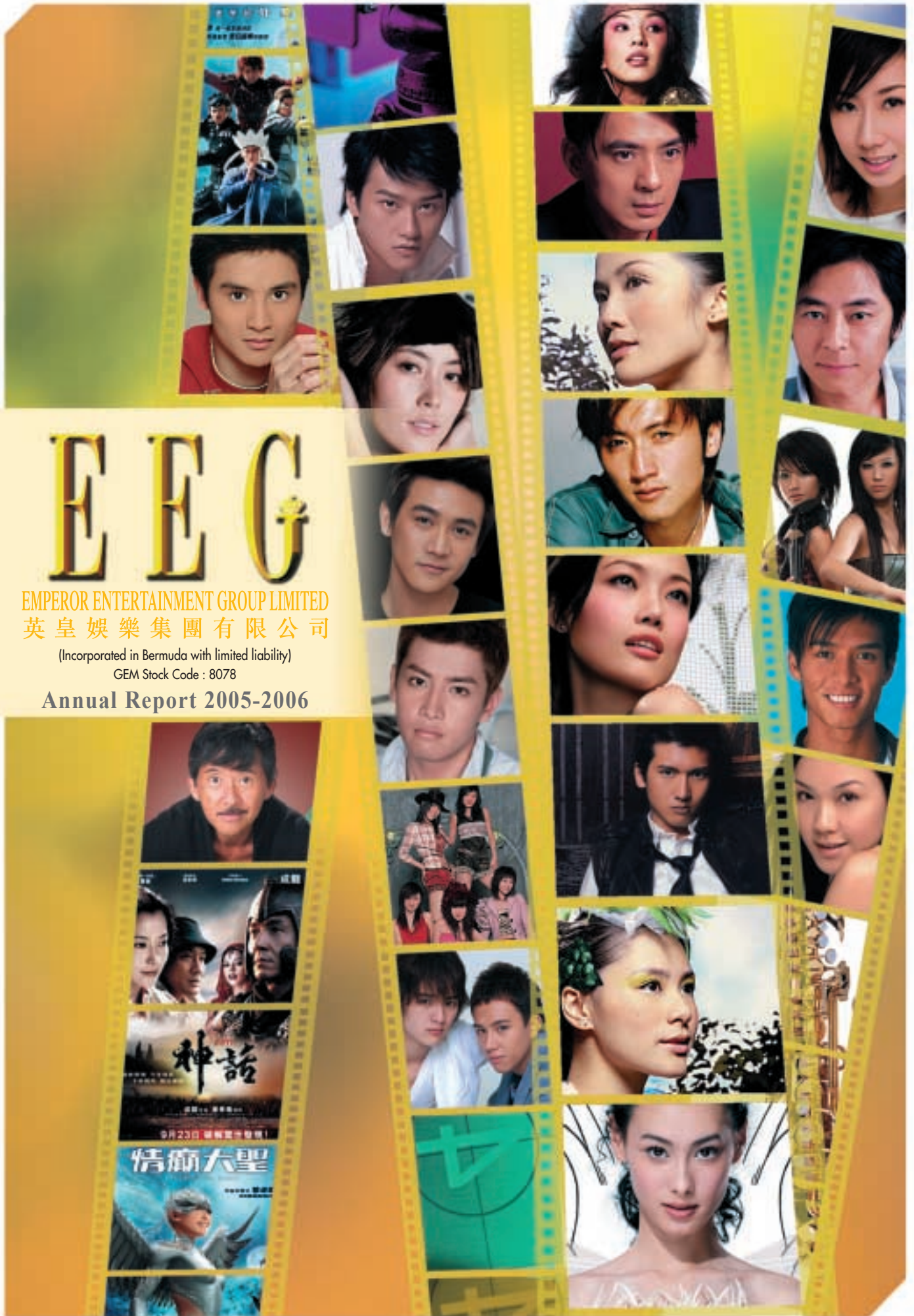


EEG

EMPEROR ENTERTAINMENT GROUP LIMITED
英皇娛樂集團有限公司

(Incorporated in Bermuda with limited liability)
GEM Stock Code : 8078

Annual Report 2005-2006



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Directors

Luk Siu Man, Semon* (*Chairperson*)
Ng Sui Wan alias Ng Yu
Wong Chi Fai
Fan Man Seung, Vanessa
Wong Ching Yue**
Chu Kar Wing**
Wong Tak Ming, Gary**

* *Non-executive Director*

** *Independent Non-executive Directors*

Company Secretary

Mok Fung Lin, Ivy, LL.B. (*Hons.*) P.C.LL, MBA

Compliance Officer

Wong Chi Fai, FCCA, AHKSA

Qualified Accountant

Lau Wei Fan, CPA (*Aust.*), AHKSA

Authorised Representatives

Fan Man Seung, Vanessa
Mok Fung Lin, Ivy

Audit Committee

Chu Kar Wing (*Chairman*)
Wong Ching Yue
Wong Tak Ming, Gary

Remuneration Committee

Wong Chi Fai (*Chairman*)
Chu Kar Wing
Wong Tak Ming, Gary

Auditors

Deloitte Touche Tohmatsu

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Registrars (*in Bermuda*)

Butterfield Fund Services (Bermuda)
Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Registrars (*in Hong Kong*)

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China
Allied Irish Banks plc

Website

<http://www.emp8078.com>

GEM Stock Code

8078

Biographies of Directors and Senior Executives

Luk Siu Man, Semon

Non-executive Director and Chairperson

Aged 50, graduated from The University of Toronto with a bachelor degree in Commerce. She worked in the banking industry for almost 10 years. She is also the non-executive director and chairperson of Emperor International Holdings Limited and Emperor Entertainment Hotel Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. She joined the Company in November 2000.

Ng Sui Wan alias Ng Yu

Executive Director

Aged 56, is responsible for the corporate and business strategies, and operations of the Group. Prior to joining the Company, he worked for Celestial Pictures Limited, an associated company of Television Broadcasts Limited (“TVB”), as General Manager, in charge of motion film production. He had worked for Capital Artists Limited for four years since 1996, holding the position as General Manager. During that period, he had been involved in record production, publishing and distribution and talent management. Before, he was Production Controller of TVB for 20 years, commanding television programme production and creative teams. He joined the Company in December 2001.

Wong Chi Fai

Executive Director and Compliance Officer

Aged 50, is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He is responsible for the overall corporate and business planning of the Group. He has over 20 years' experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development. He is also the joint managing director of Emperor International Holdings Limited and a director of Emperor Entertainment Hotel Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. He joined the Company in January 1994.

Fan Man Seung, Vanessa

Executive Director

Aged 43, is a lawyer by profession in Hong Kong and a registered accountant. She also holds a master degree in Business Administration. She is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International Holdings Limited and a director of Emperor Entertainment Hotel Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. She joined the Company in January 1994.

Wong Ching Yue

Independent Non-executive Director

Aged 57, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He joined the Company in November 2000.

Chu Kar Wing

Independent Non-executive Director

Aged 49, holds a bachelor degree in social science majoring in economics. He has extensive experience in the banking and finance sector for several well-known corporations. He is also an independent non-executive director of Oriental Investment Corporation Limited, Foundation Group Limited and New Chinese Medicine Holdings Limited, the shares of the first two companies are listed on the Main Board of the Stock Exchange while the last one is listed on GEM of the Stock Exchange. He joined the Company in September 2004.

Wong Tak Ming, Gary

Independent Non-executive Director

Aged 30, is a certified public accountant (practising) and an associate member of both the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He obtained his honors degree in Applied Accounting in the United Kingdom. He has over nine years' experience in the field of auditing and accounting. He joined the Company in September 2004.

Mok Fung Lin, Ivy

Company Secretary

Aged 41, is a lawyer by profession in Hong Kong and the United Kingdom, and holds a master degree in Business Administration. She is also an executive director of Emperor International Holdings Limited and Emperor Entertainment Hotel Limited, the shares of both of which are listed on the Main Board of the Stock Exchange.

Albert Lee

Aged 52, joined the Group as chief executive officer of Emperor Motion Pictures, the film and television programme production and distribution arm of the Group, in May 2003. He graduated from the University of Wales, Institute of Science and Technology, with a bachelor of science degree in Economics in 1975. Prior to joining the Group, he has over 20 years' experience in the film industry. He is currently a member of the Election Committee for the Performing Arts sub-sector and has rendered his service in various public bodies in the media, communication and film sector, including acting as director of Hong Kong Kowloon New Territories Motion Picture Industry Association Ltd (MPIA) and a member of the Hong Kong Trade Development Council's Entertainment Industry Advisory Committee.

Fok Man Hei, Mani

Aged 33, is the director of artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group in all aspects including artistes' albums, film production, television commercials, concerts etc. and providing guidance to certain artistes on personal and career developments. She has over 13 years' experience in the artiste management industry. Prior to joining the Group in 1993, she worked in the modeling and advertising industries. She possesses a detailed knowledge of and has a successful track record in the promotion of artistes like Nicholas Tse, Joey Yung and Twins in the industry.

Chairperson's Statement

For the financial year ended 31st March, 2006, the Company and its subsidiaries (collectively referred to as the "Group") reported a net loss of approximately HK\$32.5 million, as compared with the net profit of approximately HK\$10.7 million in the previous year. Turnover of the Group decreased by 20% to approximately HK\$196.9 million as compared with approximately HK\$245.1 million in the previous year. During the year, event production reported remarkable performance.

OPERATION REVIEW

Music Production and Distribution

Owing to the keen competition and serious piracy problems such as free Internet download, the operation saw its turnover decreased by 18% to HK\$62.1 million and recorded a loss of HK\$8.5 million, as against a HK\$18.6 million profit in the previous year.

Despite the cut-throat competition, the Group focused on making quality music records and explored new revenue streams. Income from multimedia offerings jumped 36% to HK\$6.2 million during the year. The Group had partnered with New World Mobility to provide idols-based mobile entertainment services including connecting tone, content download and mobile games – under the branding of "Star Mobile" – to mobile subscribers in Hong Kong. The management anticipates that the income from multimedia offerings will become a steadily increasing income stream in future.

During the year, the Group released 77 music albums (2005: 67) including 72 for its own artistes and 5 for external artistes. The Group had received 157 awards (2005: 175) in various musical functions and presentations up to the date of this report, including 9 IFPI Hong Kong Top Sales Music Awards.

