 May 2004 to 31 March 2005, the project service income generated from the provision of installation work of cellular base stations by COAA to NWPCS amounted to approximately HK$4,901,000.

(2) On 10 August 2004, Future Growth Limited ("Future Growth"), a wholly owned subsidiary of the Company, entered into a tenancy agreement with New World Tower Company Limited ("NWT") an associate of CTF, for the lease of Rooms 1502-03, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with an area of approximately 2,232 square feet for two years commencing from 24 May 2004 to 23 May 2006 (both dates inclusive). The maximum aggregate annual value of the transactions (including the rent, air-conditioning charges and management charges) under the tenancy agreement is approximately HK$522,000. During the year, HK$375,000 has been paid by Future Growth to NWT for the lease of the premises.

(3) On 24 February 2005, Future Growth, entered into a tenancy agreement with NWT, for the lease of Rooms 1504-05, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with an area of approximately 1,706 square feet for one year three months and nine days commencing from 15 February 2005 to 23 May 2006 (both dates inclusive). The maximum aggregate annual value of the transactions (including the rent, air-conditioning charges and management charges) under the tenancy agreement is approximately HK$481,000. During the year, HK$62,000 has been paid by Future Growth to NWT for the lease of the premises.

The independent non-executive directors confirm that the continuing connected transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed that the continuing connected transactions have received the approval of the board of directors of the Company; and have been entered into in accordance with the relevant agreements governing the transactions and have not exceeded their respective caps disclosed in previous announcements.

Save as disclosed above, other related party transactions entered by the Group during the year are disclosed in note 43 to the financial statements.

REPORT OF THE DIRECTORS

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

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

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules of the financial year ending 31 March 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 March 2005.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met four times to review the Company's reports and accounts including the annual report for the year ended 31 March 2005, and provided advice and recommendations to the board of directors.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

No material post balance sheet events subsequent after 31 March 2005.

DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2005 (2004: nil).

REPORT
OF THE DIRECTORS

AUDITORS

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

On behalf of the Board

Dr. Cheng Kar Shun
Chairman
Hong Kong, 28 June 2005

REPORT
OF THE AUDITORS

Deloitte.
德勤

TO THE MEMBERS OF INTERNATIONAL ENTERTAINMENT CORPORATION
國際娛樂有限公司
(FORMERLY KNOWN AS CYBER ON-AIR GROUP COMPANY LIMITED
創博數碼科技集團有限公司)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 87 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, 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 Statements of Auditing Standards 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

REPORT OF THE AUDITORS

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 June 2005

CONSOLIDATED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Turnover	4	**34,448**	16,131
Cost of sales		**(35,308)**	(11,488)
Gross (loss) profit		**(860)**	4,643
Other operating income	6	**3,977**	52
Selling and distribution costs		**(2,424)**	(407)
General and administrative expenses		**(28,210)**	(13,829)
Other operating expenses		**(1,244)**	(3,672)
Impairment loss recognised	7	**–**	(20,692)
Loss from operations	8	**(28,761)**	(33,905)
Finance costs	9	**(1,117)**	(1,214)
Loss on discontinued operations	10	**–**	(433)
Loss before taxation		**(29,878)**	(35,552)
Taxation	13	**–**	–
Loss before minority interests		**(29,878)**	(35,552)
Minority interests		**10,583**	–
Net loss for the year		**(19,295)**	(35,552)
Loss per share	14		
Basic		**HK$0.10**	HK$42.76
Diluted		**HK$0.10**	N/A

CONSOLIDATED
BALANCE SHEET
AT 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	15	4,061	2,280
Intangible assets	16	–	175
Goodwill	17	15,764	5,494
Interests in an associate	19	–	–
Deferred tax assets	35	22,543	–
		42,368	7,949
Current assets			
Inventories	20	1,873	1,081
Film costs	22	441,311	–
Trade receivables	23	83,321	3,973
Other receivables, deposits and prepayments		20,312	233
Amounts due from related companies	24	584	406
Pledged bank deposits		9,014	1,042
Bank balances and cash		353,009	559
		909,424	7,294
Current liabilities			
Trade payables	25	52,650	6,110
Other payables and accrued charges		110,520	7,862
Amounts due to related companies	26	1,549	817
Loans from directors	28	3,044	13,044
Loans from related companies	29	12,582	12,082
Preference dividend payable		673	673
Bank and other borrowings	30	252,884	4,370
Promissory notes	31	36,084	–
		469,986	44,958
Net current assets (liabilities)		439,438	(37,664)
Total assets less current liabilities		481,806	(29,715)

CONSOLIDATED
BALANCE SHEET
AT 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current liability			
Loan notes	32	–	42,600
		481,806	(72,315)
Capital and reserves			
Share capital	33	235,831	831
Share premium and reserves		168,598	(73,146)
		404,429	(72,315)
Minority interests		77,377	–
		481,806	(72,315)

The financial statements on pages 26 to 87 were approved and authorised for issue by the Board of Directors on 28 June 2005 and are signed on its behalf by:

Dr. Cheng Kar Shun
DIRECTOR

Mr. Lo Lin Shing, Simon
DIRECTOR

BALANCE SHEET

AT 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Interests in subsidiaries	18	67,408	5,500
Amount due from an associate	19	–	–
		67,408	5,500
Current assets			
Investment in a film project	21	39,000	–
Amount due from a related company	24	13	9
Other receivables and prepayments		3,654	100
Bank balances and cash		325,826	54
		368,493	163
Current liabilities			
Other payables and accrued charges		1,990	4,829
Amount due to a related company	26	–	262
Amounts due to subsidiaries	27	7,425	8,408
Loan from a director	28	–	10,000
Preference dividend payable		673	673
		10,088	24,172
Net current assets (liabilities)		358,405	(24,009)
Total assets less current liabilities		425,813	(18,509)
Non-current liability			
Loan notes	32	–	42,600
		425,813	(61,109)
Capital and reserves			
Share capital	33	235,831	831
Share premium and reserves	34	189,982	(61,940)
		425,813	(61,109)

Dr. Cheng Kar Shun
DIRECTOR

Mr. Lo Lin Shing, Simon
DIRECTOR

CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2005

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note 34)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE GROUP						
At 1 April 2003	831	–	53,022	–	(90,616)	(36,763)
Net loss for the year	–	–	–	–	(35,552)	(35,552)
At 31 March 2004	831	–	53,022	–	(126,168)	(72,315)
Issue of shares at premium by the Company as a result of the settlement of loan notes, including unpaid accrued interest	4,000	40,569	–	–	–	44,569
Issue of shares through subscription	120,000	–	–	–	–	120,000
Issue of shares through placements	111,000	232,500	–	–	–	343,500
Exchange differences on translation of overseas operation not recognised in income statement	–	–	–	(2,793)	–	(2,793)
Share issue expenses	–	(9,237)	–	–	–	(9,237)
Net loss for the year	–	–	–	–	(19,295)	(19,295)
At 31 March 2005	**235,831**	**263,832**	**53,022**	**(2,793)**	**(145,463)**	**404,429**

CONSOLIDATED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	(29,878)	(35,552)
Adjustments for:		
Interest income	(684)	(9)
Interest expenses	1,117	1,214
Allowance for bad and doubtful debts and bad debts written off	4,247	7
Allowance for obsolete inventories	27	–
Loss on write-off of inventories	22	14
Gain on disposal of property, plant and equipment	(1)	(2)
Loss on write-off of property, plant and equipment	14	45
Depreciation of property, plant and equipment	1,582	1,559
Amortisation of goodwill	968	3,664
Amortisation of intangible assets	175	304
Amortisation of film costs	30,495	–
Impairment loss recognised	–	20,692
Negative goodwill released	(3,079)	–
Loss on discontinued operations	–	433
Operating cash flows before movements in working capital	5,005	(7,631)
Increase in film costs	(11,683)	–
Increase in inventories	(841)	(236)
Decrease in trade receivables	364	1,383
(Increase) decrease in other receivables, deposits and prepayments	(15,736)	550
Increase in amounts due from related companies	(178)	(406)
Increase (decrease) in trade payables	3,413	(3,697)
Increase (decrease) in other payables and accrued charges	9,953	(28)
Increase in amounts due to related companies	732	817
NET CASH USED IN OPERATING ACTIVITIES	(8,971)	(9,248)

