ROJAM ENTERTAINMENT HOLDINGS LIMITED

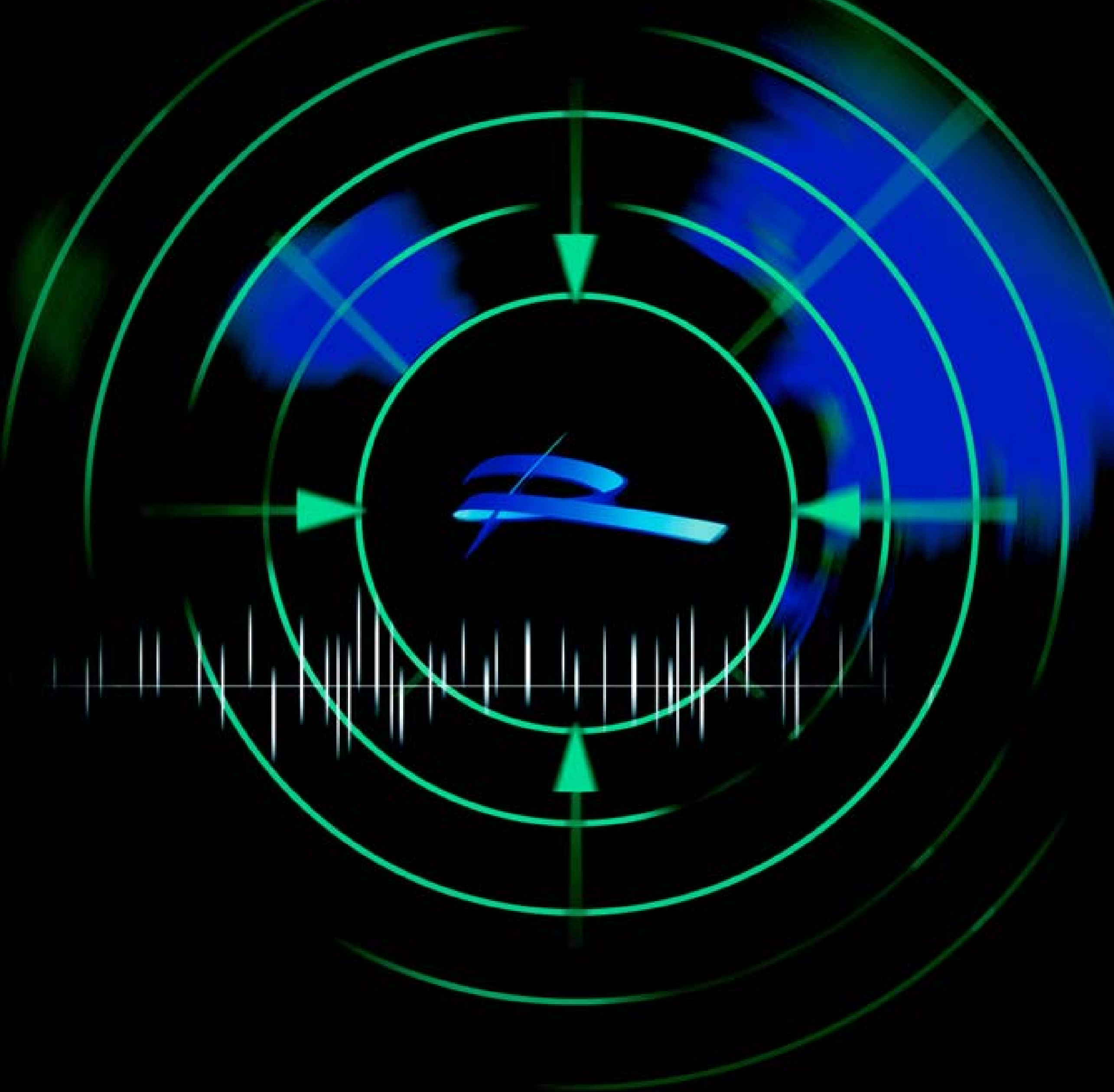
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8075

2006/2007 Annual Report

ROJAM

Entertainment Network Asia



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.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Takeyasu Hashizume *(President)*
Tetsuo Mori *(Executive Vice President (Business Development))*
Osamu Nagashima *(Executive Vice President (Asia))*
Mitsuo Sakauchi *(Executive Vice President (Japan))*
Yukitsugu Shimizu
Hiroshi Osaki

Independent Non-executive Directors

Seiichi Nakaoda
Kwong Pui Kei
Law Kar Ping

COMPANY SECRETARY

Etsuko Hoshiyama, *CPA, AICPA*

QUALIFIED ACCOUNTANT

Cheng Kit Sum, Clara, *CPA, FCCA*

AUTHORISED REPRESENTATIVES

Tetsuo Mori
Etsuko Hoshiyama

COMPLIANCE OFFICER

Tetsuo Mori

AUDIT COMMITTEE

Seiichi Nakaoda *(Chairman)*
Kwong Pui Kei
Law Kar Ping

REMUNERATION COMMITTEE

Seiichi Nakaoda *(Chairman)*
Kwong Pui Kei
Law Kar Ping

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2403, 24/F, Tower 2
Lippo Centre
89 Queensway
Hong Kong