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Film and Television Programme Production and Distribution

This business sector contributed approximately HK\$75.4 million (2005: HK\$126.0 million) to the Group's turnover during the year. It recorded a loss of approximately HK\$53.1 million (2005: HK\$20.5 million) for the year under review, mainly due to poor market sentiment for local productions and the slow recoupment of licence fees from overseas distributors.

Distribution

The Group distributed a total of three feature films in Hong Kong and other Asian markets during the year: namely Emperor Motion Pictures' ("EMP") "Bug Me Not!" and "A Chinese Tall Story" and JCE Movies' ("JCE") "The Myth". All three performed creditably in an increasingly difficult market against fierce competition from Hollywood and other regional blockbusters. In particular, "The Myth", starring Jackie Chan and directed by Stanley Tong, excelled by grossing almost RMB100 million in China, making it one of the top box-office performers of the year.

Outside Asia, EMP continued to enjoy success in film licensing, with "The Myth" – which made its world premiere at the Toronto International Film Festival – proving by far the most popular. "A Chinese Tall Story" is also well received by distributors from around the world.

OPERATION REVIEW *(Continued)*

Film and Television Programme Production and Distribution *(Continued)*

Distribution (Continued)

During the year, EMP has participated in major international film festivals and markets, including Cannes, Toronto, the American Film Market in Los Angeles, Berlin, as well as the Hong Kong FilMart, and achieved significant sales results.

Production

The Group had completed production of a total of two feature films during the year: namely "Bug Me Not!" and "A Chinese Tall Story". EMP has also teamed up with the China Film Group and Taiwan's Long Shong International in co-producing "The Knot". Directed by award-winner Yin Li of China, the epic romance features EEG's Isabella Leong and Steven Cheung in a stellar cast of acting talents from China and Taiwan.

Artiste Management

Income from artiste management for the year decreased by 4% to approximately HK\$34.1 million (2005: HK\$35.7 million). During the year, the Group had recruited 13 new artistes, including 3 from the "EEG Singing Contest 2005" co-organised with Television Broadcasts Limited.

As at the end of the year, the Group managed a total of 47 artistes (2005: 69). The artistes who left the management of the Group during the year were mainly from Mainland China following the divestiture of the Group's interest in Beijing Zhongbei Emperor School of Performing Arts.

Event Production

During the year, the Group recorded an outstanding performance in the sector. The Group had boosted its income by 213% to HK\$25.3 million, while profit rose 370% to HK\$15.5 million (2005: HK\$3.3 million), a record high since the Group became listed on GEM in 2000.

The Group had organised a total of 14 concerts during the year, featuring the Group's artistes and through co-operation with third parties. These include Robin Gibbs of the Bee Gees, Paula Tsui in Concert 2005, Reflection of Joey's Live 2005, Luciano Pavarotti Live 2005, New World Mobility Star Mobile Twins Concert and Beijing Rain Live Concert.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the year, there is no change in capital structure of the Group. The Group continued to finance its operation and capital expenditure through cashflow from operation and advances from Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company.

As at 31st March, 2006, current assets and liabilities of the Group were approximately HK\$133.6 million and HK\$122.2 million respectively. As at 31st March, 2006, unsecured advances from Surplus Way amounted to approximately HK\$16.1 million, which was denominated in Hong Kong dollars with interest at the Hong Kong prime rate and had no fixed repayment term.

Chairperson's Statement

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Other than disclosed above, the Group had no other external borrowings as at the end of the financial year. With the borrowings and bank and cash held in hand mainly denominated in U.S. dollars, Hong Kong dollars and Renminbi, the Group experienced no significant exposure to foreign exchange rate fluctuation.

As at 31st March, 2006, the Group's gearing ratio (expressed as a percentage of total borrowings over net asset value) reduced from 75% in the previous year to 23%, the reduction was mainly due to repayment of advances from Surplus Way for the year.

Together with the cash flow generated by the operation of the Group in its ordinary course of business and its existing loan facility, the board of directors (the "Board") expected the Group to have sufficient working capital for its operation.

COMMITMENTS

As at 31st March, 2006, the Group had total commitments of approximately HK\$47.4 million, which comprised operating leases in the amount of HK\$5.0 million, artiste fees in the amount of HK\$12.9 million and film production costs of HK\$29.5 million.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 31st March, 2006 was 118 (2005: 161) and total staff costs for the year was approximately HK\$42.9 million (2005: HK\$38.9 million). All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also has a share option scheme for providing incentive to full-time employees of the Group. No options were granted or outstanding during the year.

PROSPECTS

Supported by a strong talent base and solid industry expertise, the management expects the Group to grow despite the keen competition and increase its market share locally and overseas.

To further explore the lucrative China market, the Group had recently established "Emperor Entertainment Group (China)" to leverage on Closer Economic Partnership Arrangement (CEPA) benefits. Under CEPA agreement, Emperor Entertainment Group (China) is a wholly-owned subsidiary of the Company which has 100% control over its management and operations.

Emperor Entertainment Group (China) plans to adopt for its Mainland China operation a model similar to its Hong Kong counterpart. The new company will strengthen the Group's niche in artiste management, talent recruitment, album release and concert production in the mainland market, the world's No. 3 advertising market with advertising spending reaching US\$30.5 billion, according to studies.

PROSPECTS *(Continued)*

In Hong Kong, the Group would continue to organise more concerts in the coming periods. After the close of the financial year, the Group had organised concerts starring Paul Anka, Connie Francis, Joey Yung and Liu Jia Chang, which were all well received by the audience. The management plans to organise more events and concerts for artistes in Australia, United States, Canada, China and Southeast Asia to further enrich its income stream. The Group also expects to strengthen the popularity of its own artistes through offering mobile data services in Hong Kong and Mainland China.

Meanwhile, the Group hopes to improve the performance of its film production and distribution operation, which is still in the investment stage. EMP will continue to develop feature film projects on its own with a view to going into production during the coming financial year.

The new financial year is expected to be busy and productive for EMP as JCE Movies' US\$15 million action-comedy "Rob-B-Hood", starring Jackie Chan, Michael Hui, Louis Koo and directed by Benny Chan, is scheduled for Asia-wide release in September, 2006. In addition to the China Film/Long Shong/EMP co-production of "The Knot", which EMP will distribute in Hong Kong and internationally, the Group's new line-up for the coming periods also includes works by independent filmmakers such as Susie Au, Kenny Bi and Ho Ping.

EMP will also focus on co-producing feature film projects with local and strategic partners from Mainland China, including Sundream Movies in a production starring Twins, Sil-Metropole Organisation in a production starring Ge You and directed by award-winner Ma Liwen, and the Shanghai Film Studios.

Directors' Report

The directors of the Company present their annual report and the audited financial statements of the Group for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 32 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 33.

The directors of the Company do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at the balance sheet date were as follows:

	2006 HK\$'000	2005 HK\$'000
Contributed surplus	3,953	11,233
Accumulated profits	1,793	2,149
	5,746	13,382

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

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

Non-executive directors:

Ms. Luk Siu Man, Semon (*Chairperson*)

Dr. So Shu Fai

(retired on 25th August, 2005 and
did not seek for re-election)

Executive directors:

Mr. Wong Chi Fai

Ms. Fan Man Seung, Vanessa

Mr. Ng Sui Wan (alias Ng Yu)

Independent non-executive directors:

Mr. Wong Ching Yue

Mr. Chu Kar Wing

Mr. Wong Tak Ming, Gary

Subject to the service contracts hereinafter mentioned, the term of office of each director, including the independent non-executive directors, is the period up to his/her retirement by rotation in accordance with the Bye-laws of the Company.

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Ms. Luk Siu Man, Semon ("Ms. Semon Luk") and Mr. Wong Ching Yue retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

On 17th September, 2003, Mr. Ng Sui Wan (alias Ng Yu) ("Mr. Ng Yu") entered into an employment contract (the "2003 Contract") with Emperor Entertainment (Hong Kong) Limited ("EEHK"), a wholly-owned subsidiary of the Company, in relation to his service as the Chief Executive Officer of the Group in connection with its business, for a term commencing from 16th December, 2003 until terminated by not less than three months' notice in writing served by either party on the other or payment in lieu of notice.

Directors' Report

DIRECTORS (Continued)

On 25th October, 2005, Mr. Ng Yu entered into another employment contract with EEHK to replace the 2003 Contract, in relation to his service as the director and Chief Executive Officer of the Group in connection with its business, for a term commencing from 10th December, 2005 until terminated by not less than three months' notice in writing served by either party on the other or payment in lieu of notice.

Mr. Ng Yu also entered into another service agreement with the Company to serve as an executive director of the Company for an initial term of one year commencing from 26th April, 2004, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa, entered into a service agreement with the Company for an initial term of two years commencing from 30th November, 2000, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years commencing on the following dates respectively, with all the term being renewed automatically for successive terms of one year each commencing from the date next after the expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party:

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Name of director	Commencing date
Luk Siu Man, Semon	30th November, 2002
So Shu Fai	1st April, 2002
Wong Ching Yue	1st April, 2002
Chu Kar Wing	30th September, 2004
Wong Tak Ming, Gary	30th September, 2004

Save as disclosed above, none of the directors has a service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) As announced by the Company on 10th November, 2004, Emperor Motion Picture Limited ("EMP"), a wholly-owned subsidiary of the Company, entered into a distribution agreement dated 31st October, 2003 (including the supplement thereto) (the "Distribution Agreement") with JCE Movies Limited ("JCE") pursuant to which EMP was appointed by JCE as the sales agent of a film entitled "New Police Story", produced by JCE for a period from 31st October, 2003 to 31st March, 2006, subject to (a) renewal at the option of EMP for a period from 1st April, 2006 to 31st March, 2009; and (b) automatic renewal for a period of three years upon expiry of such renewed term or any subsequent term (as the case may be) unless the Distribution Agreement is terminated by either party in writing three months in advance prior to the expiry of such term. The Company had exercised the option to renew the Distribution Agreement from 1st April, 2006 to 31st March, 2009. Under the Distribution Agreement, JCE granted to EMP the sole and exclusive rights to distribute the licensed rights of the film "New Police Story" worldwide in all language versions dubbed and subtitled at the agency fee rates of (a) 2% for distribution in North America and Hong Kong in respect of theatrical rights and worldwide by sub-sales agents; and (b) 12% for the others. JCE is ultimately beneficially owned as to (a) 50% by The Albert Yeung Discretionary Trust ("the Trust"), a discretionary trust set up by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), a deemed substantial shareholder of the Company, (b) 2.475% by Dr. Chan Kong Sang, Jackie ("Dr. Jackie Chan"), who was a non-executive director of the Company at the time when the Distribution Agreement was signed; (c) 22.5% by Dr. Jackie Chan's father; and (d) 25.025% by other independent third parties (as defined in the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules")). JCE is therefore an associate of Mr. Albert Yeung under the GEM Listing Rules and the transaction constitutes a continuing connected transaction as defined under the GEM Listing Rules. This transaction had been complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