CONSOLIDATED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 HK$'000	2004 HK$'000
INVESTING ACTIVITIES			
Interest received		**684**	9
Advance to a subsidiary for a film project		**(39,000)**	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36	**(35,795)**	–
Purchase of property, plant and equipment		**(2,945)**	(195)
Proceeds on disposal of property, plant and equipment		**1**	2
Increase in pledged bank deposit		**(1,171)**	(5)
NET CASH USED IN INVESTING ACTIVITIES		**(78,226)**	(189)
FINANCING ACTIVITIES			
Interest paid		**(5,580)**	(34)
Net proceeds from issue of shares by way of subscription and placements		**454,263**	–
Advances from a related company		**500**	8,000
New bank borrowings		**1,903**	–
Repayment of loans from directors		**(10,000)**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**441,086**	7,966
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**353,889**	(1,471)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**(437)**	1,034
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(2,594)**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**350,858**	(437)
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**353,009**	559
Bank overdrafts		**(2,151)**	(996)
		350,858	(437)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands. Its ultimate holding company is Chow Tai Fook Enterprises Limited ("CTF"), a company incorporated in Hong Kong.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries and associate are set out in note 18 and 19 respectively to the financial statements.

The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 31 July 2000.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In year 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not adopted these new HKFRSs, except for HKFRS 3 as detailed below, in the financial statements for the year ended 31 March 2005.

HKFRS 3 "Business Combinations" has been adopted for the acquisition of a subsidiary, which was completed on 28 February 2005. Details of the acquisition are set out in note 36 to the financial statements. The adoption of HKFRS 3 has resulted in changes to the Group's accounting policy in goodwill and negative goodwill that have affected the amounts reported for the current year.

HKFRS 3 Business Combinations

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

HKFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's indentifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. HKFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Negative goodwill arising from the acquisition of a subsidiary amounted to approximately HK$3,079,000 is recognised into income statement during the year.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS – continued

Previously, under Statements of Standard Accounting Practice 30 ("SSAP 30") "Business Combinations" (superseded by HKFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet date.

Under the previous accounting policy, approximately HK$52,000 of negative goodwill would have been released to income during 2005, leaving a balance of negative goodwill of approximately HK$3,027,000 at 31 March 2005. Therefore, the impact of the change in accounting policy in 2005 is an increase in other operating income of approximately HK$3,027,000 and an increase in net assets at 31 March 2005 of approximately HK$3,027,000.

Except for the above, the Group has commenced considering the potential impact of other new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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

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 an associate at the date of acquisition.

Goodwill arising on acquisition prior to 31 December 2004 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisition after 31 December 2004 is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Revenue recognition

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

Services income is recognised when the services are rendered.

Film licensing income is recognised once a feature film has been completed and is available for physical delivery or from the granting of laboratory assess when contractual amounts are fixed and due from distributors and when there is a reasonable assurance of collectibility.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of the leases or 30%
Furniture, fixtures and equipment	15% – 33%
Computer hardware	15% – 33%

The gain or loss arising on the disposal or retirement 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.

Intangible assets

Intangible assets are measured at cost and amortised on a straight-line basis over their estimated useful lives, less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investment in film project

Investment in film project is stated at amortised cost and less any identified impairment losses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Film costs

Film costs represents film rights and films and animation series under production.

Film rights are started 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.

Films and animation series under production are stated at cost incurred to date, less any identified impairment loss.

Advertising and promotion costs

Advertising and promotion costs are charged to the income statement as and when incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense as they fall due.

4. TURNOVER

	2005 HK$'000	2004 HK$'000
The Group's turnover comprises:		
Sales of goods	5,517	8,424
Services income	10,417	7,707
Film licensing income	18,514	–
	34,448	16,131

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions, namely application solutions, network solutions, project services and entertainment business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Application solutions	–	Providing wireless applications to operators and enterprises based on wireless technologies
Network solutions	–	Providing enabling services to operators and enterprises to set up broadband networks
Project services	–	Project implementation services to manufacturers, carriers and enterprises
Entertainment business	–	Production and licensing of theatrical motion pictures in a variety of genres

The Group was also involved in the following activities:

Content licensing	–	Licensing and subscription of web content
Recruitment services	–	Provision of recruitment and corporate services

The content licensing and recruitment services operations were discontinued from 30 September 2003 and 31 March 2004 respectively.

Segment information about these businesses is presented below.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Income statement for the year ended 31 March 2005

	Continuing operations					Discontinued operations			
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER									
External sales	–	5,517	8,648	18,514	1,769	–	–	–	34,448
Inter-segment sales	–	–	–	–	–	–	–	–	–
Total	–	5,517	8,648	18,514	1,769	–	–	–	34,448

Inter-segment sales are charged at prevailing market prices.

	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULTS									
Segment results	–	1,998	2,299	(21,583)	957	–	–	–	(16,329)
Other operating income									1,156
Unallocated expenses									(13,588)
Loss from operations									(28,761)
Finance costs									(1,117)
Loss before taxation									(29,878)
Taxation									–
Loss before minority interests									(29,878)
Minority interests									10,583
Net loss for the year									(19,295)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Balance sheet at 31 March 2005

	Continuing operations					Discontinued operations		
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	1	3,927	3,020	608,714	242	–	–	615,904
Unallocated corporate assets								335,888
Consolidated total assets								951,792
LIABILITIES								
Segment liabilities	–	4,135	3,478	126,587	557	–	–	134,757
Unallocated corporate liabilities								335,229
Consolidated total liabilities								469,986

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Other information for the year ended 31 March 2005

	Continuing operations					Discontinued operations		
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Consolidated HK$'000
Capital, intangible assets and film costs additions	–	328	–	486,306	2,545	–	–	489,179
Depreciation and amortisation	5	57	15	30,831	2,312	–	–	33,220
Loss on write-off of property, plant and equipment	–	–	–	–	14	–	–	14
Allowance for bad and doubtful debts and bad debts written off	–	–	–	4,247	–	–	–	4,247
Loss on write-off of inventories	–	–	–	–	22	–	–	22

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Income statement for the year ended 31 March 2004

	Continuing operations				Discontinued operations			
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER								
External sales	171	8,254	6,777	735	–	194	–	16,131
Inter-segment sales	21	30	–	–	–	17	(68)	–
Total	192	8,284	6,777	735	–	211	(68)	16,131

Inter-segment sales are charged at prevailing market prices.

	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULTS								
Segment results	108	2,346	1,690	500	–	(1)	–	4,643
Other operating income								52
Unallocated expenses								(38,600)
Loss from operations								(33,905)
Finance costs								(1,214)
Loss on discontinuing operations	–	–	–	–	–	(433)	–	(433)
Loss before taxation								(35,552)
Taxation								–
Loss before minority interests								(35,552)
Minority interests								–
Net loss for the year								(35,552)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Balance sheet at 31 March 2004

	Continuing operations				Discontinued operations		
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	6	3,387	1,829	49	–	–	5,271
Unallocated corporate assets							9,972
Consolidated total assets							15,243
LIABILITIES							
Segment liabilities	19	3,119	3,845	356	297	–	7,636
Unallocated corporate liabilities							79,922
Consolidated total liabilities							87,558

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments – continued

Other information for the year ended 31 March 2004

	Continuing operations				Discontinued operations		
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Others HK$'000	Content licensing HK$'000	Recruitment services HK$'000	Consolidated HK$'000
Capital additions	2	142	–	51	–	–	195
Depreciation and amortisation	10	51	15	5,123	–	329	5,528
Impairment loss recognised in respect of goodwill	–	–	–	20,692	–	–	20,692
Loss on write-off of property, plant and equipment	–	–	–	46	–	–	46
Loss on discontinued operations	–	–	–	–	–	433	433
Gain on disposal of property, plant and equipment	–	–	–	2	–	–	2
Allowance for bad and doubtful debts and bad debts written off	–	1	–	–	–	6	7
Loss on write-off of inventories	–	14	–	–	–	–	14

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Geographical segments

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC") and the United States of America (the "USA").