WEBSITE

http://www.rojam.com

STOCK CODE

8075

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

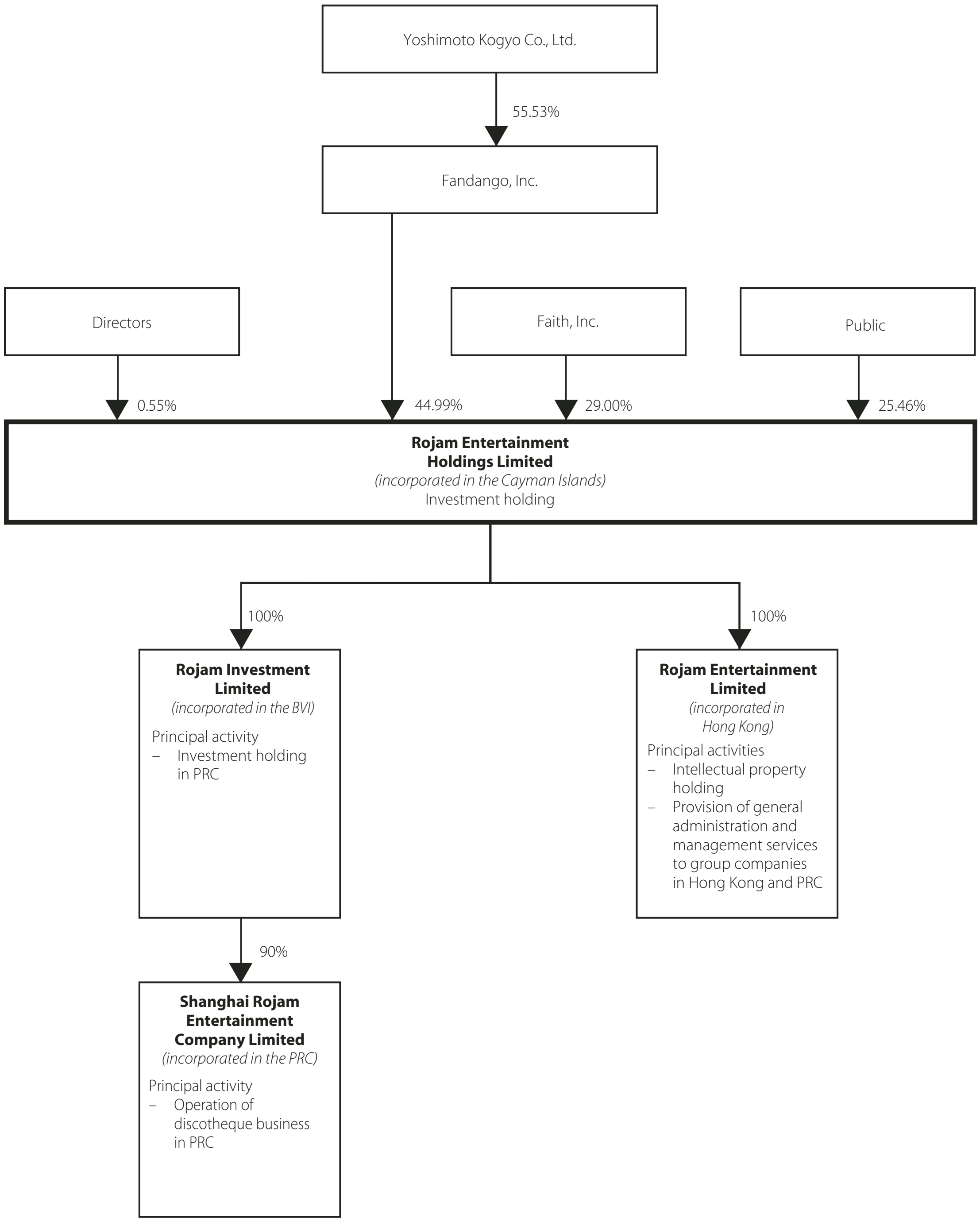
AUDITOR

PricewaterhouseCoopers

Corporate Chart

The Rojam Entertainment Holdings Limited ("Company") was incorporated in the Cayman Islands on 29 February 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares were listed on GEM on 31 May 2001.

The following is a corporate chart of the Company and its subsidiaries (collectively known as the "Group") up to the date of this report.



Financial Summary

	2007 ***HK$'000***	2006 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*
Results for the year ended 31 March (continuing operations and discontinued operations)					
Turnover	**524,582**	505,417	535,716	249,349	129,491
Profit before income tax	**42,601**	73,992	70,815	11,146	10,571
(Loss)/ profit attributable to equity holders of the Company and minority interest	**(68,249)**	40,166	58,990	9,984	10,189
Assets and liabilities					
Total assets	**380,547**	469,876	460,454	298,383	259,138
Total liabilities	**(13,733)**	(169,441)	(171,619)	(65,178)	(34,588)
Net assets	**366,814**	300,435	288,835	233,205	224,550

President's Statement

FINANCIAL RESULTS

Turnover (continuing operations and discontinued operations) was approximately HK$524.6 million in the financial year of 2006/2007, a slight 4% increase from approximately HK$505.4 million in the previous financial year. Profit before income tax (continuing operations and discontinued operations) for the financial year amounted to approximately HK$42.6 million, representing a decrease of 42% from approximately HK$74.0 million of the last financial year. Loss attributable to equity holders (continuing operations and discontinued operations) was approximately HK$68.2 million, compared to profit of approximately HK$40.2 million for the previous financial year. Basic loss per share (continuing operations and discontinued operations) were approximately 3.6 HK cents, compared to earnings per share of approximately 2.6 HK cents of last financial year.

BUSINESS REVIEW

The financial year of 2006/2007 was a year of consolidation and reorganisation. Much effort was put into reorganising the Group to build a sustainable business. In June 2006, the Company applied to the Stock Exchange for migrating its listing status from GEM to the Main Board. In September 2006, the application for the proposed introduction was heard by the listing committee of the Stock Exchange. The management noted that the Group would have to change certain business arrangements with Yoshimoto and Fandango to satisfy the regulatory requirements of being capable of carrying on its business independently. The management believed that the proposed introduction to the Main Board was only one of the Group's development plans, and the change would delay the Group's development activities and waste its resources. Therefore, the management has subsequently chosen to discontinue the relevant application procedures.

The Board also re-evaluated the Group's business strategy in light of trends and developments in the record production and distribution business. The record production and distribution business focused primarily on the Japan market. The management considers that this business exposes the Group to risks beyond its control as a result of the significant reliance on certain major titles by major artistes. Titles from these artistes have contributed a significant proportion of the Group's revenue in recent years, and this business has relied on the Group's shareholder, Yoshimoto, for access to artistes for the continued operation of this business. Further, the structure that a company based in Hong Kong holding a company established in Japan was time-consuming, cost-ineffective and burdensome to the Group in fulfilling the various regulatory requirements in Hong Kong and in Japan, which affected the profitability of the operation.

As a result of these factors, and other factors including increases in the rate of sales commissions payable to sales agents and additional advance payments and royalties paid by the Group, the operating results of this business have experienced a significant decrease. The Board further anticipates that these factors will place significant pressures on the cash flow of the Group in the future. The Board therefore considers that the value which the Group could realise from the sale of R&C in the future might not match that represented by the consideration received this time and the sale of R&C represents a good opportunity to realise that value and refocus the Group's operating strategies and to return some of this value to our shareholders through the special dividend. The management has come to conclusion that, although this business has historically contributed a significant part of the Group's revenue, its future growth potential is limited and it poses significant threats to the Group's overall operations. The management has therefore come to the commercial decision that the Group's discontinuation of this business is in the best interests of the Group and the shareholders as a whole. On 31 March 2007, the Group completed the disposal of R&C for a total consideration of JPY2,743 million (approximately HK$184 million). The loss resulted from this disposal was approximately HK$28.4 million. The special dividend of HK$0.118 per share was paid to all the shareholders on 31 May 2007.

The competition in Shanghai discotheque industry continues to become increasingly intense. More recently opened clubs or bars have modern facilities and equipment and have contributed increased competition. The Group's Rojam Disco has been operating for 9 years. During these 9 years, the Group has carried out two major renovations for the discotheque, while its structure, style and target market have not changed. The management will continue to develop the discotheque to enhance its customer appeal. The new Rojam Club in Suzhou was opened in April 2007, which provides customers with a new and unique entertainment experience.

OUTLOOK

The management acknowledges that, in the short term, the Group's turnover will be significantly reduced as a result of the disposal of R&C. However, the management considers that the Group's future growth potential, profitability and independence of operations are of greater importance. While the management remains optimistic about the long-term prospects of its discotheque business in mainland China, it is also well aware of the temporary difficulties and challenges that the business is experiencing. It is expected that improvement of the discotheque operation segment will be seen in the next financial year.

Moving forward, the Group continues to focus on and expand its entertainment business in the PRC. The management believes that the Group has established a valuable foothold and a brand into the PRC market. With the buoyant Chinese economy, and the increasing purchasing power and improving living standards in the PRC, the management believes that the entertainment market in China still has room for further growth and development.

Besides, the Group will focus its operations on the music industry in the PRC through the digital distribution of music. According to the Ministry of Culture of the PRC, the overall digital music market in China reached approximately RMB2.78 billion in 2005, representing an increase of approximately 61% from 2004, evidencing the fact that Chinese consumers are prepared to pay for music via digital channels. In this respect, the Group has entered into a non-binding memorandum of understanding with certain PRC value-added telecommunication service providers to jointly explore digital music distribution business opportunities in the PRC. Where appropriate, the Group will negotiate and enter into a cooperation agreement with such service providers. The Group will from time to time evaluate potential opportunities to acquire a suitable platform to enter that business.