The Company further announced on 9th March, 2005, Golden Port Productions Limited ("GPP"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement dated 7th March, 2005 (the "Acquisition Agreement") with JCE, pursuant to which GPP agreed to acquire and JCE agreed to sell in perpetuity the sole and exclusive rights of distribution and exploitation in the film "New Police Story" of which JCE is the producer, in the United States of America (including but not limited to, Guam, Midway Island, Trust Territory Islands, the Virgin Islands, Bahamas Islands, Puerto Rico, Bermuda and Saipan), Australia and New Zealand (collectively referred to as the "Territory") at a cash consideration of US\$1,700,000 (equivalent to approximately HK\$13,260,000). As a result of the Group's acquisition of the rights in the film "New Police Story", JCE is no longer liable to pay the agency fees to EMP under the Distribution Agreement in respect of the provision of the sales agency services by EMP in the Territory. During the year, the Group received agency fee of approximately HK\$3,500,000 from JCE.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*

(b) During the year, the Group had the following transactions with connected persons as defined in the GEM Listing Rules:

Name of counterparty	Nature of transaction	Terms	Amount for the year ended 31st March, 2006 HK\$'000
Very Sound Investments Limited <i>(Note (1))</i>	Operating lease rentals paid	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$51,270 (exclusive of rates, management fees and other outgoings charges) From 6th February, 2006, the monthly rental decreased to HK\$45,750 (exclusive of rates, management fees and other outgoings charges)	605
	Management fees paid	1st April, 2005 to 31st March, 2008 at a monthly fee of HK\$16,210 (subject to increase) From 6th February, 2006, the monthly fee decreased to HK\$14,469 (subject to increase)	193
	Operating lease rentals paid	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$121,200 (exclusive of rates, management fees and other outgoing charges)	1,454
	Management fees paid	1st April, 2005 to 31st March, 2008 at a monthly fee of HK\$38,334.30 (subject to increase)	460

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*

(b) *(Continued)*

Name of counterparty	Nature of transaction	Terms	Amount for the year ended 31st March, 2006 HK\$'000
Active Pace Investment Limited <i>(Note (1))</i>	Car park rentals paid	From 1st February, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,600 (subject to increase)	43
	Car park rentals paid	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,800 (subject to increase)	46
	Car park rentals paid	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$4,800 (subject to increase)	58
	Car park rentals paid	From 4th August, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,400 (subject to increase)	27
Emperor International Holdings Limited ("Emperor International") <i>(Note (2))</i>	Advertising fees paid	1st April, 2005 to 31st March, 2008 based on the advertising expenses projection prepared by the management of the Company that will be not more than HK\$500,000 for each of the financial years up to 31st March, 2008	348

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*

(b) *(Continued)*

Notes:

- (1) The counterparties are all indirect wholly-owned subsidiaries of Emperor International.
- (2) Emperor International is a listed company, 71.73% of the shares of which were registered in the name of and beneficially owned by Charron Holdings Limited ("Charron") as at 31st March, 2006. The entire issued share capital of Charron was held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A&A Unit Trust under the Trust. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the shares held by Charron in Emperor International. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the issued share capital held by Charron in Emperor International.

As announced by the Company on 19th August, 2005, (i) Emperor Connection Limited, an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements and four licence agreements with two connected persons (as defined in the GEM Listing Rules) in relation to the tenancy and car parking spaces; (ii) the Company entered into an agreement with EIHL (a connected person as defined in the GEM Listing Rules) for the provision of advertising services to the Group in the publications operated by certain subsidiaries of EIHL (collectively the "Continuing Connected Transactions").

The terms of the tenancy agreements and the licence agreements are arrived at after arm's length negotiation which are on normal commercial terms and the rental/licence fees thereof were determined by reference to open market rent as at 31 March 2005 as valued by Chesterton Petty Limited, an independent valuer.

The engagement of the advertising services are in the normal ordinary course of business of the Company. The advertising charges will be determined by reference to open market advertising charges charged by the subsidiaries of Emperor International for similar advertising services and will be no less favorable than those charged to other independent third parties engaging similar advertising services.

The directors of the Company considered that (1) the renting of the office premises and car parking spaces mentioned in sub-paragraph (i) above would consolidate the operations of the Group into the same premises which would enhance the efficiency of management of the Group; (2) the publications mentioned in sub-paragraph (ii) above are ones among the leading publications in Hong Kong and that the advertising expenditure proposed was in the ordinary course of business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*(b) *(Continued)*

In accordance with Rule 20.34 of the GEM Listing Rules and Rule 14A.34 of the Main Board Listing Rules, based on the calculations of the percentage ratios (other than the profits ratio) and since the total amount of the annual fees to be received under the Continuing Connected Transactions for each of the years ended/ending 31st March, 2006, 2007 and 2008 is expected to be less than HK\$10,000,000, the Continuing Connected Transactions will only be subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules and Rules 14A.45 to 14A.47 of the Main Board Listing Rules and will be exempted from the independent shareholders' approval requirements.

Save as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries and 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.

The directors of the Company engaged the auditors of the Company to perform certain agreed upon procedures in respect of continuing connected transactions of the Group. The procedures were performed solely to assist the directors of the Company to evaluate in accordance with Rule 20.38 of the GEM Listing Rules, whether the continuing connected transactions entered into by the Group for the year ended 31st March, 2006:

- (a) have received the approval of the directors of the Company;
- (b) have been entered into in accordance with the terms of the relevant agreement governing such transactions;
- (c) have not exceeded the relevant cap amount for the financial year ended 31st March, 2006 as disclosed in previous announcements; and
- (d) have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

Pursuant to Rule 20.38 of the GEM Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary and usual 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.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31st March, 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long position in shares of the Company

Name of director	Nature of interests	Number of ordinary shares held	Approximate percentage holding
Ms. Semon Luk (<i>Note</i>)	Family	203,054,000	78.09%

Note: The shares were registered in the name of Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 203,054,000 shares held by Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the above 203,054,000 shares held by Surplus Way.

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(b) Long positions in shares of associated corporations

Name of director	Name of associated corporation	Nature of interests	Number of ordinary share(s) held	Approximate percentage holding
Ms. Semon Luk	Surplus Way (<i>Note (1)</i>)	Family	1	100%
Ms. Semon Luk	Jumbo Wealth (<i>Note (1)</i>)	Family	1	100%
Ms. Semon Luk	Charron (<i>Note (2)</i>)	Family	1	100%
Ms. Semon Luk	Emperor International (<i>Note (2)</i>)	Family	805,329,411	71.73%
Mr. Wong Chi Fai	Emperor International (<i>Note (3)</i>)	Beneficial	10,000,000	0.89%
Ms. Fan Man Seung, Vanessa	Emperor International (<i>Note (3)</i>)	Beneficial	10,000,000	0.89%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES *(Continued)*

(b) Long positions in shares of associated corporations *(Continued)*

Notes:

- (1) Surplus Way was the registered owner of 203,054,000 shares, representing 78.09% of the issued share capital of the Company. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth respectively.
- (2) Charron was the registered owner of 805,329,411 shares in Emperor International. The entire issued share capital of Charron was held by Jumbo Wealth on trust for The A&A Unit Trust. By virtue of the interests of The A&A Unit Trust in Surplus Way and Charron, both Charron and Emperor International were associated corporations of the Company. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Charron and Emperor International respectively. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the share capital of Charron and Emperor International respectively.
- (3) Share options were granted to directors under the share option scheme of Emperor International.

Save as disclosed above, as at 31st March, 2006, none of the directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 26th August, 2004, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 11th November, 2004. Details of the share option scheme are set out in note 30 to the financial statements.

The Company has not granted any option under the share option scheme since its adoption. The total number of shares available for issue under the share option scheme as at the date of this report is 26,000,000, representing 10% of the issued share capital of the Company as at that date.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable any director or chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 31st March, 2006, the persons or corporations (other than the directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

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Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
Surplus Way (<i>Note</i>)	Beneficial	203,054,000	78.09%
Jumbo Wealth (<i>Note</i>)	Trustee	203,054,000	78.09%
GZ Trust Corporation ("GZ Trust") (<i>Note</i>)	Trustee	203,054,000	78.09%
Mr. Albert Yeung (<i>Note</i>)	Founder of the Trust	203,054,000	78.09%
South China Finance and Management Limited	Beneficial	18,198,000	6.99%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (Continued)

Long positions in shares of the Company (Continued)

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
South China Brokerage Company Limited	Interest in a controlled corporation	18,198,000	6.99%
East Hill Development Limited	Interest in a controlled corporation	18,198,000	6.99%
Tek Lee Finance and Investment Corporation Limited	Interest in a controlled corporation	18,198,000	6.99%
South China (BVI) Limited	Interest in a controlled corporation	18,198,000	6.99%
South China Holdings Limited	Interest in a controlled corporation	18,198,000	6.99%
Bannock Investment Limited	Interest in a controlled corporation	18,198,000	6.99%
Earntrade Investments Limited	Interest in a controlled corporation	18,198,000	6.99%
Parkfield Holdings Limited	Interest in a controlled corporation	18,198,000	6.99%
Ronastar Investments Limited	Interest in a controlled corporation	18,198,000	6.99%
Fung Shing Group Limited	Interest in a controlled corporation	18,198,000	6.99%
Ms. Cheung Choi Ngor	Persons acting in concert	18,198,000	6.99%
Mr. Richard Howard Gorges	Persons acting in concert	18,198,000	6.99%
Mr. Ng Hung Sang	Persons acting in concert	18,198,000	6.99%

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long positions in shares of the Company *(Continued)*

Note: The shares were registered in the name of Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 203,054,000 shares held by Surplus Way and held the entire issued share capital of Jumbo Wealth on trust for GZ Trust as trustee of the Trust. The above shares were the same shares as set out under section (a) of the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Securities" above.