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**14,957**	12,603
Elsewhere in the PRC	**977**	3,528
USA	**18,514**	–
	34,448	16,131

Revenue from the Group's discontinued recruitment services operation was derived principally from elsewhere in the PRC (2005: nil, 2004: HK$194,000).

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**342,146**	12,565	**2,566**	166
Elsewhere in the PRC	**3,032**	2,678	**307**	29
USA	**584,071**	–	**486,306**	–
	929,249	15,243	**489,179**	195

6. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Gain on disposal of property, plant and equipment	1	2
Interest income on bank deposits	684	9
Sundry income	21	41
Rental income	192	–
Negative goodwill recognised	3,079	–
	3,977	52

7. IMPAIRMENT LOSS RECOGNISED

	2005 HK$'000	2004 HK$'000
Goodwill	–	20,692

8. LOSS FROM OPERATIONS

	2005 HK$'000	2004 HK$'000
Loss from operations has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts and bad debts written off	**4,247**	7
Allowance for obsolete inventories	**27**	–
Amortisation of film costs	**30,495**	–
Amortisation of goodwill (included in other operating expenses)	**968**	3,665
Amortisation of intangible assets (included in general and administrative expenses)	**175**	304
Auditors' remuneration	**1,516**	331
Depreciation of property, plant and equipment	**1,582**	1,559
Loss on write-off of inventories	**22**	14
Loss on write-off of property, plant and equipment	**14**	46
Net foreign exchange losses (gains)	**8**	(17)
Rental expenses under operating leases on		
– premises	**1,753**	1,240
– equipment	**267**	338
Redundancy costs	**–**	186
Staff costs, including directors' emoluments		
– Salaries and allowances	**10,204**	6,340
– Retirement benefits schemes contributions (note 39)	**15**	310
	10,219	6,650

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank overdrafts and bank loans	4,483	34
Interest on amounts due to related companies	567	356
Interest on loans from directors	289	713
Interest on other loans	241	111
	5,580	1,214
Less: Amount capitalised in film costs	(4,463)	–
	1,117	1,214

10. DISCONTINUED OPERATIONS

The directors determined to discontinue the Group's content licensing and recruitment services operations from 30 September 2003 and 31 March 2004 respectively.

The results of the content licensing and recruitment services for the year were as follows:

	Content licensing		Recruitment services	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	–	–	–	211
Operating costs	–	–	–	(212)
Loss on discontinued operations	–	–	–	(433)
Loss before taxation	–	–	–	(434)
Taxation	–	–	–	–
Loss after taxation	–	–	–	(434)

10. DISCONTINUED OPERATIONS – continued

The carrying amounts of the assets and liabilities of the content licensing and recruitment services at the balance sheet date were as follows:

	Content licensing		Recruitment services	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total assets	**–**	–	**–**	–
Total liabilities	**–**	297	**–**	–

During the year, there was no significant cash inflow or outflow arising from the content licensing and recruitment services operations.

During the year ended 31 March 2004, the assets relating to the recruitment services operation were written off at a loss of approximately HK$433,000.

11. DIRECTORS' EMOLUMENTS

	2005	2004
	HK$'000	HK$'000
Directors' fees	**381**	–
Other emoluments:		
Salaries and other benefits	**496**	1,271
Contributions to retirement benefits scheme	**12**	24
	508	1,295
	889	1,295

11. DIRECTORS' EMOLUMENTS – continued

For the year ended 31 March 2005, three of the four executive directors received emoluments of approximately HK$508,000, HK$50,000 and HK$67,000 respectively. The remaining one executive director did not receive any emolument.

The non-executive director and three independent non-executive directors received emoluments of approximately HK$67,000, HK$67,000, HK$52,000 and HK$51,000 respectively for the year ended 31 March 2005. Emoluments of approximately HK$27,000 was paid to a non-executive director who resigned during the year ended 31 March 2005.

For the year ended 31 March 2004, the two executive directors received emoluments of approximately HK$748,000 and HK$547,000 respectively.

No emoluments were paid by the Group to the two non-executive directors and the two independent non-executive directors for the year ended 31 March 2004.

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director had waived or agreed to waive any remuneration.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2004: two) was a director of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining four (2004: three) individuals were as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other benefits	**1,725**	952
Contributions to retirement benefits scheme	**39**	36
	1,764	988

12. EMPLOYEES' EMOLUMENTS – continued

The emoluments of these highest paid individuals were within the following bands:

	Number of individuals	
	2005	2004
Nil to HK$1,000,000	**4**	3

13. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the year.

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

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(29,878)**	(35,552)
Tax at the domestic income tax rate of 17.5%	**(5,229)**	(6,222)
Tax effect of expenses not deductible for tax purpose	**127**	3,286
Tax effect of income not taxable for tax purpose	**(116)**	(11)
Tax effect of tax losses not recognised	**9,383**	2,947
Effect of different tax rates of subsidiaries operating in other jurisdiction	**(4,165)**	–
Tax charge for the year	**–**	–

Details of the deferred tax assets recognised are set out in note 35 to the financial statements.

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK$19,295,000 (2004: HK$35,552,000) and the weighted average number of shares of 192,793,091 (2004: 831,447) in issue during the year.

The weighted average number of shares for the year ended 31 March 2004 for the purpose of basic losses per share has been adjusted for the share consolidation of every 100 ordinary shares of HK$0.01 each into one share of HK$1.00 each, which become effective on 22 April 2004. Details of the share consolidation are set out in note 33 to the financial statements.

The computation of diluted loss per share did not assume the exercise of the subsidiary's outstanding share options existed during the year ended 31 March 2005 since their exercise would reduce loss per share. For the year ended 31 March 2004, no diluted loss per share has been presented as there were no options in issue.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware HK$'000	Total HK$'000
THE GROUP				
COST				
At 1 April 2004	172	113	6,048	6,333
Acquired on acquisition of subsidiaries	36	391	–	427
Exchange adjustments	1	4	–	5
Additions	1,865	391	689	2,945
Disposals	–	–	(5)	(5)
Write-off	–	(7)	(26)	(33)
At 31 March 2005	**2,074**	**892**	**6,706**	**9,672**
DEPRECIATION AND IMPAIRMENT				
At 1 April 2004	167	68	3,818	4,053
Provided for the year	531	134	917	1,582
Eliminated on disposals	–	–	(5)	(5)
Eliminated on write-off	–	(4)	(15)	(19)
At 31 March 2005	**698**	**198**	**4,715**	**5,611**
NET BOOK VALUES				
At 31 March 2005	**1,376**	**694**	**1,991**	**4,061**
At 31 March 2004	5	45	2,230	2,280

16. INTANGIBLE ASSETS

	Computer software HK$'000
THE GROUP	
COST	
At 1 April 2004 and at 31 March 2005	1,012
AMORTISATION	
At 1 April 2004	837
Provided for the year	175
At 31 March 2005	1,012
CARRYING AMOUNT	
At 31 March 2005	–
At 31 March 2004	175

The amortisation period adopted for computer software is 3 years.

17. GOODWILL

	HK$'000
THE GROUP	
COST	
At 1 April 2004	36,650
Arising on acquisition of subsidiaries	11,238
At 31 March 2005	**47,888**
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	31,156
Charge for the year	968
At 31 March 2005	**32,124**
CARRYING AMOUNT	
At 31 March 2005	**15,764**
At 31 March 2004	5,494

The amortisation period adopted for goodwill is 10 years.