On behalf of the board of Directors, I would like to express my gratitude to the management and every member of our staff for their hard work during the year. We are also grateful to our shareholders and business partners for their support and confidence. The management believes that the Group's business will remain solid. The coming year will be a preparation year for our Group to pursue in better development opportunities for future expansions.

Takeyasu Hashizume
President

Hong Kong, 20 June 2007

FINANCIAL REVIEW
(Continuing Operations and Discontinued Operations)

	Fourth Quarter (Jan to Mar 2007) HK$'M	Third Quarter (Oct to Dec 2006) HK$'M	Second Quarter (Jul to Sep 2006) HK$'M	First Quarter (Apr to Jun 2006) HK$'M	Total HK$'M
Turnover	175.0	157.7	126.8	65.1	524.6
Cost of sales	(49.8)	(127.7)	(78.0)	(38.4)	(293.9)
Gross profit	125.2	30.0	48.8	26.7	230.7
Operating expenditures*	(75.3)	(48.3)	(39.7)	(26.8)	(190.1)
Profit/(loss) before income tax	50.4	(17.8)	9.7	0.3	42.6
Income tax (expenses)/credit	(85.6)	6.9	(3.9)	0.2	(82.4)
Loss on disposal of a discontinued operation	(28.4)	–	–	–	(28.4)
(Loss)/profit attributable to the equity holders	(63.6)	(10.9)	5.8	0.5	(68.2)

* *Selling & distribution expenses, other operating expenses and other gain/loss, net*

Sales by Business Segments

	Fourth Quarter (Jan to Mar 2007)		Third Quarter (Oct to Dec 2006)		Second Quarter (Jul to Sept 2006)		First Quarter (Apr to Jun 2006)		Total	
	HK$'M	%	HK$'M	%	HK$'M	%	HK$'M	%	HK$'M	%
Discotheque	2.9	2	2.9	2	3.0	2	3.1	5	11.9	2
Record production and distribution	171.3	98	152.8	97	121.7	96	56.8	87	502.6	96
Digital distribution	0.1	–	0.8	–	1.3	1	4.9	8	7.1	1
Others	0.7	–	1.2	1	0.8	1	0.3	–	3.0	1
Group Total	175.0	100	157.7	100	126.8	100	65.1	100	524.6	100

Overall performance

The Group has recorded turnover (continuing operations and discontinued operations) of approximately HK$524.6 million, a slight 4% increase from that of approximately HK$505.4 million in the previous financial year. The Group recorded a profit before income tax (continuing operations and discontinued operations) of approximately HK$42.6 million for the year ended 31 March 2007, a 42% decrease from approximately HK$74.0 million for the year ended 31 March 2006. Loss attributable to equity holders (continuing operations and discontinued operations) for the year was approximately HK$68.2 million, compared to profit of approximately HK$40.2 million in the previous financial year.

Disposal of subsidiaries

On 30 January 2007, the Group entered into a conditional sale and purchase agreement with Fandango, Inc. ("Fandango") whereby the Group agreed to sell its equity interest in Fandango U.S.A., Inc. ("Fandango USA"), R and C Ltd. ("R&C"), KARINTO FACTORY, INC. and Jacobetty, Inc. (collectively the "Fandango USA Group") to Fandango at a consideration of JPY2,743 million (approximately HK$183.8 million) for the disposal of business. In addition, the Group assigned to Fandango the balance of the intercompany loan and certain inter-company receivables due to the Group by the Fandango USA Group in aggregate of approximately HK$112.1 million. The details of the transaction are referred to the circular of the Company dated 15 March 2007. The independent shareholders of the Company approved the transaction at the extraordinary general meeting held on 31 March 2007. The transaction was completed on 31 March 2007. The loss on disposal of the Fandango USA Group amounted to approximately HK$28.4 million. The loss on disposal was calculated based on the net asset value of the Fandango USA Group. Therefore, the change in the loss or profit on disposal as disclosed in the Company's circular dated 15 March 2007 was due to the change of the net asset value of the Fandango USA Group. The change in the net asset value of the Fandango USA Group is primarily due to the change of operating results of the Fandango USA Group.

FINANCIAL REVIEW *(Continued)*

Turnover and segment results

The revenue generated from the discotheque business was approximately HK$11.9 million, being a 21% decline from approximately HK$15.1 million of the last financial year. Segment loss amounted to approximately HK$1.7 million, compared to profit of approximately HK$1.8 million in the last financial year.

Turnover from the record production and distribution business amounted to approximately HK$502.6 million, a 4% increase from approximately HK$484.4 million of the last financial year. Segment profit amounted to HK$59.6 million, being a 22% decrease from HK$76.2 million of the last financial year.

The digital distribution income was approximately HK$7.1 million and segment profit was approximately HK$0.9 million, compared to the revenue of approximately HK$3.1 million and segment profit of approximately HK$0.5 million respectively in the last financial year.

The record production and distribution business was the largest revenue contributor at 96% (2006: 96%), with discotheque business and digital distribution business each contributing 2% (2006: 3%) and 1% (2006: 1%) respectively. Revenue generated in Japan represented 98% (2006: 97%) of total revenue, while operations in mainland China contributed 2% (2006: 3%).

Cost of sales and operating expenses

Cost of sales of the continuing operations amounted to approximately HK$12.9 million, compared to approximately HK$12.8 million in the last financial year, which comprise mainly the operating expenses of the discotheque. The operating expenses of the continuing operations increased by 127% to approximately HK$13.6 million from approximately HK$6.0 million as a result of the increase of the professional fees incurred for the corporate development projects, among others, the migration exercise to the Main Board.

Cost of sales of the discontinued operations decreased by 3% to approximately HK$281.0 million from approximately HK$290.5 million in the last financial year, comprise mainly the cost of sales of the record production and distribution business. The overall gross profit margin for the year ended 31 March 2007 was approximately 45%, being 4% increased from approximately 41% in the last financial year. Selling and distribution expenses increased by 25% to approximately HK$109.7 million from approximately HK$87.7 million as a result of the increase of total sales commissions paid to the sales agents. The operating expenses increased by 98% to approximately HK$68.0 million from approximately HK$34.3 million as a result of the written off of certain inventories, record masters and financial assets.

Income tax expenses

The income tax expense attributed to the discotheque operation decreased to approximately HK$0.01 million for the year ended 31 March 2007, compared to approximately HK$0.5 million in the previous financial year, as a result of the loss position of this operation.

The income tax expense attributed to the discontinued operation increased to approximately HK$82.4 million for the year ended 31 March 2007, being a 147% increase compared to approximately HK$33.3 million in the previous financial year. The increase was mainly due to the increase of deferred income tax of approximately HK$46.8 million as a result of the approval of the liquidation of Fandango USA, temporary difference arised from the distribution of the retained earnings of R&C. The details are set out in note to the consolidated financial statements 26(c)(iv).