Save as disclosed above, as at 31st March, 2006, the directors of the Company were not aware of any other person or corporation (other than the directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 35% of the revenue of the Group and the largest customer accounted for approximately 8% of the Group's revenue.

The five largest suppliers contributed to less than 30% of the Group's total purchases and services received for the year.

None of the directors, their associates and shareholders of the Company (which to the knowledge of the directors of the Company own more than 5% of the issued capital of the Company) had any interest in any of the five largest customers of the Group for the year ended 31st March, 2006.

DONATIONS

During the year, the Group made donations amounting to approximately HK\$8,000.

PURCHASE, SALE OR 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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 24 to 30.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company maintained the prescribed public float under the GEM Listing Rules.

COMPETING INTERESTS

The Trust, a discretionary trust set up by Mr. Albert Yeung, a management shareholder of the Company, indirectly held 50% of the shareholding of JCE, a company engaged in the production and distribution of movies. The Trust also indirectly held 100% interest in Prime Time (International) Entertainment Limited ("Prime Time"), a company engaged in the business of television programme production and artiste management. The Trust also indirectly held 79% shareholding of Great Creator Limited trading as Cool Factory Event Marketing & Talent Agency ("Cool Factory") which is engaged in the business, inter alia, of event production. The businesses of JCE, Prime Time and Cool Factory may constitute competition with the business of the Group. By virtue of the Trust's interest in the aforesaid businesses, Ms. Semon Luk, spouse of Mr. Albert Yeung, is also deemed to be interested in the businesses. The directors of the Company consider that since Ms. Semon Luk is a non-executive director of the Company and will not exert management control over the Group, her aforesaid deemed interest in the businesses of JCE, Prime Time and Cool Factory will not materially affect the Group's business.

Save as disclosed above, the directors of the Company believe that none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

AUDITORS

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

On behalf of the Board

Luk Siu Man, Semon
Chairperson

Hong Kong, 21st June, 2006

Maintaining a solid, transparent and sensible framework of corporate governance has been and remains one of the top priority issues for the board of directors of the Company (the “Directors” or the “Board”). The Company has complied throughout the financial year ended 31st March, 2006 with all the provisions of the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 15 to the GEM Listing Rules except with the deviation from Code provision E.1.2 in respect of the requirement for the Chairperson to attend the annual general meeting.

BOARD OF DIRECTORS

(1) Composition of the Board of Directors

The Board comprised a balanced composition of executive and non-executive directors (including independent non-executive directors) with a balance of skills and experience appropriate for the requirements of the business of the Group.

The Board currently comprises a total of seven Directors, with one Non-executive Director who is also the Chairperson of the Company, three Executive Directors and three Independent Non-executive Directors. The biographies of the Directors are set out on pages 3 to 4 of this report.

The Company has received a confirmation of his independence from each of the Independent Non-executive Directors under the GEM Listing Rules. The Board continues to consider each of them to be independent. The Independent Non-executive Directors have been expressly identified as such in all corporate communications of the Company that disclose the names of Directors.

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(2) Responsibilities of Chairman and Chief Executive Officer

Distinct roles of chairperson and chief executive officer are carried out by separate persons to ensure a balance of power and authority.

Ms. Luk Siu Man, Semon has been elected as the Chairperson of the Company since November 2000. Ms. Luk, supported by the Company Secretary, is responsible for the management of the Board and to ensure all Board members are properly briefed and receive timely, reliable and sufficient information on issues to be discussed at Board meetings. Board papers are dispatched to the Directors before the meetings. The Chairperson, together with the other Board members, are responsible for leading the Group for future development, while the responsibility of management of business is shared among Mr. Ng Sui Wan (alias Ng Yu), the Chief Executive Officer, the two other Executive Directors and senior management of the Company.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

(3) Delegation by the Board and Board Committee

Matters delegated from the Board to Board Committees are given with clear authority and duties.

The Board sets up the Audit Committee and Remuneration Committee on 30th September, 2004 and 20th June, 2005 respectively. The Committees consist mainly Independent Non-executive Directors. Clear written terms of reference are given to these two Committees and details of these two Committees are set out in the paragraphs headed "Audit Committee" and "Remuneration Committee" below.

(4) Appointments, re-election and removal

The appointment of directors is formal, considered and transparent and all directors are subject to re-election at regular intervals.

The Non-executive Directors are appointed for a term of two years, with all the terms being renewed automatically for successive terms of one year each commencing from the date next after the expiry of the then current terms, unless terminated by not less than three months' notice in writing served by either party. Pursuant to provision 86(2) of the Bye-laws of the Company, all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. The Bye-laws of the Company was amended at the annual general meeting held on 25th August, 2005 to the effect that every Director shall be subject to retirement by rotation at least once every three years in order to comply with the requirement of the Code.

No nomination committee has been established by the Company. The appointment of a new director is a matter reserved for the Board's decision. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of any recommended candidate for directorship. During the year, the Company has not appointed any new Director.

(5) Function of the Board and Board Meetings

The Board assumes the responsibility for leadership and control of the Group. Board meetings are held in accordance with the provisions of the Bye-laws of the Company.

The Board oversees the development and financial performance, sets strategic directions and objectives of the Group. The management team makes management and investment proposals for the Board to approve, implements the Board's decision and manages the day-to-day business. Certain specific matters, inter alia, the approval of annual, interim and quarterly results, capital structure, declaration of dividends, material acquisitions, disposals and capital expenditure, Board structure and its composition and succession are reserved for the Board's decisions.

BOARD OF DIRECTORS *(Continued)*

(5) Function of the Board and Board Meetings *(Continued)*

The Board meets regularly at least four times a year with additional meetings as and when required.

Attendance of individual Directors at the four Board meetings held during the financial year ended 31st March, 2006 is as follows:

Name of Director	Number of Board meeting attended	Attendance rate
<i>Non-executive Directors</i>		
Luk Siu Man, Semon <i>(Non-executive Director & Chairperson)</i>	4/4	100%
So Shu Fai <i>(retired on 25 August, 2005)</i>	0/0	0%
<i>Executive Directors</i>		
Wong Chi Fai	4/4	100%
Fan Man Seung, Vanessa	4/4	100%
Ng Sui Wan (alias Ng Yu)	4/4	100%
<i>Independent Non-executive Directors</i>		
Wong Ching Yue	0/4	0%
Chu Kar Wing	1/4	25%
Wong Tak Ming, Gary	0/4	0%

Arrangement has been in place to ensure that at least 14 days' meeting notice be given to the Directors and the agenda together with the accompanying board papers be circulated to all Directors before the regular board meetings. Agenda of regular meetings was circulated to the Directors for their review and inclusion of any matters for Board's consideration. The Directors also have access to the advice and services of the Company Secretary and key officers of the company secretarial team regarding the Board procedures, and all applicable rules and regulations are followed. Draft and final versions of the minutes of Board meetings and Board committee meetings, drafted in sufficient details by the secretary of the meetings, were circulated to the Directors for their comment and record respectively. An original copy of such minutes, being kept by the Company Secretary, is open for inspection at any reasonable time on reasonable notice by any Director. A procedure has been approved by the Board to enable Directors to seek independent professional advice at the Company's expenses in appropriate circumstances.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

(6) Responsibilities of Directors

Every Director has been kept abreast of his responsibilities as a director of the Company and of the business activities and development of the Group.

The Company will provide every newly appointed director with information on the business of the Group, responsibilities of directors, the adopted governance policies, the relevant rules, codes and regulations applicable to a director and invite them to an induction. The Company has adopted a code of conduct regarding securities transactions by directors and senior executives on no less exacting terms than the required standard of dealings set out in Rules 5.48 to Rules 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings and the code of conduct.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

A Remuneration Committee has been set up with specific terms of reference.

A Remuneration Committee of the Company was established on 20th June, 2005. The Committee consists of two Independent Non-executive Directors, namely Messrs. Chu Kar Wing and Wong Tak Ming, Gary together with the Executive Director, Mr. Wong Chi Fai, who acts as the Chairman of the Committee. The Remuneration Committee is responsible for, amongst others, making recommendations with respect to the remuneration of the Executive Directors of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy for approval by the Board. Details of the remuneration of each of the Directors for the year ended 31st March, 2006 are set out in note 10(a) to the consolidated financial statements. The specific written terms of reference of the Remuneration Committee are available in the Company's website.

The Remuneration Committee has convened a meeting in September 2005, which was attended by all Committee members. In addition, the Company has adopted a share option scheme effective from 11th November, 2004. The Remuneration Committee had approved to recommend to the Board the annual fees of HK\$100,000 to each of the three Independent Non-executive Directors in September 2005.

ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Management has provided information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

The Directors acknowledge that it is their responsibility to prepare the accounts of the Group and other financial disclosures required under the GEM Listing Rules.

(2) Audit Committee

An Audit Committee was established with clear terms of reference.

An Audit Committee was established on 30th September, 2004. The Committee consists of three Independent Non-executive Directors, namely Messrs. Chu Kar Wing, Wong Ching Yue and Wong Tak Ming, Gary. The Chairman of the Audit Committee, Mr. Chu Kar Wing, together with the other two Committee members, possess either accounting professional or other professional expertise. Clear terms of reference of the Committee have been set out in the Company's website. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the external auditors, and to approve the remuneration and terms of engagement of external auditor, to review financial information and oversight of the financial reporting system and internal control procedures.

The Audit Committee convened five meetings during the year with the presence as follows:

Name of Committee member	Number of meetings attended	Attendance rate
Chu Kar Wing	5/5	100%
Wong Ching Yue	3/5	60%
Wong Tak Ming, Gary	5/5	100%

Draft and final versions of minutes were circulated to Committee members for their review and record respectively. The tasks performed by the Audit Committee during the year included the following:

- i. Review with senior management the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual, interim and quarterly financial statements, and the scope of the external audit works;

Corporate Governance Report

ACCOUNTABILITY AND AUDIT *(Continued)*

(2) Audit Committee *(Continued)*

- ii. Review the impact to the Group in respect of the amendments to the accounting principles with the external auditors; and
- iii. Meeting with the external auditors and review their work and findings relating to the annual audit.

(3) Internal Control

The Board acknowledged its overall responsibility to maintain sound and effective internal controls in order to safeguard the shareholders' investment and Company's assets.

The Board, through the Audit Committee which reviews annually the internal control system, acknowledged its overall responsibility in respect of maintaining effective internal controls of the Company and its subsidiaries. The scope as well as the plan of the internal audit shall be reviewed and endorsed by the Audit Committee and the results of the audit and recommendations after the audit will be reported to the Audit Committee from time to time.