In the year ended 31 March 2004, in view of the deteriorating results of certain subsidiaries, an impairment loss of approximately HK$20,692,000 was recognised for the goodwill arising on the acquisition of these subsidiaries with reference to the recoverable amounts estimated by the directors using the discounted cash flow method at discount rate of 5% per annum.

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**133,025**	133,025
Adjustment to measurement of consideration for acquisition of subsidiaries	**(37,400)**	(37,400)
Impairment loss recognised	**(90,125)**	(90,125)
	5,500	5,500
Amounts due from subsidiaries	**221,941**	154,533
Impairment loss recognised	**(160,033)**	(154,533)
	61,908	–
	67,408	5,500

In the year ended 31 March 2004, in view of the deteriorating results of certain subsidiaries, an impairment loss of approximately HK$55,125,000 was recognised for investments in subsidiaries with reference to the recoverable amounts estimated by the directors using the discounted cash flow method at discount rate of 5% per annum.

In the year ended 31 March 2005, an impairment loss of approximately HK$5,500,000 (2004: HK$7,474,000) was recognised for amounts due from subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid in the next twelve months. Accordingly, the amounts are shown as non-current assets.

18. INTERESTS IN SUBSIDIARIES – continued

Details of the Company's principal subsidiaries at 31 March 2005 are as follows:

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Anbo Global Company Limited	Hong Kong	Company limited	Ordinary	HK$1	–	100	Investment holding
China On-Air Inc.	British Virgin Islands	Company limited	Ordinary	HK$1	–	100	Investment holding
Cyber On-Air (Asia) Limited ("COAA")	Hong Kong	Company limited	Ordinary	HK$100 HK$100,000* Non-voting deferred	–	100	Sales of telecommunications products, provision of network installation and engineering services
Cyber On-Air Group Limited ("COA")	British Virgin Islands	Company limited	Ordinary	HK$100	100	–	Investment holding
Cyber On-Air Limited	Hong Kong	Company limited	Ordinary	HK$100 HK$10,000,000* Non-voting deferred	–	100	As a wireless applications enabler by providing mobile commerce solutions and products in Asia Pacific Region, and acting as investment holding company
Cyber On-Air Multimedia Limited ("COAM")	Hong Kong	Company limited	Ordinary	HK$2 HK$27,668 * Non-voting deferred	100	–	Development and operation of a website "hkcyber.com"

18. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Cyber Peak Developments Limited	British Virgin Islands	Company limited	Ordinary	US$1	100	–	Investment holding
Five Stories, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production
Flash Star Group Limited	British Virgin Islands	Company limited	Ordinary	US$1	100	–	Investment holding
Future Growth Limited	Hong Kong	Company limited	Ordinary	HK$2	100	–	General business
Gugo Entertainment Company Limited "Gugo"	Hong Kong	Company limited	Ordinary	HK$21,260,100	–	75	Animation/ development of cartoon services
Image Organisation, Inc.	USA	Company limited	Ordinary	US$1,382,494	–	50.4	Film production and distribution
Loverwrecked, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production
M8 Entertainment Inc. ("M8")	Canada	Company limited	Ordinary	Class A CAD 4,520,000 Class B CAD 103,246,000 "Class B M8 Shares" Class C CAD 24,171,000 "Class C M8 Shares"	–	50.4	Film production and distribution

18. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Man About Town Films Inc.	Canada	Company limited	Ordinary	CAD1	–	50.4	Film production and distribution
Media 8 Distribution I	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution II	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution III	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution IV ("M8DIV")	USA	Company limited	Ordinary	US$100	–	50.4	Film production and financing
Media 8 Distribution V	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution VI	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution VII	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Entertainment Limited	Hong Kong	Company limited	Ordinary	HK$1	–	100	Media related business
Media 8 Entertainment	USA	Company limited	Ordinary	US$10,000	–	50.4	Film production and distribution

18. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
					Directly %	Indirectly %	
Mediamaster Limited	British Virgin Islands	Company limited	Ordinary	HK$1	100	–	Investment holding
MDP Distribution, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
MDP Finance, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
MDP Holdings USA, Inc.	USA	Company limited	Ordinary	US$100,000	–	50.4	Investment holding
MDP Licensing Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
MDP Production, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production and financing
Mystic Demons Publishing	USA	Company	Ordinary	US$100	–	50.4	Film production
Newave Technology Inc.	British Virgin Islands	Company limited	Ordinary	HK$1	–	100	Investment holding
Running Scared, Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production
Stuhall Production Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production

18. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Tropical Production Inc.	USA	Company limited	Ordinary	US$1,000	–	50.4	Film production
Vantage Finance Corporation	British Virgin Islands	Company limited	Ordinary	HK$10	–	100	Investment holding
Young Racers, Inc.	USA	Company limited	Ordinary	US$12,000	–	50.4	Film production
Zodiac Productions Inc.	USA	Company limited	Ordinary	US$2,000	–	50.4	Film production
上海創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US$210,000	–	100	As a wireless applications enabler by providing mobile applications and mobile commerce solutions and products in the PRC
廣州創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US$210,000	–	100	As a wireless applications enabler by providing mobile applications and mobile commerce solutions and products in the PRC

18. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiaries	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
廣東安博信息服務有限公司	PRC	Sino-foreign joint venture	–	Registered capital of US$500,000	–	70	Providing employment, community services and professional corporate services to the PRC enterprises and citizens of Guangdong Province

* *The deferred shares carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.*

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

19. INTERESTS IN AN ASSOCIATE

	THE GROUP 2005 HK$'000	THE GROUP 2004 HK$'000
Share of net liabilities	**(1,271)**	(1,271)
Amount due from an associate	**3,500**	3,500
	2,229	2,229
Impairment loss recognised	**(2,229)**	(2,229)
	–	–

19. INTERESTS IN AN ASSOCIATE – continued

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Amount due from an associate	**2,000**	2,000
Impairment loss recognised	**(2,000)**	(2,000)
	–	–

The amount due from an associate is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, the amount will not be repaid in the next twelve months. Accordingly, the amount is shown as a non-current asset.

Details of the associate at 31 March 2005 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of equity capital attributable to the Group	Issued share capital	Principal activities
Target Wise Holdings Limited	Hong Kong	50%	HK$100	Inactive

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest.

20. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Raw materials	**44**	24
Work in progress	**1,743**	197
Finished goods	**86**	860
	1,873	1,081

Included above are finished goods of approximately HK$86,000 (2004: HK$860,000) which are carried at net realisable value. The raw materials and work in progress are carried at cost.

21. INVESTMENT IN A FILM PROJECT

On 20 July 2004, the Company entered a production investment agreement with M8DIV, a wholly owned subsidiary of M8, pursuant to which the Company agreed to invest an amount of US$5,000,000 (equivalent to approximately HK$39,000,000) for the production of a feature film with M8DIV. Repayment of the investment will be made from the allocation of gross receipts obtained from the exploitation of the feature film according to the repayment schedule agreed by both parties. The ownership of the film right of the feature film belongs to M8DIV.

22. FILM COSTS

	HK$'000
THE GROUP	
COST	
At 1 April 2004	–
Acquired on acquisition of subsidiary	458,423
Exchange adjustments	(2,763)
Additions during the year	16,146
At 31 March 2005	**471,806**
AMORTISATION	
At 1 April 2004	–
Provided for the year	30,495
At 31 March 2005	**30,495**
CARRYING AMOUNT	
At 31 March 2005	**441,311**
At 31 March 2004	–

Amortisation of film costs is determined on a film-by-film basis in accordance with the income forecast method.