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2007, the Group's shareholders' funds increased by approximately 22% to approximately HK$366.8 million as compared to approximately HK$300.4 million as at 31 March 2006. Total assets amounted to approximately HK$380.5 million (2006: HK$469.9 million), of which current assets amounted to approximately HK$348.4 million (2006: HK$236.0 million). At 31 March 2007, the Group had current liabilities of approximately HK$13.7 million (2006: HK$169.4 million). Net asset value per share was approximately HK$0.19 (2006: HK$0.19). Current ratio was approximately 25.4 (2006: 1.4).

The Group financed its operations with internally generated cash flows. At 31 March 2007, cash and bank balances increased to approximately HK$234.9 million (2006: HK$112.1 million) as a result of the disposal of R&C, which consists of approximately 1% in Hong Kong dollars, 79% in Japanese yen, 3% in Renminbi and 17% in US dollars. The Renminbi denominated balances were placed with licensed banks in the PRC and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government. During the year ended 31 March 2007, the Group generated approximately HK$137.9 million from in its operating activities (continuing operations and discontinued operations), used approximately HK$132.7 million in its investing activities (continuing operations and discontinued operations) primarily due to the payment of producers' fees and generated approximately HK$116.1 million from issuance of new shares.

At 31 March 2007, the Group has no long-term borrowing, the same as for the past years. The gearing ratio of the Group, calculated as non-current liabilities to shareholders' funds, was zero.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's exposure to foreign currencies is limited to its investment in foreign subsidiaries, which are financed internally. At 31 March 2007, the Group has no outstanding foreign currency hedge contracts (2006: Nil).

CHARGE ON GROUP ASSETS

At 31 March 2007, the Group did not have any charge on its assets (2006: Nil).

CAPITAL STRUCTURE

The subscription of 371,430,000 new ordinary shares of the Company at HK$0.315 per share by Fandango was completed on 25 May 2006. The net proceeds of approximately HK$116.1 million were applied towards the Group's strategic investments and the general working capital. Fandango's (and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") indirect) interest in the issued share capital of the Company was increased from approximately 67.77% to 73.99% on completion of the subscription.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

On 12 June 2006, R&C acquired the entire issued share capital of KARINTO FACTORY, INC. and Jacobetty, Inc. at an aggregate consideration of approximately HK$6.1 million. The new subsidiaries are principally engaged in master-tape production and music copyright management, respectively, in Japan.

On 30 January 2007, the Company entered into a conditional Sale and Purchase Agreement to dispose the entire issued share capitals (the "Disposal") of Fandango U.S.A., Inc., a wholly-owned subsidiary of the Company, and its subsidiaries including R&C (the "Fandango USA Group") to Fandango, Inc. The Disposal constitutes a very substantial disposal and a connected transaction for the Company under the GEM Listing Rules and is subject to the approval of the independent shareholders of the Company. Details of the Disposal are set out in the announcement of the Company dated 13 February 2007 and the circular of the Company dated 15 March 2007. The Disposal was approved by the independent shareholders and was completed on 31 March 2007.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS *(Continued)*

Other than the above, the Group had no material acquisitions or disposals of subsidiaries during the year ended 31 March 2007.

The Group will continue to consolidate its existing business while exploring new business opportunities that will complement and enhance its existing business. As at 31 March 2007, the Group was considering various investment projects and options but had not made any solid plan for pursuing the same.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 31 March 2007 (2006: Nil).

EMPLOYEE INFORMATION

At 31 March 2007, the Group had 122 (2006: 120) full-time employees in Hong Kong, Japan and Shanghai. Of the 122 employees, 73 are for the continuing operations and 49 are for the discontinued operations. Staff costs (continuing operations and discontinued operations), excluding Directors' emoluments, totalled approximately HK$30.2 million (2006: HK$25.7 million). The Group's remuneration policy is basically determined by the performance of individual employees. In general, salary review is conducted annually. Staff benefits, including medical coverage and provident funds, are also provided to employees.

OPERATIONS REVIEW

Discotheque business

The discotheque business reported revenue of approximately HK$11.9 million, representing an approximately 21% decrease in turnover when compared to revenue of approximately HK$15.1 million. The segment loss was approximately HK$1.7 million compared to a segment profit of approximately HK$1.8 million in previous year. The discotheque income accounted for approximately 2% of the total turnover of the Group for the year ended 31 March 2007.

The average daily customer flow for the financial year at Rojam Disco was around 400, a drop of approximately 33% from 600 as recorded in the previous financial year. The average spending level was however increased by approximately 13% from around RMB69 per person to RMB78 per person.

During the year ended 31 March 2007, Rojam Disco continued to organise unique events, shows and programmes and invited experienced producers and DJs to produce these events sand shows and perform at the discotheque to attract patronage.

Apart from generating revenue for the Group, Rojam Disco represents an opportune and valuable foothold for the Group to promote its music business in the PRC, and to position itself for future expansion in the digital content distribution business in the PRC. The Group has recently begun to use the Rojam Disco as a platform to audition and identify potential artistes. The Group intends to provide training to such artistes with a view to promoting and marketing their content through the discotheques and distributing the content through proposed digital distribution channels.

OPERATIONS REVIEW *(Continued)*

Discotheque business *(Continued)*

Rojam Disco has implemented a membership scheme, under which customers can register as members of the discotheque through Rojam Disco's official website or in the discotheque since December 2004. There are currently approximately 7,500 registered members. Members can enjoy free updates or the discotheque's latest functions and promotional information by short messages (SMS) or e-mail. Rojam Disco is also focused on meeting its customers' tastes and conducts periodical surveys to identify the tastes and preferences in music, artistes, fashion and trends of its target clientele. The information collected serves as guidelines to management in identifying music for distribution through the Group's proposed PRC content distribution business.

In January 2007, Rojam Disco organised its first audition program for scouting new potential Chinese artistes. A number of candidates were selected for further training. Rojam Disco has hired several teachers specialising in singing and dancing to train these chosen candidates. The debut performance of these new artistes at Rojam Disco will be in August 2007. Further, the Group intends to distribute the songs and performance videos of these new artistes through its digital content distribution business in the future.

The Group opened its second entertainment parlour, "Rojam Club", in Suzhou in April 2007. The shop covers a total of approximately 1,500 square metres. The total investment costs amounted to approximately HK$9 million.

Discontinued operations

Record production and distribution

The record production and distribution business has been discontinued since 1 April 2007. The reported revenue of this business amounted to approximately HK$502.6 million, a slight 4% increase from the turnover of approximately HK$484.4 million recorded in last year. The record production and distribution business contributed 96% of the total revenue, being the largest revenue generator of the Group. Segment profit was approximately HK$59.6 million, being a 22% decrease from approximately HK$76.2 million in last year. The decrease in the segment profit was mainly due to the increase in selling and distribution expenses and the written off of certain inventories and record matters.

For the financial year ended 31 March 2007, the Group's own label released a total of 65 music records and 72 audio-visual products, compared to 83 music records and 71 audio-visual products in the last financial year.

The third and fourth quarter recorded the highest sales over the financial year 2006/2007. During the financial year, the Group also sold its audio-visual products to rental shops through its sales agents.

Popular titles included Downtown's DVD "ダウンタウンのガキの使いやあらへんで!! 放送800回突破記念DVD永久保存版" volume 8 and volume 9, Hitoshi Matsumoto's DVDs "人志松本のすべらない話" and its sequel, Taka and Toshi's DVD "Taka and Toshi Yose Euro-America Tour 2006", Gorie's third single namely "恋のPecori♥Lesson", and Kuzu's CD "夏の日々と親父の笑顔".