COMMUNICATION WITH SHAREHOLDERS

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(1) Effective Communication

On-going dialogue with shareholders by way of convening annual general meetings and special general meetings are maintained.

Various channels of communication with the shareholders are adopted by the Company, which include: (i) the issuance of annual report, circular, notice of annual general meeting and proxy form as required under the GEM Listing Rules; and (ii) the shareholders and investors are welcome to visit our website for the latest information of the Group.

Separate resolutions are proposed at the annual general meeting on each substantial separate issues, including the election of individual directors as required under the GEM Listing Rules.

Ms. Luk Siu Man, Semon, the Chairperson of the Company, was unable to attend the annual general meeting held on 25th August, 2005 as she was outside Hong Kong at that time.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

(2) Voting by Poll

Rights to demand a poll were printed in the circular dispatched to the shareholders and the chairman of the annual general meeting had explained the rights and procedures to demand a poll at the commencement of such meetings.

The rights to demand a poll were set out in the circular dispatched to the shareholders during the year. The chairman of the annual general meeting held on 25th August, 2005 had explained the rights and procedures to demand a poll.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:–

Service rendered	Fee paid/payable HK\$'000
Audit services	1,402
Non-audit services	35

Deloitte.

德勤

TO THE SHAREHOLDERS OF EMPEROR ENTERTAINMENT GROUP LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements on pages 33 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

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Basis of opinion

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March, 2006 and of its loss and cash flows 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
21st June, 2006

Consolidated Income Statement

For the year ended 31st March, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	6 & 7	196,917	245,137
Other income		10,133	13,707
Cost of music production and distribution		(48,909)	(37,018)
Cost of film and television programme production and distribution		(98,343)	(108,748)
Cost of provision of event production services		(2,544)	(3,347)
Distribution costs		(24,858)	(30,975)
Administrative expenses		(62,256)	(58,030)
Finance costs	8	(2,218)	(2,844)
(Loss) profit before tax	9	(32,078)	17,882
Income tax expense	11	(2,383)	(8,675)
(Loss) profit for the year		(34,461)	9,207
Attributable to:			
Equity holders of the Company		(32,549)	10,689
Minority interests		(1,912)	(1,482)
		(34,461)	9,207
Dividend			
– proposed final dividend of nil (2005: HK\$0.028) per share		–	7,280
(Loss) earnings per share	12	(12.52) cents	4.11 cents
– basic			

Consolidated Balance Sheet

At 31st March, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	13	2,102	3,860
Prepayments and other receivables	14	9,244	10,228
Film rights	15	55,335	136,958
		66,681	151,046
Current assets			
Record masters	16	2,335	4,320
Trade receivables	17	21,648	60,920
Prepayments and other receivables	14	37,871	53,461
Bank balances and cash	18	68,551	51,463
		130,405	170,164
Assets classified as held for sale	19	3,181	–
		133,586	170,164
Current liabilities			
Trade payables	20	8,354	17,383
Other payables and accrued charges	21	84,871	86,977
Amount due to ultimate holding company	22	16,050	89,037
Amount due to a related company	23	8,999	–
Loan from a minority shareholder of a subsidiary	24	2,000	–
Tax payable		611	3,083
		120,885	196,480
Liabilities directly associated with assets classified as held for sale	19	1,266	–
		122,151	196,480
Net current assets (liabilities)		11,435	(26,316)
		78,116	124,730

Consolidated Balance Sheet

At 31st March, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Capital and reserves			
Share capital	25	2,600	2,600
Reserves		76,230	118,790
Equity attributable to equity holders of the Company		78,830	121,390
Minority interests		(714)	1,136
Total equity		78,116	122,526
Non-current liabilities			
Loans from minority shareholders of subsidiaries	24	–	2,204
		78,116	124,730

The financial statements on pages 33 to 82 were approved and authorised for issue by the Board of Directors on 21st June, 2006 and are signed on its behalf by:

Wong Chi Fai
Director

Fan Man Seung, Vanessa
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2006

	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital	Share premium	Contributed surplus	Special reserve	Translation reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 26(a))	(Note 26(b))					
At 1st April, 2004	2,600	105,614	91,063	75,000	(226)	(163,048)	111,003	735	111,738
Exchange differences on translation of overseas operations recognised directly in equity	-	-	-	-	(302)	-	(302)	(2)	(304)
Profit (loss) for the year	-	-	-	-	-	10,689	10,689	(1,482)	9,207
Total recognised (expense) income for the year	-	-	-	-	(302)	10,689	10,387	(1,484)	8,903
Capital contribution from a minority shareholder of a subsidiary	-	-	-	-	-	-	-	1,885	1,885
At 31st March, 2005	2,600	105,614	91,063	75,000	(528)	(152,359)	121,390	1,136	122,526
At 1st April, 2005, as originally stated	2,600	105,614	91,063	75,000	(528)	(152,359)	121,390	1,136	122,526
Effect of change in accounting policy (note 2)	-	-	-	-	-	(2,560)	(2,560)	-	(2,560)
As restated	2,600	105,614	91,063	75,000	(528)	(154,919)	118,830	1,136	119,966
Exchange differences on translation of overseas operations recognised directly in equity	-	-	-	-	(171)	-	(171)	62	(109)
Loss for the year	-	-	-	-	-	(32,549)	(32,549)	(1,912)	(34,461)
Total recognised expense for the year	-	-	-	-	(171)	(32,549)	(32,720)	(1,850)	(34,570)
Dividend paid for 2005	-	-	(7,280)	-	-	-	(7,280)	-	(7,280)
At 31st March, 2006	2,600	105,614	83,783	75,000	(699)	(187,468)	78,830	(714)	78,116

Consolidated Cash Flow Statement

For the year ended 31st March, 2006

	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities		
(Loss) profit before tax	(32,078)	17,882
Adjustments for:		
Allowance for bad and doubtful debts	904	57
Amortisation of film rights	85,318	107,087
Depreciation of property, plant and equipment	1,805	2,178
Finance costs	2,218	2,844
Impairment loss on film rights recognised	12,260	1,039
Imputed interest included in distribution costs	957	–
Interest income	(2,215)	(249)
Loss on disposal of property, plant and equipment	2	348
Write-off of property, plant and equipment	368	–
Operating cash flows before movements in working capital	69,539	131,186
Decrease in inventories and record masters	1,985	445
Decrease (increase) in trade receivables	38,166	(40,215)
Decrease (increase) in prepayments and other receivables	13,635	(20,157)
(Decrease) increase in trade payables	(9,029)	5,008
Decrease in other payables and accrued charges	(840)	(24,477)
Increase (decrease) in amount due to a related company	8,999	(4,228)
Cash generated from operations	122,455	47,562
Hong Kong Profits Tax paid	(4,855)	(5,187)
Net cash from operating activities	117,600	42,375
Cash flows from investing activities		
Additional costs incurred in film rights	(15,955)	(55,931)
Interest received	681	249
Proceeds from disposal of property, plant and equipment	1	104
Purchase of property, plant and equipment	(1,545)	(3,077)
Net cash used in investing activities	(16,818)	(58,655)

Consolidated Cash Flow Statement

For the year ended 31st March, 2006

	2006 HK\$'000	2005 HK\$'000
Cash flows from financing activities		
Advances from ultimate holding company	139,266	118,318
Repayment of advances to ultimate holding company	(212,253)	(79,211)
Capital contribution from a minority shareholder of a subsidiary	–	1,885
Interest paid	(2,218)	(2,844)
Repayment to a minority shareholder of a subsidiary	(264)	(521)
Dividend paid	(7,280)	–
Net cash (used in) from financing activities	(82,749)	37,627
Net increase in cash and cash equivalents	18,033	21,347
Cash and cash equivalents at beginning of the year	51,463	30,116
Cash and cash equivalents at end of the year	69,496	51,463
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	68,551	51,463
Bank balances and cash included in assets classified as held for sale	945	–
	69,496	51,463

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. Its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s ultimate holding company is Surplus Way Profits Limited (“Surplus Way”), a company which is incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company is 28/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding company. The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of its principal subsidiaries are set out in note 32.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial instruments: Disclosure and presentation” and HKAS 39 “Financial instruments: Recognition and measurement”. HKAS 32 requires retrospective application. The implementation of HKAS 32 has had no material impact on the results for the current and prior years. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 39 is summarised below.

Financial assets other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”.

Prior to the application of HKAS 39, interest-free loans to artistes and staff were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities be measured at fair value on the initial recognition. Such loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. The change in accounting policy has resulted in a reduction of the carrying amount of prepayments and other receivables as at 1st April, 2005 by approximately HK\$2,560,000 and an increase of the accumulated losses as at 1st April, 2005 by approximately HK\$2,560,000. The effect of the change on the results of the year is that other income and distribution costs have been increased by approximately HK\$1,534,000 and HK\$957,000 respectively due to the recognition of imputed interest income and expense.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Financial instruments (Continued)

Financial assets other than debt and equity securities (Continued)

At the date of authorisation of these consolidated financial statements, the following new standards and interpretations have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, Restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁵
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁶

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2006.

³ Effective for annual periods beginning on or after 1st December, 2005.

⁴ Effective for annual periods beginning on or after 1st March, 2006.

⁵ Effective for annual periods beginning on or after 1st May, 2006.

⁶ Effective for annual periods beginning on or after 1st June, 2006.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, as explained in the accounting policies set out below:

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

Basis of consolidation

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

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

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

Revenue

Revenue represents the aggregate of amounts received and receivable from albums sold, musical works licensed, production and distribution of films and television programmes, licensing of distribution rights over films and television programmes, event production completed, and services provided, net of sales return during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Sales of albums are recognised when the albums are delivered and the title has passed.

Musical work licence income is recognised on an accrual basis in accordance with the terms of the relevant agreements.

Income from the production and distribution of films and television programmes is recognised when the production is complete and released and the amount can be measured reliably.

Income from the licensing of the distribution rights over films and television programmes is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served on the customers.

Artiste management fee income is recognised when the services are provided.

Income from event production is recognised when the events are complete or the services are provided and the amount can be measured reliably.

Dividend income from investments is recognised when the rights to receive payment have been established.

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

Rental income is recognised on a straight line basis over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

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

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

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 consolidated income statement.