23. TRADE RECEIVABLES

The credit terms of the Group range from 0 to 90 days. A longer period is granted to few film distributors with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables is as follows:

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Aged:		
0 – 30 days	34,335	1,507
31 – 60 days	1,292	518
61 – 90 days	18,560	616
Over 90 days	29,134	1,332
	83,321	3,973

24. AMOUNTS DUE FROM RELATED COMPANIES

Name of related company	Relationship	THE GROUP 2005 HK$'000	THE GROUP 2004 HK$'000	THE COMPANY 2005 HK$'000	THE COMPANY 2004 HK$'000
Skynet Limited	A substantial shareholder of the Company	–	862	–	–
Gameplayers.com Limited	Common shareholder, Skynet	–	234	–	–
HK Stock Limited	Common shareholder, Skynet	–	323	–	–
New World CyberBase (Greater China) Limited	Common director, Mr. Lo Lin Shing, Simon ("Mr. Lo")	26	22	13	9
New World CyberBase (Shanghai) Limited	Common director, Mr. Lo	28	384	–	–
上海創時信息系統有限公司	Common significant influence	530	–	–	–
		584	1,825	13	9
Impairment loss recognised		–	(1,419)	–	–
		584	406	13	9

The amounts are unsecured, non-interest bearing and repayable on demand.

25. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Aged:		
0 – 30 days	**9,071**	3,568
31 – 60 days	**6,950**	798
61 – 90 days	**11,585**	91
Over 90 days	**25,044**	1,653
	52,650	6,110

26. AMOUNTS DUE TO RELATED COMPANIES/A RELATED COMPANY

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand.

27. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand.

28. LOANS FROM DIRECTORS/LOAN FROM A DIRECTOR

THE GROUP

The amounts are unsecured and repayable on demand.

In addition, included in this amount is approximately HK$1,776,000 (2004: HK$1,776,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.

As at 31 March 2004, there was a loan amount of HK$10,000,000 which bore interest at 6% per annum. This loan was repaid during the year ended 31 March 2005.

THE COMPANY

The amount was unsecured, bears interest at 6% per annum and was repayable on demand. The loan was repaid during the year ended 31 March 2005.

29. LOANS FROM RELATED COMPANIES

THE GROUP

Related companies are companies in which a director of the Company has beneficial interests.

The Group obtained loan advances of approximately HK$11,800,000 (2004: HK$11,300,000) from Cyber Network Technology Limited ("Cyber Network"). Included in this amount is HK$1,200,000 (2004: HK$700,000) which bears interest at the best lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited, is secured by a corporate guarantee issued by the Company and repayable on 30 June 2005. Besides, approximately HK$800,000 (2004: HK$800,000) which bears interest at HIBOR + 2% per annum, is unsecured and repayable on demand. The remaining balance of HK$9,800,000 (2004: HK$9,800,000) which bears interest at HIBOR + 2% per annum, is secured by a corporate guarantee issued by the Company and repayable on 30 June 2005.

The Group also obtained loan advances from Wellington Equities Inc. ("Wellington") amounting to approximately HK$782,000 (2004: HK$782,000). Included in this amount is approximately HK$456,000 (2004: HK$456,000) which bears interest at HIBOR + 2% per annum, is unseured and repayable on demand. The remaining balance of HK$326,000 (2004: HK$326,000) is interest free, unseured and repayable on demand.

30. BANK AND OTHER BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Bank overdrafts	2,151	996
Bank loans	247,359	–
Other borrowings *(Note)*	3,374	3,374
	252,884	4,370
Secured	5,525	4,370
Unsecured	247,359	–
	252,884	4,370
The maturity profile of the above loans and overdrafts are on demand or within one year	252,884	4,370
Less: Amounts due within one year shown under current liabilities	(252,884)	(4,370)
	–	–

Note: *The amounts are unsecured and repayable on demand. Included in this amount is approximately HK$1,968,000 (2004: HK$1,968,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.*

31. PROMISSORY NOTES

THE GROUP

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company entered into a conditional agreement (the "Acquisition Agreement") with Music Box Entertainment Limited ("Music Box") and Mr. Lee Sammy Sean ("Mr. Lee"), pursuant to which Mediamaster Limited had conditionally agreed to acquire approximately 51.0% of the total voting rights in M8, a company incorporated in Canada with limited liability, for a consideration of US$11,626,203 (the "Acquisition"). US$7,000,000 of the consideration was satisfied by cash, an amount of approximately US$2,794,279 was satisfied by the issue of non-interest bearing promissory note in favour of Music Box (the "Note") and for the remaining amount, at the request and direction of Music Box, Mediamaster issued a non-interest bearing promissory note of approximately US$1,831,924 in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust (the "Damon Note"). The Acquisition was completed on 22 December 2004 ("Completion").

The Note matured 6 months after Completion and had been secured by a pledge over 130,891,920 of Class C M8 Shares owned by Mediamaster Limited in favour of Music Box upon Completion. The Damon Note would mature 6 months after Completion and had been secured by a pledge over 79,414,501 Class B M8 Shares owned by Mediamaster Limited in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust upon Completion. On Completion, the Company also executed a guarantee to guarantee the payment obligations of Mediamaster Limited under the Damon Note.

The Damon Note and the Note were duly repaid on 21 June 2005.

32. LOAN NOTES

THE GROUP AND THE COMPANY

On 31 October 2001, the Company entered into a conditional agreement (the "Agreement") with Messrs. Wong Kwok Kin ("Mr. Wong"), Choi Wing Kin ("Mr. Choi"), a director of the Company, So Kam Wing ("Mr. So"), a director of the Company, Cyber Network and Wellington (collectively the "Vendors"), pursuant to which the Company had conditionally agreed to acquire the entire issued share capital of COA, a company incorporated in the British Virgin Islands ("BVI") with limited liability, and was owned as to approximately 39.36% by Mr. Wong, 33.24% by Mr. Choi, 2.28% by Mr. So, 16.00% by Cyber Network and 9.12% by Wellington, from the Vendors for a consideration of HK$80 million (the "Share Acquisition"). The consideration was satisfied by the issue of the loan notes having an aggregate principal amount of HK$80 million to the Vendors in accordance with their corresponding shareholding interests in COA. Cyber Network is a company incorporated in BVI with limited liability and a wholly-owned subsidiary of New World CyberBase Limited ("NWCB"), a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange.

The Acquisition was completed on 8 May 2002.

32. LOAN NOTES – continued

THE GROUP AND THE COMPANY – continued

The payment obligations of the Company under the loan notes raised to each Vendor are secured by a charge over the ordinary shares of COA, bear interest at the best lending rate per annum and are repayable in May 2005.

The loan notes holders agreed to waive the loan interest for the period from 1 October 2002 to 30 September 2003. On 1 October 2003, the loan notes holders agreed to waive the loan interest for the period from 1 October 2003 to 31 March 2004.

On 8 March 2004, the Company entered into conditional settlement agreements ("Settlement Agreements") with the loan notes holders, pursuant to which the loan notes holders had conditionally agreed to the full and final settlement of all amounts outstanding under the loan notes, including unpaid accrued interest, and the discharge and release of the share charges in respect of all the shares in COA granted by the Company in favour of each of the loan notes holders. In return, the Company would issue an aggregate of 4,000,000 consolidated shares of HK$1.00 each of the Company to the loan notes holders. The Settlement Agreements were entered into pursuant to the Agreement which provided for an adjustment to the purchase consideration. Accordingly, the consideration on the business combination has been adjusted. As a result, the carrying amounts of goodwill, loan notes and investment cost in subsidiaries at 31 March 2004 had been adjusted with reference to the fair value of the 4,000,000 shares then issued on 30 April 2004.

The Settlement Agreements were completed on 30 April 2004.

As at 31 March 2004, the carrying amounts of loan notes held by Mr. Choi, Mr. So, Cyber Network, Wellington and Mr. Wong, were approximately HK$14,160,000, HK$972,000, HK$6,816,000, HK$3,885,000 and HK$16,767,000 respectively.