Digital distribution

Revenue from the digital content distribution business amounted to approximately HK$7.1 million and segment profit amounted to approximately HK$0.9 million for the year ended 31 March 2007, compared to revenue of approximately HK$3.1 million and segment profit of approximately HK$0.5 million in last financial year.

The revenue from the digital content distribution business accounted for approximately 1% of the total turnover of the Group for the year ended 31 March 2007.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Takeyasu Hashizume, aged 59, President, was appointed to the Board in February 2003. He is responsible for the Group's overall management, operations and strategic planning. He has over 30 years of experience in the music and entertainment business. In 1972, Mr. Hashizume joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony), where he was responsible for production and marketing, then became the president of Eastwest Japan, Inc. (currently known as Warner Entertainment Japan, Inc.). Mr. Hashizume joined R&C, as its president in May 2001. Mr. Hashizume is also the chairman of Fandango.

Mr. Tetsuo Mori, aged 57, Executive Vice President (Business Development), the Authorised Representative and the Compliance Officer, has joined the Group since November 2001 and was appointed to the Board in January 2002. He is responsible for the Group's overall entertainment operations and business development. He has over 20 years of experience in the music and entertainment industry. Mr. Mori joined Sony Music Entertainment (Japan) Inc. in 1978. He was a director of Sony Music Entertainment (Hong Kong) Limited from 1991 to 1995. Mr. Mori is also the president of Fandango.

Mr. Osamu Nagashima, aged 51, Executive Vice President (Asia), has joined the Group since November 2001 and was appointed to the Board in February 2003. He is responsible for the Group's music production and marketing in Japan. Mr. Nagashima graduated from Meiji University, Japan in 1980 and joined Warner Entertainment Japan, Inc. (formerly known as Warner Pioneer, Inc.). He has more than 20 years of experience in music business. Prior to joining the Group, Mr. Nagashima was a director of Eastwest Japan, Inc.

Mr. Mitsuo Sakauchi, aged 50, Executive Vice President (Japan), joined the Group and was appointed to the Board in November 2003. He is responsible for the Group's business operations in Japan. Mr. Sakauchi has over 20 years of experience in the marketing and promotion of music records. After he graduated from Nihon University, Japan in 1980, Mr. Sakauchi worked for For Life Music Entertainment Inc. (formerly known as For Life Record Inc.) until 2003. Mr. Sakauchi is also a director of Fandango.

Mr. Yukitsugu Shimizu, aged 65, joined the Group and was appointed to the Board in October 2002. After graduated from Osaka City University, Japan in 1965, Mr. Shimizu joined UFJ Bank Limited (formerly known as The Sanwa Bank, Limited), and then he worked in the banking industry for 28 years. In 1993, Mr. Shimizu joined Yoshimoto as a general manager of its accounting department and was appointed as a director in the same year. In 2003, Mr. Shimizu was appointed as the managing director of Yoshimoto. Since 2005, Mr. Shimizu has been an executive director of Yoshimoto.

Mr. Hiroshi Osaki, aged 53, joined the Group and was appointed to the Board in October 2002. Mr. Osaki has over 25 years of experience in entertainment business with Yoshimoto since his graduation from Kansai University, Japan in 1978. Mr. Osaki has substantial experience in the artiste management industry. He oversees the operation and business development of Yoshimoto and has contributed to make it a well-known entertainment company in Japan. Mr. Osaki was appointed as a director of Fandango in 2000 and appointed as a director of Yoshimoto in 2001. Mr. Osaki has been the vice president of Yoshimoto since 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Seiichi Nakaoda, aged 42, was appointed as an Independent Non-executive Director in February 2001. He is a member of The Institute of Certified Public Accountants in Japan and has over 15 years of experience in finance and accounting practice. Mr. Nakaoda is the managing director of an accounting consultancy firm in Hong Kong.

Mr. Kwong Pui Kei, aged 45, was appointed as an Independent Non-executive Director in September 2004. Mr. Kwong is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and has over 18 years of experience in finance and accounting practice. Mr. Kwong is practicing in his own accountancy firm.

Mr. Law Kar Ping, aged 52, was appointed as an Independent Non-executive Director in September 2004. Mr. Law has over 25 years of experience in accounting and business advisory services. He is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and an Associate of the Hong Kong Institute of Company Secretaries. Mr. Law is practicing in his own accountancy firm.

SENIOR MANAGEMENT

Ms. Cheng Kit Sum, Clara, aged 35, Financial Controller and the Qualified Accountant, has joined the Group since May 2000. She is employed on a full time basis and responsible for managing the Group's finance and accounting processes, maintaining finance control, performing statutory financial reporting and corporate development projects. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy and a Master of Science Degree in Finance. She is a certified public accountant registered with the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Cheng has over 10 years of experience in financial management, accounting and auditing. Prior to joining the Group, she worked for PricewaterhouseCoopers in Hong Kong.

Mr. Ryutaro Ko, aged 40, has been a director of Shanghai Rojam Entertainment Company Limited ("SRE") since September 2002. He is responsible for promotion of discotheque and development and co-ordination of other business in the PRC. Mr. Ko has substantial experiences in music and entertainment industry both in Japan and the PRC. Mr. Ko joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony) in 1993. In 1995, Mr. Ko established Arts Music Group (formerly called as Arts Music Enterprise Ltd), where he, as a president, is engaged in promotion of the artistes and co-ordination of music and other entertainment business in Asian countries including Japan and the PRC.

COMPANY SECRETARY

Ms. Etsuko Hoshiyama, aged 45, has joined the Group since March 2000. Ms. Hoshiyama is also the Authorised Representative. She holds a Bachelor Degree of Law from Kwansei Gakuin University, Japan and a Master Degree of Laws in Taxation from University of Denver, the USA. She is a certified public accountant registered with the Hong Kong Institute of Certified Public Accountants and an associate member of the American Institution of Certified Public Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 15 years of experiences in tax, business consulting, and business development.

Corporate Governance Report

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company") is pleased to present this Corporate Governance Report in the annual report for the year ended 31 March 2007.

The Company wishes to highlight the importance of its Board in ensuring high standards of corporate governance in the interests of its shareholders and has devoted considerable effort to identifying and formalising best practices appropriate to the needs of the Company.

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2007.

The Board will explain in this Corporate Governance Report where the Company's approach deviates from the Code.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provisions

Under the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Deviation and its Reasons

Mr. Takeyasu Hashizume is the President of the Company who is responsible for managing the Board and the businesses of the Company and its subsidiaries (collectively, the "Group"). Mr. Hashizume has been the President of the Company since 2003 and is very experienced in the music industry. In view of the current operation of the Group, the management considered that there is no imminent need to change the arrangement.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Code Provisions

Under the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Deviation and its Reasons

All the directors of the Company (the "Directors") are currently appointed with specific terms. According to the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation, but the chairman of the Board and/or the managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As such, with the exception of the chairman, all Directors are subject to retirement by rotation. The management considers that there is no imminent need to amend the articles of association of the Company.