Disposal company held for sale

Disposal company is classified as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal company is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Disposal company classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Film rights

Film rights are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation is charged to the consolidated income statement using a method that reasonably relates the net carrying amount of film rights to the net revenue expected to be realised.

Borrowing costs

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

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

Inventories

Inventories represent finished goods of audio-visual products and are stated at the lower of cost and net realisable value. The cost of finished goods is calculated using the first-in, first-out method.

Record masters

Record masters represent accumulated costs incurred in the production of master tapes of which the relevant audio-visual products are not yet released as at the balance sheet date less any expected loss. The amount recognised as an asset is amortised over the estimated life of the record performance using a method that reasonably relates the amount to the net revenue expected to be realised.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank deposits) are carried at amortised cost using the effective interest rate method, less any identified impairment loss. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment loss is reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed that the amortised cost would have been had no impairment been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks and cash on hand that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade payables, other payables and accrued charges, amount due to ultimate holding company, amount due to a related company and loans from minority shareholders of subsidiaries are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items are recognised in the consolidated income statement in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Operating leases

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, the management has made the following judgements that have significant effect on the accounts recognised in the consolidated financial statements. The key assumption concerning the future, and other key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for bad and doubtful debts of loans and receivables

Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in consolidated income statement when there is objective evidence that the asset is impaired.

In determining individual allowances, the management considered detailed procedures have been in place to monitor this risk. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status, the likelihood of collection and the estimated discounted future cash flow. Specific allowance is only made for loans and receivables that are unlikely to be collected. If the financial conditions of these debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Amortisation and impairment on film rights

Film rights are amortised using a method that reasonably relates the net carrying amount of film rights to the revenue expected to be realised. If the actual revenue differs from the estimated revenue expected to be realised, such difference will impact the amortisation for the remaining period to be amortised.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, prepayments and other receivables, bank balances and cash, trade payables, other payables and accrued charges, amount due to ultimate holding company, amount due to a related company and loans from minority shareholders of subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain trade and other receivables, trade and other payable, and bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's is exposed to the interest rate risk through the impact of rate changes on interest bearing financial liability which is mainly amount due to ultimate holding company. Since this interest bearing financial liability is short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers in diversified geographical locations.

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

6. REVENUE

	2006 HK\$'000	2005 HK\$'000
An analysis of the Group's revenue is as follows:		
Music production and distribution		
– sales of albums	33,399	42,287
– licence income	22,462	28,482
– multimedia income	6,221	4,577
	62,082	75,346
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	60,225	117,609
– distribution of films and television programmes	15,217	8,364
	75,442	125,973
Artiste management fee income	34,072	35,719
Event production		
– income from jointly organised events	20,789	1,931
– income from provision of event production services	4,532	6,168
	25,321	8,099
	196,917	245,137

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions, namely (a) music production and distribution; (b) film and television programme production, distribution and licensing; (c) artiste management; and (d) event production. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- | | |
|--|--|
| Music production and distribution | – sales of albums and licensing of musical works |
| Film and television programme production, distribution and licensing | – production and distribution of films and television programmes and licensing of distribution rights over films and television programmes |
| Artiste management | – provision of management services to artistes |
| Event production | – concert management and organisation, and provision of event production services |

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(a) By activity

	2006		2005	
	Revenue	Contribution to loss	Revenue	Contribution to profit
	HK\$'000	for the year	HK\$'000	for the year
		HK\$'000		HK\$'000
Music production and distribution	62,082	(8,518)	75,346	18,551
Film and television programme production, distribution and licensing	75,442	(53,070)	125,973	(20,450)
Artiste management	34,072	18,266	35,719	23,736
Event production	25,321	15,463	8,099	3,317
	<u>196,917</u>	<u>(27,859)</u>	<u>245,137</u>	<u>25,154</u>
Other income not allocated to principal activities		2,215		576
Unallocated corporate expenses		(4,216)		(5,004)
Finance costs		(2,218)		(2,844)
(Loss) profit before tax		<u>(32,078)</u>		17,882
Income tax expense		<u>(2,383)</u>		<u>(8,675)</u>
(Loss) profit for the year		<u><u>(34,461)</u></u>		<u><u>9,207</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2006					
ASSETS					
Segment assets	33,258	128,063	7,413	12,778	181,512
Unallocated corporate assets					18,755
Consolidated total assets					200,267
LIABILITIES					
Segment liabilities	46,959	39,208	6,675	9,801	102,643
Unallocated corporate liabilities					19,508
Consolidated total liabilities					122,151

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Other information for the year ended 31st March, 2006					
Depreciation of property, plant and equipment	511	306	482	210	1,509
Unallocated depreciation of property, plant and equipment					296
					1,805
Amortisation of film rights	–	85,318	–	–	85,318
Impairment loss on film rights	–	12,260	–	–	12,260
Additions to property, plant and equipment and film rights	243	20,724	335	758	22,060
Unallocated additions					140
					22,200
Overprovision in prior years in respect of cost of film rights	–	(4,700)	–	–	(4,700)
					17,500
Allowance for bad and doubtful debts	711	193	–	–	904

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2005					
ASSETS					
Segment assets	48,450	223,596	6,922	23,035	302,003
Unallocated corporate assets					19,207
Consolidated total assets					321,210
LIABILITIES					
Segment liabilities	48,152	42,548	8,925	4,197	103,822
Unallocated corporate liabilities					94,862
Consolidated total liabilities					198,684

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Other information for the year ended 31st March, 2005					
Depreciation of property, plant and equipment	647	332	719	33	1,731
Unallocated depreciation of property, plant and equipment					447
					2,178
Amortisation of film rights	–	107,087	–	–	107,087
Impairment loss on film rights	–	1,039	–	–	1,039
Additions to property, plant and equipment and film rights	947	74,130	835	48	75,960
Unallocated additions					725
					76,685
Overprovision in prior years in respect of cost of film rights	–	(17,677)	–	–	(17,677)
					59,008
Allowance for (reversal of allowance for) bad and doubtful debts	34	361	12	(350)	57

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. SEGMENT INFORMATION (Continued)

(b) By geographical market

	Revenue	
	2006 HK\$'000	2005 HK\$'000
Greater China		
– Hong Kong	109,489	124,174
– Mainland China	38,848	30,465
– Taiwan	4,816	8,816
Japan	7,630	42,656
Other Asian countries	14,174	6,021
North America	3,692	21,953
Other areas	18,268	11,052
	196,917	245,137

	Carrying amount of segment assets		Additions to property, plant and equipment and film rights	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Greater China				
– Hong Kong	138,112	214,648	21,210	76,145
– Mainland China	20,865	28,454	990	540
– Taiwan	490	2,299	–	–
Other Asian countries	4,750	624	–	–
Ireland	36,050	75,185	–	–
	200,267	321,210	22,200	76,685

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on amount due to ultimate holding company	(2,218)	(2,844)

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

9. (LOSS) PROFIT BEFORE TAX

	2006 HK\$'000	2005 HK\$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Directors' remuneration (<i>note 10(a)</i>)	3,873	3,886
Retirement benefit scheme contributions, net of forfeited contributions of HK\$13,000 (2005: HK\$95,000)	1,274	1,114
Other staff costs	37,714	33,853
Total staff costs	42,861	38,853
Allowance for bad and doubtful debts	904	57
Amortisation of film rights charged to cost of film and television programme production and distribution	85,318	107,087
Auditors' remuneration		
– current year	1,318	1,338
– under(over) provision in prior years	84	(205)
Cost of inventories recognised as expense	18,402	21,813
Depreciation of property, plant and equipment	1,805	2,178
Impairment loss on film rights recognised and included in cost of film and television programme production and distribution	12,260	1,039
Loss on disposal of property, plant and equipment	2	348
Operating lease rentals in respect of rented premises	4,046	4,207
Write-off of property, plant and equipment	368	–
and after crediting:		
Interest on bank deposits	292	–
Imputed interest income on non-current interest-free loans to artistes and staff	1,534	–
Interest on loans to artistes	389	249
Total interest income	2,215	249
Rental income	457	753

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

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

	Mr. Wong Chi Fai	Ms. Fan Man Seung, Vanessa	Mr. Ng Sui Wan (alias Ng Yu)	Ms. Luk Siu Man, Semon (Chairperson)	Mr. So Shu Fai	Mr. Wong Ching Yue	Mr. Chu Kar Wing	Mr. Wong Tak Ming, Gary	2006 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	100	100	100	-	100	100	90	90	680
Other emoluments									
Salaries and other benefits	-	-	2,964	-	-	-	-	-	2,964
Contributions to retirement benefit schemes	-	-	104	-	-	-	-	-	104
Performance related incentive payments (note)	-	-	125	-	-	-	-	-	125
	100	100	3,293	-	100	100	90	90	3,873

	Mr. Wong Chi Fai	Ms. Fan Man Seung, Vanessa	Mr. Ng Sui Wan (alias Ng Yu)	Ms. Luk Siu Man, Semon (Chairperson)	Mr. So Shu Fai	Dr. Chan Kong Sang, Jackie	Mr. Wong Ching Yue	Mr. Chu Kar Wing	Mr. Wong Tak Ming, Gary	Mr. Tso Hon Sai, Bosco	2005 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	100	100	100	-	100	30	100	50	50	50	680
Other emoluments											
Salaries and other benefits	-	-	3,000	-	-	-	-	-	-	-	3,000
Contributions to retirement benefit schemes	-	-	81	-	-	-	-	-	-	-	81
Performance related incentive payments (note)	-	-	125	-	-	-	-	-	-	-	125
	100	100	3,306	-	100	30	100	50	50	50	3,886

Note: The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics during both years.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

During the year, the five highest paid individuals included one director (2005: one director). The total emoluments of the remaining four (2005: four) highest paid individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	5,101	4,620
Bonuses	268	112
Retirement benefit scheme contributions	111	106
	5,480	4,838

	Number of individuals	
	2006	2005
Emoluments of the employees were within the following bands:		
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	2	1

During the year, no emoluments (2005: nil) were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

11. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits for the year	(2,547)	(8,700)
Overprovision in prior years	164	25
	(2,383)	(8,675)

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

	2006 HK\$'000	2005 HK\$'000
(Loss) profit before tax	(32,078)	17,882
Tax credit (charge) of Hong Kong Profits Tax at 17.5%	5,614	(3,129)
Tax effect of expenses not deductible for tax purpose	(15,524)	(13,683)
Tax effect of income not taxable for tax purpose	6,293	14,663
Tax effect of tax losses not recognised	(4,170)	(7,882)
Tax effect of utilisation of tax losses previously not recognised	4,224	1,975
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,231	(719)
Overprovision in prior years	164	25
Others	(215)	75
Income tax expense for the year	(2,383)	(8,675)

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

11. INCOME TAX EXPENSE (Continued)

At 31st March, 2006, the Group had unused tax losses of HK\$180,991,000 (2005: HK\$181,300,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to equity holders of the Company of HK\$32,549,000 (2005: profit of HK\$10,689,000) and the 260,000,000 shares in issue during both years.