33. SHARE CAPITAL

	Par value of shares HK$	Number of shares	Value HK$'000
Authorised:			
Ordinary shares			
At 1 April 2003 and at 31 March 2004	0.01 each	2,000,000,000	20,000
Share consolidation *(note a)*		(1,980,000,000)	–
	1.00 each	20,000,000	20,000
Increase during the year	1.00 each	480,000,000	480,000
At 31 March 2005	1.00 each	500,000,000	500,000
Preference shares			
At 1 April 2003 and at 31 March 2004	0.05 each	2,000	100
Cancelled during the year		(2,000)	(100)
At 31 March 2005		–	–
Issued and fully paid:			
Ordinary shares			
At 1 April 2003 and 31 March 2004	0.01 each	83,144,786	831
Share consolidation *(note a)*		(82,313,339)	–
	1.00 each	831,447	831
Issue of subscription shares *(note b)*		120,000,000	120,000
Issue of new shares for settlement of loan notes *(note c)*		4,000,000	4,000
Placing of new shares *(note d)*	1.00 each	80,000,000	80,000
Placing of new shares *(note e)*		31,000,000	31,000
At 31 March 2005	1.00 each	235,831,447	235,831

33. SHARE CAPITAL – continued

Notes:

(a) *Pursuant to resolutions passed at an extraordinary general meeting held on 22 April 2004 (the "EGM"):*

(i) *every 100 issued shares of HK$0.01 each in the capital of the Company were consolidated into one new share of HK$1.00 each (the "Share Consolidation");*

(ii) *the 2,000 unissued non-voting preference shares of HK$0.05 each in the authorised share capital of the Company were cancelled (the "Cancellation"); and*

(iii) *after the Share Consolidation and Cancellation became effective, the authorised share capital of the Company was increased from HK$20,000,000 to HK$500,000,000 by the creation of 480,000,000 unissued new shares of HK$1.00 each.*

(b) *On 8 March 2004, the Company, CTF and Mediastar International Limited ("Mediastar"), a wholly-owned subsidiary of CTF, jointly announced that the Company and Mediastar had entered into a conditional subscription agreement ("Subscription Agreement") relating to the subscription by Mediastar of 120,000,000 shares of HK$1.00 each in the Company for a consideration of HK$120 million ("Subscription") on terms and conditions as set out in the Subscription Agreement. The Subscription was completed on 23 April 2004.*

(c) *On 8 March 2004, the Company entered into conditional Settlement Agreements with the Vendors, pursuant to which the Vendors had conditionally agreed to the full and final settlement of all amounts outstanding under the loan notes, of approximately HK$42,600,000, and unpaid accrued interest of approximately HK$1,969,000, and the discharge and release of the share charges in respect of all the shares in COA granted by the Company in favour of the Vendors. The Company issued an aggregate of 4,000,000 shares of HK$1.00 each in the Company to the Vendors. The Settlement Agreement was completed on 30 April 2004.*

(d) *On 8 March 2004, the Company and Tai Fook Securities Company Limited, a related company of the Company, entered into a conditional placing agreement ("Placing Agreement") relating to the subscription by Mediastar of 80,000,000 shares of HK$1.00 each in the Company for a consideration of HK$80 million ("Placing") on terms and conditions as set out in the Placing Agreement. The Placing was completed on 5 May 2004.*

(e) *On 18 January 2005, Mediastar entered into a placing and subscription agreement with the Company and a placing agent, pursuant to which the placing agent would place 31,000,000 shares of the Company from Mediastar to independent investors at a price of HK$8.50 per share. On completion of the placing, Mediastar subscribed for 31,000,000 new shares of HK$1.00 each at the price of HK$8.50 per share. The placing and subscription agreement was completed on 31 January 2005.*

34. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY				
At 1 April 2003	–	53,022	(46,330)	6,692
Net loss for the year	–	–	(68,632)	(68,632)
At 31 March 2004	–	53,022	(114,962)	(61,940)
Issue of shares at premium to settle loan notes and unpaid accrued interest	40,569	–	–	40,569
Premium arising from placing of shares	232,500	–	–	232,500
Share issue expenses	(9,237)	–	–	(9,237)
Net loss for the year	–	–	(11,910)	(11,910)
At 31 March 2005	**263,832**	**53,022**	**(126,872)**	**189,982**

Merger reserve of the Group represents the difference between the share capital and share premium of COAM whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to a group reorganisation ("Group Reorganisation"). Details of the Group Reorganisation are set out in the prospectus dated 21 July 2000 issued by the Company.

Merger reserve of the Company represents the difference between the consolidated shareholders' funds of COAM and the nominal amount of the issued share capital of the Company's shares which were issued for the acquisition of COAM and its subsidiaries pursuant to the Group Reorganisation.

The Company's reserves available for distribution comprise share premium, merger reserve and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of a company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, the reserves available for distribution to the shareholders at 31 March 2005 was approximately HK$189,982,000 (2004: nil).

35. DEFERRED TAXATION

The following are the major deferred tax (liabilities) and assets recognised and the movements thereon during the current and the prior reporting years:

	Accelerated accounting depreciation and amortization	Estimated tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 April 2004	(291)	291	–
Acquired on acquisition of subsidiary	11,734	10,788	22,522
Exchange adjustments	9	12	21
Charge (credit) to income statement	156	(156)	–
At 31 March 2005	**11,608**	**10,935**	**22,543**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in Statement of Standard Accounting Practice 12 (Revised).

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$400,230,000 (2004: HK$282,833,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$34,075,000 (2004: HK$1,663,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$366,155,000 (2004: HK$281,170,000) due to the unpredictability of future profit streams. Tax losses amounted to approximately HK$262,180,000 (2004: HK$282,833,000) may be carried forward indefinitely. The remaining HK$138,050,000 (2004: nil) will expire before 2014.

36. ACQUISITION OF SUBSIDIARIES

(i) On 22 December 2004, the Group acquired 50.4% of the issued share capital of M8 at a consideration of approximately HK$93,177,000 including incidental costs. These acquisitions have been accounted for using the acquisition method of accounting under Statement of Standard Accounting Practice 30 "Business Combinations". The amount of goodwill arising as a result of the acquisitions was approximately HK$11,238,000.

	2005 HK$'000
Net assets acquired	
Property, plant and equipment	427
Deferred tax assets	22,522
Film costs	448,023
Trade receivables	83,959
Other receivables, deposits and prepayments	4,343
Pledged bank deposits	6,801
Bank balances and cash	27,576
Trade payables	(43,127)
Other payables and accrued charges	(94,650)
Advance from the Company for a film project	(39,000)
Bank overdrafts	(1,575)
Bank and other borrowings	(245,456)
Minority interests	(87,904)
Net assets	81,939
Goodwill	11,238
Total consideration	93,177
Satisfied by:	
Cash	57,093
Promissory Notes (note 31)	36,084
	93,177

36. ACQUISITION OF SUBSIDIARIES – continued

(ii) On 28 February 2005, the Group acquired 75% of the issued share capital of Gugo at a consideration of approximately HK$4,703,000. The acquisition has been accounted for using the acquisition method of accounting under HKFRS 3 as disclosed in note 2. The negative goodwill of approximately HK$3,079,000 arising from the acquisition is recognised in income statement.

	Acquiree's carrying amount before acquisition HK$'000	**Fair value adjustments** HK$'000	**Fair value** HK$'000
Net assets acquired			
Film costs	17,836	(7,436)	10,400
Other payables and accrual charges	(24)	–	(24)
	17,812	(7,436)	10,376
Minority interests			(2,594)
Negative goodwill recognised in income statement			(3,079)
Total consideration			4,703
Satisfied by:			
Cash			4,703

If the acquisition of Gugo had been completed on 1 April 2004, total Group revenue for the year would not be affected but the loss of the Group for the year would have been approximately HK$20,040,000.

	2005 **HK$'000**
Net cash outflow arising on acquisitions during the year ended 31 March 2005:	
Cash consideration	**(61,796)**
Bank balances and cash acquired	**27,576**
Bank overdrafts	**(1,575)**
	(35,795)

The subsidiaries acquired during the year contributed approximately HK$18,514,000 to the Group's turnover and approximately HK$21,583,000 to the Group's loss from operations.