COMMUNICATION WITH SHAREHOLDERS

Code Provisions

Under the Code, the chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Deviation and its Reasons

Whilst the Company endeavours to maintain an on-going dialogue with its shareholders, the President may not always be able to attend the annual general meeting due to other important business engagement. Mr. Tetsuo Mori, an executive Director, attended the 2006 annual general meeting on 23 August 2006 and answered questions raised at the meeting.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by Directors during the year ended 31 March 2007.

THE BOARD

The Board is responsible for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board currently comprises nine members, consisting of six executive Directors and three independent non-executive Directors. Their brief biographical details are described in the annual report.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to the rules 5.09 of the GEM Listing Rules.

The Company considers all independent non-executive Directors to be independent. The Board meets at least four times a year to review the financial and operating performance of the Group.

THE BOARD (Continued)

There were six Board meetings held in the financial year ended 31 March 2007. Individual attendance of each Board member at these meetings is as follows:

Name of Director	Attended/ Eligible to attend
Executive Directors	
Takeyasu Hashizume (President)	6/6
Tetsuo Mori	6/6
Osamu Nagashima	4/6
Mitsuo Sakauchi	5/6
Yukitsugu Shimizu	4/6
Hiroshi Osaki	5/6
Arihito Yamada (resigned on 26 June 2006)	4/4
Independent Non-executive Directors	
Seiichi Nakaoda	6/6
Kwong Pui Kei	6/6
Law Kar Ping	6/6

During the regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, review and monitor the business and financial performances and discuss the quarterly, half-yearly and annual results, as well as discuss and decide on other significant matters.

The management is responsible for the day-to-day operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 21 May 2001 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive Directors of the Company, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly report and quarterly reports and to provide advices and comments thereon to the Board. The audit committee meets at least four times a year with management to review the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The audit committee met five times during the year ended 31 March 2007. Individual attendance of each committee member at these meetings is as follows:

Name of Director	Attended/ Eligible to attend
Independent Non-executive Directors	
Seiichi Nakaoda	5/5
Kwong Pui Kei	5/5
Law Kar Ping	5/5

The audit committee reviewed the Group's audited results for the year ended 31 March 2007 with the Company's management and recommended its adoption by the Board.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 23 October 2006 with written terms of reference which deal clearly with its authority and duties, in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. The remuneration committee has three members comprising the three independent non-executive Directors of the Company, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The principal responsibilities of the remuneration committee include formulating, reviewing and considering the remuneration policy and proposal prepared by the management of the Company and/or the remuneration arrangement implemented by the Company.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements. The auditors' responsibilities are set out in the Auditors' Report.

INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal control of the Group.

EXTERNAL AUDITORS

PricewaterhouseCoopers ("PwC") has been appointed as the external auditors of the Company by shareholders at the annual general meeting. The remuneration in respect of services provided by PwC for the Group for the year ended 31 March 2007 and 2006 is analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**5,003**	1,986

CONCLUSION

The Board believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest. The management will try to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 16 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

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

The directors recommended the payment of a special dividend of HK$0.118 per ordinary share, totalling HK$227,281,000 (2006: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 24 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company had distributable reserves of approximately HK$199.6 million (2006: HK$7.5 million) represented by share premium and accumulated losses of the Company. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the members of the Company, subject to solvency tests.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2007.

DIRECTORS

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

Executive Directors
Mr. Takeyasu Hashizume
Mr. Tetsuo Mori
Mr. Osamu Nagashima
Mr. Mitsuo Sakauchi
Mr. Yukitsugu Shimizu
Mr. Hiroshi Osaki
Mr. Arihito Yamada (resigned on 26 June 2006)

Independent non-executive Directors
Mr. Seiichi Nakaoda
Mr. Kwong Pui Kei
Mr. Law Kar Ping

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Messrs. Seiichi Nakaoda and Kwong Pui Kei retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and independent non-executive Directors has entered into a service agreement with the Company of an initial duration of two years.

In the case of Mr. Takeyasu Hashizume, his service agreement commenced on 27 February 2003; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7 January 2002; in the case of Mr. Osamu Nagashima, his service agreement commenced on 27 February 2003; in the case of Mr. Mitsuo Sakauchi, his service agreement commenced on 12 November 2003; in the case of Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, their service agreements commenced on 10 October 2002; in the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6 February 2001; in the cases of Mr. Kwong Pui Kei and Mr. Law Kar Ping, their service agreements commenced on 14 September 2004. It is provided in each of these service agreements that their terms of service shall continue until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of two years. Up to the date of this report, the terms of service agreements for those Directors whose initial terms of two years have lapsed, remain in force.

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group had entered into transactions with certain Directors or companies related to them. Details of the material related party transactions and the Directors' interests therein are set out in Note 28 to the consolidated financial statements. Certain of the transactions disclosed in Note 28 also constitute connected transactions under the GEM Listing Rules. The information required to be disclosed in respect of these connected transactions, in accordance with Chapter 20 of the GEM Listing Rules, is set out below.

(I) Non-exempt continuing connected transactions

(a) *Master royalty agreement*

Pursuant to a master royalty agreement dated 30 August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will procure artistes or groups of artistes managed by Yoshimoto and nominated by the Group from time to time to perform to enable the reproduction and distribution of records (which include, but not limited to, any analog disc records, compact discs, minidiscs, digital audio discs and recorded tapes) or videogram (which includes, but not limited to, any video discs, video tapes or any other tangible medium for the purpose of playing back of visual or audio-visual recordings). Yoshimoto will also include the Group's visual and audio-visual recordings in certain television programs produced by Yoshimoto for promotion purpose and grant the Group the right to manufacture and sell audio-visual products containing the content of the television programs for which Yoshimoto is the copyright owner. Artistes royalties in connection with the sales of such audio and audio-visual recordings are payable to Yoshimoto by the Group according to the rates as stipulated in the respective agreements. The term of this agreement is from 30 August 2004 to 31 March 2007, and thereafter renewable by mutual agreement for consecutive three-year periods.

Under the Master Royalty Agreement 2004, R&C is liable to pay Yoshimoto artiste royalties, promotion royalties and copyright licensing royalties in connection with the sales of the audio and audio-visual products as follows: retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged times artiste royalty rate (between 1% to 10%, depending on the relevant artiste) times sales quantity (being 80% of the total shipment of audio and audio-visual products in numbers from the distributor's warehouse, taking into account the expected return of goods). R&C is liable to pay artiste royalties for as long as the sales of the audio and audio-visual recordings subject to this agreement continue on a perpetual basis, even in the event that this agreement expires or is terminated.

This agreement and the annual caps of HK$20,000,000, HK$22,000,000 and HK$26,000,000 for each of the three years ended 31 March 2007, respectively, have been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 27 September 2004 (the "EGM 2004").