Diluted (loss) earnings per share has not been presented as the Company had no dilutive potential ordinary shares for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1st April, 2004	2,981	2,934	1,933	2,752	985	11,585
Currency realignment	1	18	4	8	-	31
Additions	677	749	267	473	911	3,077
Disposals	(283)	(11)	(196)	(188)	(400)	(1,078)
At 31st March, 2005	3,376	3,690	2,008	3,045	1,496	13,615
Currency realignment	4	8	13	19	7	51
Additions	428	444	163	113	397	1,545
Disposals	(240)	(93)	(98)	(332)	-	(763)
Reclassified as held for sale	(285)	(409)	(516)	(782)	(235)	(2,227)
At 31st March, 2006	3,283	3,640	1,570	2,063	1,665	12,221
DEPRECIATION						
At 1st April, 2004	2,151	2,318	1,089	2,127	510	8,195
Currency realignment	-	5	1	2	-	8
Provided for the year	628	585	375	262	328	2,178
Eliminated on disposals	(61)	(10)	(130)	(185)	(240)	(626)
At 31st March, 2005	2,718	2,898	1,335	2,206	598	9,755
Currency realignment	2	6	6	9	1	24
Provided for the year	383	601	258	201	362	1,805
Eliminated on disposals	(129)	(53)	(87)	(123)	-	(392)
On assets reclassified as held for sale	(69)	(300)	(228)	(370)	(106)	(1,073)
At 31st March, 2006	2,905	3,152	1,284	1,923	855	10,119
NET BOOK VALUE						
At 31st March, 2006	378	488	286	140	810	2,102
At 31st March, 2005	658	792	673	839	898	3,860

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold improvements	5% to 50%
Computer equipment	33 $\frac{1}{3}$ %
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

14. PREPAYMENTS AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Prepaid artiste fees (note (a))	3,272	3,315
Prepaid salaries (note (b))	617	2,017
Loan to a director (note (c))	1,000	–
Loans to artistes (note (d))	18,321	20,735
Staff loans (note (e))	314	632
Other prepayments and receivables	23,591	36,990
	47,115	63,689
The amount of prepayments and other receivables is analysed for reporting purpose as follows:		
Non-current portion	9,244	10,228
Current portion	37,871	53,461
	47,115	63,689

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

- (a) The amount of prepaid artiste fees that is expected to be recouped within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current assets. Should the directors of the Company consider that the future recoupable amount of a particular artiste is less than the balance of the artiste fees prepaid to that artiste, the extent of shortfall will be charged to the consolidated income statement immediately. The amount of the prepaid artiste fees at the balance sheet date is analysed for reporting purpose as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current portion	2,006	–
Current portion	1,266	3,315
	3,272	3,315

- (b) On 17th September, 2003, Mr. Ng Sui Wan (alias Ng Yu) (“Mr. Ng Yu”) entered into an employment contract (the “2003 Employment Contract”) with Emperor Entertainment (Hong Kong) Limited, a wholly-owned subsidiary of the Company, with effect from 10th December, 2003 (the “First Commencement Date”), such term may be terminated by not less than three months’ notice in writing served by either party to the other or by paying three months’ basic salary in lieu of notice. In accordance with the terms of the 2003 Employment Contract, an amount of HK\$3,000,000 was paid to Mr. Ng Yu. In the event that the 2003 Employment Contract is terminated by Mr. Ng Yu within two years from the First Commencement Date, the amount has to be refunded. In the event the 2003 Employment Contract is terminated by the Company, the amount to be refunded has to be determined with reference to the circumstances giving rise to the termination. The sum is therefore accounted for as prepaid salaries and charged to the consolidated income statement on a straight line basis over the 24 months from the First Commencement Date.

On 25th October, 2005, Mr. Ng Yu entered into a further employment contract with Emperor Entertainment (Hong Kong) Limited which replaced the 2003 Employment Contract with effect from 10th December, 2005 (the “Second Commencement Date”), such term may be terminated by not less than three months’ notice in writing served by either party to the other or by paying three months’ basic salary in lieu of notice. In accordance with the terms of the 2005 Employment Contract, an amount of HK\$1,500,000 which is to be recouped by the salary of Mr. Ng Yu over the 12 months from the Second Commencement Date, was paid to Mr. Ng Yu. In the event that the 2005 Employment Contract is terminated before the advance has been fully recouped, the amount has to be refunded. The sum is therefore accounted for as loan to a director as set out in note 14(c) and charged to the consolidated income statement on a straight line basis over the 12 months from the Second Commencement Date.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (Continued)

The unamortised amount of the sum paid to Mr. Ng Yu and sums paid to other employees of the Group at the balance sheet date is analysed for reporting purpose as follows:

	2006			2005		
	Mr. Ng Yu HK\$'000	Other employees HK\$'000	Total HK\$'000	Mr. Ng Yu HK\$'000	Other employees HK\$'000	Total HK\$'000
Non-current portion	–	233	233	–	617	617
Current portion	–	384	384	1,000	400	1,400
	–	617	617	1,000	1,017	2,017

(c) The loan to a director, Mr. Ng Yu, is unsecured and interest-free. It is repayable by fixed monthly instalments with reference to the terms of respective agreements. The amount which is repayable within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current assets. The directors of the Company consider that the carrying amount of the loan to a director approximates to its fair value. The amount of the loan to a director at the balance sheet date is analysed for reporting purpose as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current portion	–	–
Current portion	1,000	–
	1,000	–

Director	Terms of loan	Balance at 31st March, 2006 HK\$'000	Balance at 1st April, 2005 HK\$'000	Maximum amount outstanding during the year HK\$'000
Mr. Ng Yu	Unsecured, interest-free	1,000	–	1,500

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (d) The loans to artistes are unsecured. An amount of HK\$6,087,000 (2005: HK\$1,181,000) bears prevailing market interest rates ranging from 3.25% per annum to 5% per annum (2005: 5% per annum to 5.25% per annum) and is repayable by fixed monthly instalment with reference to the terms of respective agreement. Other amounts are interest-free and have no fixed repayment terms. The amount of loans to artistes that is expected to be repaid within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current assets. The directors of the Company consider that the carrying amount of the loans to artistes approximates to their fair value. The amount of the loans to artistes at the balance sheet date is analysed for reporting purpose as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current portion	6,847	8,993
Current portion	11,474	11,742
	18,321	20,735

- (e) The staff loans are unsecured and interest-free. They are repayable by fixed monthly instalments with reference to the terms of respective agreements. The amount of staff loans which is repayable within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current asset. The directors of the Company consider that the carrying amount of the staff loans approximates to their fair value. The amount of the staff loans at the balance sheet date is analysed for reporting purpose as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current portion	158	350
Current portion	156	282
	314	632

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

15. FILM RIGHTS

	HK\$'000
COST	
At 1st April, 2004	460,483
Additions	73,608
Overprovision in prior years	(17,677)
	<hr/>
At 31st March, 2005	516,414
Additions	20,655
Overprovision in prior years	(4,700)
	<hr/>
At 31st March, 2006	532,369
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AMORTISATION AND IMPAIRMENT	
At 1st April, 2004	271,330
Provided for the year	107,087
Impairment loss recognised in the year	1,039
	<hr/>
At 31st March, 2005	379,456
Provided for the year	85,318
Impairment loss recognised in the year	12,260
	<hr/>
At 31st March, 2006	477,034
	<hr/>
CARRYING AMOUNT	
At 31st March, 2006	55,335
	<hr/>
At 31st March, 2005	136,958
	<hr/>

During the year, in light of the circumstances of film industry, the Group undertook a review of its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts. The directors of the Company determined that a number of these film rights were impaired due to worsen marketability of respective film rights. The receivable amount of the relevant assets have been determined on the basis of their fair value less costs to sell. The fair value was determined by reference to the film market. The carrying amount of certain of the film rights amounting to HK\$12,260,000 (2005: HK\$1,039,000) was written off to the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

16. RECORD MASTERS

	2006 HK\$'000	2005 HK\$'000
Record masters	2,335	4,320

At the balance sheet date, the above amounts are stated at cost.

17. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. The following is an aged analysis of trade receivables:

	2006 HK\$'000	2005 HK\$'000
Current	8,291	42,146
Overdue		
0 – 30 days	3,250	3,822
31 – 60 days	3,613	3,393
61 – 90 days	3,624	5,767
over 90 days	2,870	5,792
	21,648	60,920

The directors of the Company consider that the carrying amount of trade receivables approximates to their fair value.

18. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of seven days at prevailing market interests rates ranging from 0.25% per annum to 2.55% per annum (2005: 0.01% per annum to 2.55% per annum). The directors of the Company consider that the carrying amount of these assets approximates to their fair value.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

19. DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

On 30th December, 2005, the Group entered into an agreement with the minority shareholder of the subsidiary, 北京中北英皇文化發展有限公司 (“中北英皇”), which is engaged in provision of management services to artistes and holding company of an artiste training school for the disposal of its 60% equity interest in 中北英皇 to the minority shareholder. The disposal of equity interest in 中北英皇 has not yet been completed. The assets and liabilities attributable to 中北英皇, which are expected to be sold within twelve months, have been classified as a disposal company held for sale and are presented separately in the consolidated balance sheet. The operations are included in the Group's artiste management activities for segment reporting purpose (see note 7).

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal company classified as held for sale are as follows:

	2006 HK\$'000
Loan to a minority shareholder of a subsidiary	60
Property, plant and equipment	1,154
Prepayments and other receivables – non-current portion	276
Prepayments and other receivables – current portion	544
Trade receivables	202
Bank balances and cash	945
	<hr/>
Total assets classified as held for sale	3,181
Other payables and accrued charges, and total for liabilities associated with assets classified as held for sale	(1,266)
	<hr/>
Net assets of the disposal company	1,915

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

20. TRADE PAYABLES

The following is an aged analysis of trade payables:

	2006 HK\$'000	2005 HK\$'000
Current	773	3,198
Overdue		
0 – 30 days	2,049	2,271
31 – 60 days	1,283	2,684
61 – 90 days	220	1,512
over 90 days	4,029	7,718
	8,354	17,383

The directors of the Company consider that the carrying amount of trade payables approximates to their fair value.