37. MAJOR NON-CASH TRANSACTIONS

On 30 April 2004, the Company issued 4,000,000 new shares to settle the loan notes and unpaid accrued interest amounting to approximately HK$44,569,000. Details of the loan notes are disclosed in note 32.

On 22 December 2004, the Company issued two promissory notes amounting to approximately HK$36,084,000 as part of the consideration for the acquisition of M8 as disclosed in notes 31 and 36.

38. SHARE OPTIONS SCHEMES

THE COMPANY

(a) Pre-IPO share option scheme

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000 to recognise the contribution of certain directors, employees, and consultants of the Group to the growth of the Group and/or the listing of the Company's shares on the GEM of the Stock Exchange, and will expire on 16 July 2010. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

At 31 March 2005, there was no share options (2004: nil) remained outstanding under the Pre-IPO Scheme. The number of shares in respect of which options may be granted to any one person is not permitted to exceed 25% of the aggregate number of shares issued and issuable under the Pre-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK$10 as consideration for the grant. The exercise price is HK$0.05 representing a discount of 92.6% of the IPO offer price. The options may be exercised at any time during the period from 1 February 2001 to 30 July 2003 in accordance with the following schedule:

Period	Percentage of options granted to an individual that can be exercised
Date of grant to six-month period after the listing of the Company's shares on GEM	Zero
Six-to twelve-month period after the listing of the Company's shares on GEM	Up to one-third
Six-to eighteen-month period after the listing of the Company's shares on GEM	Up to two-third
Thereafter	All options which have not been previously exercised

38. SHARE OPTIONS SCHEMES – continued

THE COMPANY – continued

(b) Post-IPO share option scheme

A post-IPO share option scheme ("Post-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000 to recognise the contribution of eligible employees to the growth of the Group and will expire on 16 July 2010. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

At 31 March 2005, there was no share (2004: nil) in respect of which options had been granted under the Post-IPO Scheme.

The total number of shares in respect of which options may be granted under the Post-IPO Scheme and any other schemes including the Pre-IPO Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Post-IPO Scheme and other schemes must not in aggregate, exceed 10% of the issued share capital of the Company from time to time unless further shareholders' approval has been obtained. Options granted to connected person must be approved by the independent non-executive directors. Options granted to connected person, who is also a substantial shareholder, in excess of 0.1% of the issued shares of the Company or with a value in excess of HK$5 million must be approved by the Company's shareholders in general meetings. No option may be granted to any one person exceeding 25% of the aggregate number of shares issued and issuable under the Post-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK$10 as consideration for the grant. Option period, to be determined and notified by the board of directors to each grantee during which an option may be exercised, is any period from three years to ten years from the date of grant or the tenth anniversary of the adoption date of the Post-IPO Scheme, 16 July 2010, whichever is earlier.

The exercise price is determined by the board of directors, and will not be less than the average of the closing prices of the Company's shares for the five trading days immediately preceding the date of grant or the closing price of the shares on the date of grant, whichever is the higher, provided that the exercise price should not be lower than the par or nominal value of the shares.

The Post-IPO Scheme was terminated and replaced by a new share option scheme (the "New Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004. As the Post-IPO Scheme was terminated, no further scheme option can be granted under Post-IPO Scheme thereafter. No options have been exercised, cancelled or granted during the year before termination. At 31 March 2004, no options were outstanding under the Post-IPO Scheme.

38. SHARE OPTIONS SCHEMES – continued

THE COMPANY – continued

(c) New Scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company (the "Shares") for the benefit of the Company and the shareholders of the Company (the "Shareholders") as a whole.

The categories of the participant under the New Scheme are any full-time employee, any director (whether executive or non-executive including independent non-executive director), any supplier, independent contractor, consultant, and/or adviser of the Company or any subsidiary of the Company.

The maximum number of Shares in respect of which options may be granted to grantees under the New Scheme and other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time (the "Scheme Limit"). The maximum number of Shares in respect of which options may be granted under the New Scheme shall not (when aggregated with any Shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on the adoption date of the New Scheme (the "Scheme Mandate Limit"), which is 20,483,144 Shares, representing approximately 8.69% of the issued share capital as at the date of this annual report. Option lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may grant options beyond the Scheme Mandate if approval is obtained from Company's shareholders in general meetings.

The maximum number of Shares in respect of which options may be granted to a participant under the New Scheme shall not (when aggregated with any Shares subject to any other share option scheme(s) of the Company) in any 12 month period exceed 1% of the Shares in issue (the "Individual Limit"). The Company may grant options beyond the Individual Limit to a participant at any time if approval is obtained from Company's shareholders in general meetings.

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates shall be subject to the prior approval of the independent non-executive directors of the Company (excluding an independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in

38. SHARE OPTIONS SCHEMES – continued

THE COMPANY – continued

(c) New Scheme – continued

the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares on the date of grant, in excess of HK$5 million (or such other amount as may from time to time be specified by the Stock Exchange), such grant of options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll) on which all connected persons of the Company shall abstain from voting in favour but (for the avoidance of doubt), any connected person may without affecting the validity of the relevant resolution vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

The period within which the shares must be taken up under the option, which is to be notified by the committee of the board of directors (the "Committee") to each grantee at the time of making an offer of a grant of an option which shall not expire later than 10 years from the date of grant of an option.

Options granted must be taken up within 28 days of the date of grant upon payment of HK$10 as consideration for the grant.

The exercise price is determined by the board of directors in its absolute discretion and will not be less than the average closing price of the Shares for the five trading days immediately preceding the offer date or the closing price of the Shares on the offer date, whichever is the higher, provided that the exercise price should not be lower than the nominal value of a Share.

The New Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 20 August 2004.

No options have been granted under the New Scheme during the year ended 31 March 2005.

38. SHARE OPTIONS SCHEMES – continued

A SUBSIDIARY OF THE COMPANY

(d) Share option scheme of M8

During 1994, the board of directors of M8 formally established the Amended and Restated 1994 Stock Option Plan ("the Plan"), which provides for the granting of stock options to acquire Class B M8 Shares to employees, officers, directors and independent service providers to M8 or any of its subsidiaries.

The total number of shares available for issue under the Plan is 23,582,762 shares, representing approximately 5.62% of the issued share capital of M8 as at the date of this annual report.

The number of shares which may be reserved for issuance to any one person shall not exceed 5% of the issued shares.

The exercise period of option granted under the Plan may not exceed 10 years from the date of grant. However, the Plan allows for accelerated expiry dates under certain conditions.

Save as determined by the board of directors and provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period nor a performance target which must be achieved before it can be exercised.

The Plan is required the payment on acceptance of option.

The exercise price of an option granted under the Plan is set at the time of grant, but cannot in any event be less than the closing price of the Class B M8 Shares on the Toronto Stock Exchange on the last business day prior to the trading day the option is granted.

38. SHARE OPTIONS SCHEMES – continued

A SUBSIDIARY OF THE COMPANY – continued

(d) Share option scheme of M8 – continued

The Plan shall continue as long as the board of directors of M8 does not terminate it. Details of the share options outstanding as at 31 March 2005 which have been granted under the Plan to employees are as follows:

At 22 December 2004 (date of acquisition of M8) and at 31 March 2005	Date of grant	Exercise period	Exercise price CAD
100,000	25 May 2000	26 May 2000 to 25 May 2010	0.12
137,500	29 August 2000	30 August 2002 to 29 August 2010	0.1
306,250	29 August 2000	30 August 2003 to 29 August 2010	0.1
306,250	29 August 2000	30 August 2004 to 29 August 2010	0.1
200,000	24 May 2001	25 May 2001 to 24 May 2011	0.035
1,230,000	15 February 2002	16 February 2003 to 15 February 2012	0.075
100,000	13 May 2002	14 May 2002 to 13 May 2012	0.17
850,000	13 May 2002	14 May 2003 to 13 May 2012	0.17
1,150,000	13 May 2002	14 May 2004 to 13 May 2012	0.17

38. SHARE OPTIONS SCHEMES – continued

A SUBSIDIARY OF THE COMPANY – continued

(d) Share option scheme of M8 – continued

At 22 December 2004 (date of acquisition of M8) and at 31 March 2005	Date of grant	Exercise period	Exercise price CAD
1,150,000	13 May 2002	14 May 2005 to 13 May 2012	0.17
1,150,000	13 May 2002	14 May 2006 to 13 May 2012	0.17
1,200,000	28 August 2002	29 August 2004 to 28 August 2012	0.16
6,970,000	1 May 2003	2 May 2003 to 1 May 2013	0.075
14,850,000			

No option was exercised, cancelled or granted since the date of acquisition of M8.