The aggregate amount of artiste royalties paid to Yoshimoto under the master royalty agreements for the year ended 31 March 2007 was approximately HK$21,507,000 (2006: HK$14,489,000).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(I) Non-exempt continuing connected transactions *(Continued)*

(b) *Music studio sub-lease agreement*

Pursuant to a lease agreement dated 30 August 2004 and entered into between R&C Asia Ltd. ("R&C Asia") and Fandango, R&C Asia will sub-let to Fandango a portion of a warehouse with a total floor area of around 1,344 square metres located in a warehouse building (the "Warehouse Building") in Tokyo, Japan, together with the music equipment and facilities contained therein (hereinafter refer to as the "Facilities"). The sub-lease agreement was subsequently transferred from R&C Asia to R&C on 1 November 2004 as a result of the merger of the companies. The term of this agreement is from 30 August 2004 to 31 March 2007, subject to termination by R&C giving a 1-month prior notice to Fandango in the event of termination of the head lease entered into between R&C and a third party for use of the Warehouse Building. Under this agreement, Fandango is liable to pay R&C rent of the actual operating costs of the sub-let property and the Facilities, which will be R&C's out-of-pocket expenses relating to the operation plus its administration cost fixed at 10% of such expenses with a maximum amount of Japanese Yen ("JPY") JPY19,000,000 per month (equivalent to approximately HK$1,273,000). This agreement and the annual cap of HK$17,000,000 for each of the three years ended 31 March 2007, have been approved by the independent shareholders of the Company by way of poll at the EGM 2004.

During the year, Fandango did not sub-let the premises. Accordingly, no rental has been received from Fandango for the year ended 31 March 2007 (2006: Nil).

(II) Continuing connected transactions exempt from the independent shareholders' approval requirement

(a) *Sub-lease agreement*

R&C has entered into a sub-lease agreement with Yoshimoto on 20 July 2004 (the "Sub-lease Agreement") to sub-let from Yoshimoto, office premises with a total floor area of around 298.7 square metres located at the 3rd Floor of Taisei Yoshimoto Building, 1-14 Kanda Jimbo-cho, Chiyoda-ku, Tokyo, Japan for a period from 20 July 2004 to 31 March 2006, which has been renewed pursuant to a renewal agreement made between Yoshimoto and R&C on 19 June 2006 (the "Sub-lease Renewal Agreement") and shall be for a period of three years from 1 April 2006 to 31 March 2009. The other terms of the Sub-lease Agreement shall remain the same and shall continue in full force and effect. Under the Sub-lease Agreement and the Sub-lease Renewal Agreement, R&C is liable to pay Yoshimoto rental of JPY1,687,618 per month (equivalent to approximately HK$113,000), and other operating expenses, such as electricity, gas and water charges, on cost basis.

The annual cap for the rental payments and other charges under the Sub-lease agreement and the Sub-lease Renewal Agreement is HK$2,000,000 for each of the two financial years ended 31 March 2006 and the three financial years ending 31 March 2009 respectively. The aggregate amount of rental payments and other charges paid to Yoshimoto under this agreement for the year ended 31 March 2007 was approximately HK$1,819,000 (2006: HK$1,752,000).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(II) Continuing connected transactions exempt from the independent shareholders' approval requirement *(Continued)*

(b) *Master video production agreement*

Pursuant to a master video production agreement dated 30 August 2004 and entered into between R&C and International Television System, Inc. ("ITS"), a subsidiary of Yoshimoto, R&C will engage ITS to produce videos, containing visual or audio-visual recordings in accordance with requirements and specifications of and in such form as specified by R&C. The term of this agreement is from 30 August 2004 to 31 March 2007. Under this agreement, R&C is liable to pay ITS production costs of the videos, containing visual or audio-visual recordings, being ITS's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs under this agreement is HK$2,000,000 for each of the three financial years ended 31 March 2007. The aggregate amount of production costs paid to ITS under this agreement for the year ended 31 March 2007 was approximately HK$80,000 (2006: HK$166,000).

(c) *Master consignment agreement*

Pursuant to a master consignment agreement dated 30 August 2004 and entered into between R&C and Yoshimoto Club Co., Ltd. ("Yoshimoto Club"), a subsidiary of Yoshimoto, R&C will engage Yoshimoto Club to produce and sell merchandise to R&C on an order by order basis. The term of this agreement is from 30 August 2004 to 31 March 2007. Under this agreement, R&C is liable to pay Yoshimoto Club production costs of the merchandise, being Yoshimoto Club's out-of-pocket expenses relating to the production plus administration cost which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs plus administration costs under this agreement is HK$3,500,000 for each of the three financial years ended 31 March 2007. The aggregate amount of production costs paid to Yoshimoto Club under this agreement for the year ended 31 March 2007 was approximately HK$852,000 (2006: HK$717,000).

(d) *Master merchandise royalty agreements*

Pursuant to a master merchandise royalty agreement dated 30 August 2004 and entered into between R&C and each of Fandango and Yoshimoto Club, R&C will grant Fandango and Yoshimoto Club respectively the rights to utilise the content, master tapes or artistes under the ownership of R&C in the production of merchandise when it is requested by Fandango and Yoshimoto Club. Fandango and Yoshimoto Club are entitled to distribute such merchandise through its normal sales channels including internet and mail order. The term of each of these agreements is from 30 August 2004 to 31 March 2007. In turn, Fandango and Yoshimoto Club is liable to pay to R&C in connection with the rights granted as follows: retail price net of consumption tax times merchandise royalty rate (between 5% to 30%, subject to mutual agreement) times sales quantity.

The annual cap for the merchandise royalty fees under these agreements is HK$4,000,000 for each of the three financial years ended 31 March 2007. During the year, no such right was granted to Fandango and Yoshimoto Club by R&C and therefore, no merchandise royalty fees has been received from Fandango and Yoshimoto Club (2006: Nil).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(II) Continuing connected transactions exempt from the independent shareholders' approval requirement *(Continued)*

(e) *Master digital distribution agreement*

Pursuant to a master digital distribution agreement dated 30 August 2004 and entered into between R&C and Fandango, Fandango will distribute R&C's audio and audio-visual recordings through the internet, mobile phones, or other digital media on an order by order basis. The term of this agreement is from 30 August 2004 to 31 March 2007. Under this agreement, Fandango is liable to pay to R&C in connection with the distribution of R&C's content a commission of 50% of the revenue for distributing R&C's content after deducting external costs.

The annual caps for the commission received from Fandango under this agreement are HK$1,200,000, HK$2,300,000 and HK$2,800,000 for the three financial years ended 31 March 2007 respectively. During the year, the commission received from Fandango under this agreement was approximately HK$715,000 (2006: HK$695,000).

(f) *Master promotion agreement*

Pursuant to a master promotion agreement dated 30 August 2004 and entered into between R&C and Yoshimoto, Yoshimoto will promote R&C's audio and audio-visual recordings through television and radio programs, magazines, or any other advertisements produced by Yoshimoto and local television stations for R&C on an order by order basis. The term of this agreement is from 30 August 2004 to 31 March 2007. Under this agreement, R&C is liable to pay to Yoshimoto in connection with the promotion of R&C's content a fee based on Yoshimoto's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs under this agreement is HK$3,500,000 for each of the three financial years ended 31 March 2007. The aggregate amount of promotion costs paid to Yoshimoto under this agreement for the year ended 31 March 2007 was approximately HK$601,000 (2006: HK$1,813,000).

The continuing connected transactions contemplated under the agreements numbered (a) to (f) above are only subject to the reporting and announcement requirements under the GEM listing Rules, respective disclosures of the transactions are set out in the announcements of the Company dated 2 September 2004 and 19 June 2006 respectively.