21. OTHER PAYABLES AND ACCRUED CHARGES

	2006 HK\$'000	2005 HK\$'000
Deposits from customers	47,736	48,831
Accrued charges	16,941	19,283
Artiste payables	10,595	6,993
Others	9,599	11,870
	84,871	86,977

The directors of the Company consider that the carrying amounts of other payables approximate to their fair values.

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, bears interest at Hong Kong prime rate and is repayable on demand. The directors of the Company consider that the carrying amount of the amount due to ultimate holding company approximates its fair value.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

23. AMOUNT DUE TO A RELATED COMPANY

The amount is a trading balance due to JCE Movies Limited, a company which is ultimately beneficially owned as to 50% by The Albert Yeung Discretionary Trust, a discretionary trust set up by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), a substantial shareholder of the Company. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Luk Siu Man, Semon, spouse of Mr. Albert Yeung, had a deemed interest in this related company.

The amount outstanding is aged within 30 days as at 31st March, 2006.

This amount is unsecured, interest-free and repayable on demand. The directors of the Company consider that the carrying amount of amount due to a related company approximates to its fair value.

24. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

At 31st March, 2006, the loan from a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand. The directors of the Company consider the carrying amount of the loan from a minority shareholder of a subsidiary approximates to its fair value. The minority shareholder was entitled to repayment only after its share of losses in the relevant subsidiary was made good.

At 31st March, 2005, the loans from minority shareholders of subsidiaries were unsecured and interest-free. The minority shareholders were entitled to repayment only after their share of losses in the relevant subsidiaries were made good.

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25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	10,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	260,000,000	2,600

There were no changes in the Company's authorised, issued and fully paid share capital during both years.

26. RESERVES

- (a) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.
- (b) The special reserve of the Group represents advances of HK\$75,000,000 from Questrel Holdings Limited (“Questrel”), a former substantial shareholder of the Company, which were waived by Questrel as part of the group reorganisation in November 2000.

27. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) for employees joining the Group before 1st December, 2000. The assets of the ORSO Scheme are held separately from those of the Group in funds under the control of the independent trustees.

In light of the introduction of the Mandatory Provident Fund Scheme (the “MPF Scheme”), all the employees were granted a one-off option to elect to switch to the MPF Scheme or stay with the ORSO Scheme.

The cost charged to the income statement represented contributions payable to both schemes by the Group at rates specified in the rules of respective schemes. Where there are employees who have elected to stay with the ORSO Scheme and leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group in future years are reduced by the amount of forfeited contributions.

At the balance sheet date, the total amount of forfeited contributions of the ORSO Scheme, which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable by the Group in the future years was not significant.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

28. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2006 HK\$'000	2005 HK\$'000
Within one year	3,006	1,984
In the second to fifth year inclusive	2,003	853
	5,009	2,837

The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Group as lessor

The Group did not have firm commitments for the rental income received.

29. OTHER COMMITMENTS

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	2006 HK\$'000	2005 HK\$'000
Amounts contracted for but not provided in respect of:		
– artiste fees	12,915	23,510
– film production costs	29,463	28,460
– acquisition of rights of distribution and exploitation in a film	–	9,282
	42,378	61,252

30. SHARE OPTION SCHEME

On 26th August, 2004, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme") which became effective upon the listing committee of the Stock Exchange granted approval of listing of, and permission to deal in the shares to be issued under the scheme ("Approval"). The Approval was granted on 11th November, 2004 and the Share Option Scheme became effective pursuant to resolution of the directors of the Company on the same date. The Share Option Scheme is valid and effective for a period of ten years from 11th November, 2004. The purpose of the Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). The Share Option Scheme permits the Company to grant options to any employee or proposed employee (whether full-time or part-time employee, including any executive director) and non-executive director (including independent non-executive directors) of the Company, its subsidiaries or any Invested Entity, any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholders or any participants who contribute to the development and growth of the Group or any Invested Entity. Under the Share Option Scheme, the subscription price for the shares will be a price determined by the directors of the Company, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share. An offer for the grant of options must be accepted within 28 days from the date of the offer and a nominal consideration of HK\$1 is payable on acceptance of the offer of options.

The total number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 26,000,000 shares unless further shareholders' approval has been obtained. The overall limit in the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the shares of the Company in issue from time to time.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

30. SHARE OPTION SCHEME (Continued)

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates, must be approved by all independent non-executive directors of the Company. 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 the shares of the Company issued and to be issued upon exercise of all options already granted or to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, such further grant of options must be approved by the shareholders with the connected persons of the Company abstaining from voting.

Subject to the aforesaid, the total number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the limit shall be subject to the shareholders' approval with such grantee abstaining from voting.

The Company had not granted any option under the Share Option Scheme since its adoption.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had transactions with related parties as follows:

	2006	2005
	HK\$'000	HK\$'000
Distribution and promotion commission income received	15,197	8,070
Fee received for back office support services (including accounting and tax consultancy services)	525	1,335
Fee received for professional services (including legal, and production assistance and consultancy services)	561	601
Advertising and promotion expenses paid	348	370
Car park rentals paid	173	110
Corporate secretarial fee paid	320	320
Fees paid for back office support services (including accounting, tax and financial services, internal auditing, human resources and administrative services)	4,188	312
Fees paid for professional services (including information technology, legal and secretarial services)	752	690
Interest paid to ultimate holding company	2,218	2,844
Management fees and air-conditioning charges paid	653	718
Office management fee paid	–	100
Operating lease rentals paid	2,222	2,153

Certain directors and substantial shareholders of the Company have beneficial or deemed interests in the above related parties.

(b) Compensation of key management personnel

Remuneration paid key management personnel include solely the directors of the Company as determined with reference to remuneration committee, is disclosed in note 10.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
<i>Directly held</i>				
Mile Oak Profits Limited	British Virgin Islands	Ordinary – US\$6	100%	Investment holding
Music Icon Entertainment Limited	British Virgin Islands	Ordinary – US\$1	100%	Investment holding
<i>Indirectly held</i>				
Artlanda Limited	Hong Kong	Ordinary – HK\$2	100%	Production of films and provision of agency services to group companies
EEG Music Publishing Limited	Hong Kong	Ordinary – HK\$2	100%	Licensing of musical works
Emperor Entertainment Group (International) Limited	Mauritius	Ordinary – US\$1,000	100%	Licensing of musical and multimedia works
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands/ Taiwan	Ordinary – US\$1	100%	Production and licensing of musical works and provision of agency services to group companies

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For the year ended 31st March, 2006

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
<i>Indirectly held (Continued)</i>				
Emperor Entertainment (Hong Kong) Limited	Hong Kong	Ordinary – HK\$10,000,000	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation
Emperor Entertainment Limited	Hong Kong	Ordinary – HK\$2	100%	Trading and production of audio-visual products, licensing of musical works, and concert management and organisation
Emperor Entertainment Management Limited	Hong Kong	Ordinary – HK\$2	100%	Licensing of musical works
Emperor Motion Picture (HK) Limited	Hong Kong	Ordinary – HK\$10,000	100%	Investment holding, production and distribution of films and licensing of distribution rights
Emperor Motion Picture (International) Limited	British Virgin Islands/Japan and Macau	Ordinary – US\$1	100%	Production and distribution of films and licensing of distribution rights

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
<i>Indirectly held (Continued)</i>				
Emperor Motion Picture Limited	Hong Kong	Ordinary – HK\$2	100%	Provision of film distribution services
Emperor Production Limited	Hong Kong	Ordinary – HK\$2	100%	Investment holding, concert management and organisation, and provision of event production services
Emperor Stage Limited (formerly known as Bond Cheer Limited)	Hong Kong	Ordinary – HK\$1	100%	Concert management and organisation
Golden Port Productions Limited	Ireland	Ordinary – Euro4	100%	Production and distribution of films, licensing of distribution rights and provision of distribution services
Goldpeak Corporation Limited	Hong Kong	Ordinary – HK\$2	100%	Production and distribution of films and licensing of distribution rights

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For the year ended 31st March, 2006

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
<i>Indirectly held (Continued)</i>				
Music Icon Records Limited	Hong Kong	Ordinary – HK\$2	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes and concert management and organisation
中唱英皇(北京)文化發展有限公司	Mainland China	Capital contribution – RMB5,000,000	60%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation

中唱英皇(北京)文化發展有限公司 is a sino-foreign equity joint venture and all other companies are limited liability companies.

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

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

Financial Summary

Year ended 31st March,

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
RESULTS					
Revenue	196,917	245,137	378,729	166,482	154,713
Other income	10,133	13,707	6,725	7,447	6,474
Cost of music production and distribution	(48,909)	(37,018)	(45,582)	(67,592)	(58,324)
Cost of self-organised events	–	–	–	(9,050)	(28,108)
Cost of provision of event production services	(2,544)	(3,347)	–	–	–
Cost of film and television programme production and distribution	(98,343)	(108,748)	(215,226)	(32,337)	(31,176)
Distribution costs	(24,858)	(30,975)	(43,725)	(24,520)	(17,065)
Administrative expenses	(62,256)	(58,030)	(56,241)	(51,554)	(51,171)
Finance costs	(2,218)	(2,844)	(4,492)	(4,820)	(2,725)
Share of results of associates	–	–	–	(3)	(16)
(Loss) profit before tax	(32,078)	17,882	20,188	(15,947)	(27,398)
Income tax expense	(2,383)	(8,675)	(632)	–	–
(Loss) profit for the year	(34,461)	9,207	19,556	(15,947)	(27,398)
Attributable to:					
Equity holders of the Company	(32,549)	10,689	20,656	(15,940)	(27,398)
Minority interests	(1,912)	(1,482)	(1,100)	(7)	–
	(34,461)	9,207	19,556	(15,947)	(27,398)

At 31st March,

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES					
Total assets	200,267	321,210	292,818	514,735	403,990
Total liabilities	(122,151)	(198,684)	(181,080)	(426,307)	(297,477)
Total equity	78,116	122,526	111,738	88,428	106,513