39. RETIREMENT BENEFITS SCHEMES

The Group participates in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by HSBC Life (International) Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Scheme Ordinance) on a monthly basis.

	2005 HK$'000	2004 HK$'000
Gross employers' contributions	**308**	335
Less: Forfeited contributions utilised to offset employers' contributions for the year	**(293)**	(25)
Net employers' contributions charged to the income statement	**15**	310

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 37% to 44% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to the retired staff.

40. PLEDGE OF ASSETS

As at 31 March 2005, the Group obtained general banking facilities from various banks upon the following securities:

(a) Pledged bank deposits owned by the Group of approximately HK$9,014,000 (2004: HK$1,042,000).

(b) Corporate guarantee provided by M8.

(c) Mortgages of copyright and assignments of licensing agreements with the film costs of approximately HK$160,751,000 (2004: nil) as at 31 March 2005.

(d) Floating charges on trade receivables, other receivables, deposits and prepayments of approximately HK$78,549,000 (2004: nil) as at 31 March 2005.

40. PLEDGE OF ASSETS – continued

As at 31 March 2005, 79,414,501 Class B M8 Shares, and 130,891,920 Class C M8 Shares owned by the Group are pledged to the holders of the non-interest bearing promissory notes as disclosed in note 31.

As at 31 March 2004, 10,000 ordinary shares of HK$0.01 each of COA (representing 100% shareholdings), a wholly-owned subsidiary with net assets value as at 31 March 2004 of approximately HK$9,705,000 were pledged to the loan notes' holders. The loan notes were fully settled by 4,000,000 new shares issued by the Company on 30 April 2004 as disclosed in note 32.

41. CONTINGENT LIABILITIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Guarantee given to a related company in respect of loans utilised by subsidiaries	**11,000**	10,500

	THE GROUP AND THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Guarantee given to Damon Note as disclosed in note 31	**14,289**	–

42. OPERATING LEASE COMMITMENTS

At 31 March 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**5,043**	96
In the second to fifth year inclusive	**9,016**	17
	14,059	113

Operating lease payments represent rentals payable by the Group for certain of its office premises and lease of other assets. Leases are negotiated for an average term of five years and rentals are fixed for the lease period.

At the balance sheet date, the Company had no significant operating lease commitment.

43. RELATED PARTY TRANSACTIONS

Apart from the related party transactions as disclosed in notes 24, 26, 28, 29, 31 and 32, the Group entered into the following transactions with related parties during the year:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Rentals and office administrative expenses *(note a)*	**625**	313
Rental expenses *(note b)*	**494**	–
Finance costs to related companies *(note c)*	**567**	356
Finance costs to directors *(note d)*	**289**	713
Cabling sales *(note e)*	**(86)**	(41)
Project service income *(note f)*	**(4,901)**	–

Notes:

(a) A company, in which Mr. Lo, a director of the Company has beneficial interests, provided office space for the Group and share of office administrative expenses and the above sum was charged, being an appropriate allocation of costs incurred.

(b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has beneficial interests, lease office premises to the Group. The rentals were determined in accordance to the tenancy agreements entered between the Group and the related company.

(c) Companies, in which Mr. Lo, a director of the Company has beneficial interests, provided loans to the Group. In respect of loans from related companies, interest was charged at HIBOR+2% per annum and the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. In respect of loan notes issued to related companies, interest was charged at the prime rate per annum.

(d) The amounts included finance costs paid in respect of loans from Mr. Choi and Mr. So, directors of the Company and interest was charged at the HIBOR+2% per annum. For the loan from Mr. Lo, a director of the Company, interest was charged at 6% per annum. In respect of loan notes issued to Mr. Choi and Mr. So, interest was charged at the prime rate per annum.

(e) Cabling sales represented sales to a company, in which Dr. Cheng and Mr. Lo, are directors of the Company and Dr. Cheng has beneficial interests. The transactions were carried at cost plus a certain percentage of mark-up.

(f) Project service income represented service provided to a company, in which Dr. Cheng and Mr. Lo are directors of the Company and Dr. Cheng has beneficial interests. The transaction were carried out in terms agreed by both parties.

43. RELATED PARTY TRANSACTIONS – continued

Notes: – continued

(g) *On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and CTF entered into a conditional acquisition agreement (the "Acquisition Agreement") pursuant to which the Company agreed conditionally to acquire the share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due from members of Fortune Gate Overseas Limited and its subsidiaries (the "Hotel Group") to CTF and its subsidiaries (the "CTF Group") as at the date of completion of the Acquisition Agreement (the "Acquisition"). The total purchase price for the Acquisition is HK$850 million (the "Purchase Price") of which HK$450 million of the Purchase Price will be paid by cash and the Company will issue a convertible note of HK$400 million which will be due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK$2 per share (subject to adjustments) (the "Convertible Note"). In order to finance the Acquisition, COA proposed to raise net proceeds of approximately HK$1,229 million by way of rights issue (the "Rights Issue") CTF also granted an option to the Company for the Company to purchase 40% of the issued share capital of Arc of Triumph Development Company ("ATD"), a company incorporated in Macau from an associate of CTF at a price of HK$363.2 million (the "Purchase Option"). On 23 November 2004, CTF owns 73% attributable interest in the Hotel Group and an associate of the CTF Group owns 40% attributable interest in ATD.*

As announced on 17 March 2005, the Company exercised the Purchase Option in favour of the Company to purchase 40% equity interest in ATD and the Purchase Price will be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisitions are set out in the announcements of the Company dated 23 November 2004 and 17 March 2005.

Under the GEM Listing Rules, the Acquisition (including the exercise of the Purchase Option) will constitute a connected transaction and a very substantial acquisition of the Company and the Stock Exchange has indicated to the Company that it would treat the Company as a new listing applicant if the Acquisition proceeds.

As at the date of this report, the Acquisition and the Rights Issue have not been completed.

FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 MARCH 2005

RESULTS

	Year ended 31 March				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	11,396	2,426	38,877	16,131	**34,448**
Loss from operations	(87,167)	(72,386)	(20,241)	(33,905)	**(28,761)**
Finance costs	(107)	(278)	(2,596)	(1,214)	**(1,117)**
Loss on partial disposal of a subsidiary	(1)	–	–	–	**–**
Share of loss of an associate	–	(1,271)	–	–	**–**
Loss on discontinued operations	–	(43,063)	–	(433)	**–**
Loss before taxation	(87,275)	(116,998)	(22,837)	(35,552)	**(29,878)**
Taxation	–	–	–	–	**–**
Loss before minority interests	(87,275)	(116,998)	(22,837)	(35,552)	**(29,878)**
Minority interests	1	–	176	–	**10,583**
Net loss for the year	(87,274)	(116,998)	(22,661)	(35,552)	**(19,295)**
Dividend	(673)	–	–	–	**–**
	(87,947)	(116,998)	(22,661)	(35,552)	**(19,295)**

ASSETS AND LIABILITIES

	At 31 March				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	109,490	9,161	81,658	15,243	**951,792**
Total liabilities	(6,605)	(23,262)	(118,420)	(87,558)	**(469,986)**
Balance (deficiency) of shareholders' funds	102,885	(14,101)	(36,762)	(72,315)	**481,806**