(III) Continuing connected transactions exempt from the reporting, announcement and independent shareholder's approval requirements

Discotheque management fee arrangement

Pursuant to the cooperative joint venture agreements dated 18 September 2002 and 1 August 2004 entered into between Rojam Investment Limited and Shanghai Huanyu Import and Export Company Limited ("Shanghai Huanyu") (together, the "JV Agreements"), Shanghai Huanyu will help Shanghai Rojam Entertainment Company Limited ("SRE") obtain all licenses required for the operation of Discotheque in Shanghai and provide other management services to SRE, including, among other things, the recruitment of management staff, technicians and other staff, the leasing of proper ties in the PRC, application for tax benefits in the PRC and purchase of all necessary equipments and facilities. Shanghai Huanyu is a connected person by virtue of its holding of 10% equity interest in SRE. The term of the JV Agreements will expire on 22 November 2023.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(IV) Disposal of subsidiaries

On 30 January 2007, the Company and Fandango (a shareholder (Note 28), "the Purchaser") entered into a conditional Sale and Purchase Agreement (the "Agreement") whereby the Company agreed to sell its equity interest in Fandango USA, R&C, KARINTO FACTORY, INC. and Jacobetty, Inc. (collectively the "Fandango USA Group" or the "Disposal Group") to the Purchaser at a consideration of JPY2,743 million (approximately HK$184 million) for the disposal of business. In addition, the Company assigned to the Purchaser certain inter-company receivables due to the Company by the Fandango USA Group (Note 20). This transaction constitutes a connected transaction under the GEM Listing Rules and the details are included in the circular of the Company dated 15 March 2007. The transaction was completed on 31 March 2007.

The independent non-executive Directors have reviewed the above connected transactions set out in section (I) and (II) above and confirmed that the connected transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms; or

(iii) have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded their respective caps.

In accordance with paragraph 20.38 of the GEM Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the connected transactions set out in section (I) and (II) above in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the auditor of the Company has confirmed that the connected transactions set out in section (I) and (II) above:

(i) have been approved by the board of Directors;

(ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreement governing the transactions; and

(iv) have not exceeded their respective caps.

Save as aforesaid and disclosed in the section headed "Directors' service contracts" in this report, no other contracts of significance in relation to the Group's business to which the Company, its parent companies, any of its fellow subsidiaries or its subsidiaries was a party and in which a Director or the controlling shareholder 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 March 2007, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the shares of the Company

Name of Director	Capacity in which the shares are held	Number of shares *(Note)*	Approximate percentage of the Company's total issued share capital
Mr. Takeyasu Hashizume	Beneficial owner	6,658,000 (L)	0.35%
Mr. Hiroshi Osaki	Beneficial owner	3,442,000 (L)	0.18%
Mr. Yukitsugu Shimizu	Beneficial owner	430,000 (L)	0.02%

(ii) Interests in the shares of the associated corporation of the Company

Ordinary shares in Yoshimoto

Name of Director	Capacity in which shares in Yoshimoto are held	Number of shares *(Note)*	Approximate percentage of shareholdings in Yoshimoto
Mr. Yukitsugu Shimizu	Beneficial owner	10,000 (L)	0.03%
Mr. Hiroshi Osaki	Beneficial owner	7,000 (L)	0.02%

Note: The letter "L" denotes the Directors' long position in the shares of the Company.

Save as disclosed above, as at 31 March 2007, none of the Directors, chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(ii) Interests in the shares of the associated corporation of the Company *(Continued)*

Save as disclosed above, at no time during the year ended 31 March 2007 was the Company, its parent companies or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

Name of shareholder	Nature of interest	Number of shares *(Note 1)*	Approximate percentage of the Company's total issued share capital
Fandango, Inc.	Beneficial owner	866,522,167 (L)	44.99%
Yoshimoto Kogyo Co., Ltd. *(Note 2)*	Interest of a controlled corporation	866,522,167 (L)	44.99%
Faith, Inc.	Beneficial owner	558,574,000 (L)	29.00%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the Company.

2. Fandango is controlled as to approximately 55.53% by Yoshimoto. Accordingly, Yoshimoto was interested in 866,522,167 shares in the Company by attribution.

Save as disclosed above, at 31 March 2007, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The approximate percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	29%
– five largest suppliers combined	84%
Sales	
– the largest customer	48%
– five largest customers combined	95%

None of the Directors, their respective associates nor any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, executive Directors, are directors of Yoshimoto, a substantial shareholder of the Company, and certain of its associates (as defined in the GEM Listing Rules). Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki beneficially own approximately 0.03% and 0.02% interests in Yoshimoto, respectively. Pursuant to two deeds of non-competition undertakings, both dated 10 October 2002, as each amended by supplemental deeds dated 28 September 2004 and 28 June 2006 respectively, and entered into between Yoshimoto and each of (i) the Company and (ii) R&C, Yoshimoto irrevocably and unconditionally undertakes to each of the Company and R&C that, unless with the written consent of the Company or R&C (as the case may be) or except for certain circumstances, it will not and will procure that its subsidiaries and associates will not, carry on or be engaged, concerned or interested directly or indirectly in the production of master tapes and licensing of such master tape rights.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) have any interests in a business, which competes or may compete with the business of the Group or had any conflict of interests with the Group.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEME ARRANGEMENTS

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The subsidiary operating in Japan is required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. It is required to make contributions to the retirement schemes at a rate of approximately 7% of the basic salary of their employees up to a monthly maximum of JPY620,000 (approximately HK$41,500) per employee.

The subsidiary in the PRC is required to participate in defined contribution retirement scheme organised by the relevant local government authorities since incorporation. It is required to make contributions to the retirement scheme at a rate of around 7% to 22% of the basic salary of their employees.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Takeyasu Hashizume
President

Hong Kong, 20 June 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Rojam Entertainment Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 80, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 June 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000 (restated)
Continuing operations			
Turnover	5	**11,860**	15,105
Cost of sales	6	**(12,925)**	(12,797)
Gross (loss)/profit		**(1,065)**	2,308
Other operating expenses	6	**(13,581)**	(6,009)
Other gains/(losses), net	7	**1,211**	(708)
Operating loss		**(13,435)**	(4,409)
Finance income		**1,990**	661
Loss before income tax		**(11,445)**	(3,748)
Income tax expense	8	**(14)**	(481)
Loss for the year from continuing operations		**(11,459)**	(4,229)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	26(c)(i)	**(56,790)**	44,395
(Loss)/profit for the year		**(68,249)**	40,166
Attributable to:			
Equity holders of the Company		**(68,249)**	40,166
Loss per share for loss from continuing operations attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic and diluted	12	**(0.6)**	(0.3)
(Loss)/earnings per share for (loss)/profit from discontinued operations attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– basic and diluted	12	**(3.0)**	2.9
(Loss)/earnings per share for (loss)/profit from attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– basic and diluted	12	**(3.6)**	2.6
Dividends	13	**227,281**	–

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
ASSETS			
Non-current assets			
Intangible assets	*14*	**23,519**	184,774
Property, plant and equipment	*15*	**8,070**	13,606
Available-for-sale financial asset	*17*	**–**	23,400
Deferred income tax assets	*18*	**537**	12,056
		32,126	233,836
Current assets			
Inventories	*19*	**117**	14,553
Amount due from a shareholder	*20, 28*	**112,076**	–
Trade receivables	*21*	**–**	100,367
Other receivables and prepayments		**1,334**	9,052
Cash and cash equivalents	*22*	**234,894**	112,068
		348,421	236,040
Total assets		**380,547**	469,876
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*23*	**192,611**	155,468
Reserves	*24(a)*	**(53,753)**	144,292
Special dividends	*13, 24(a)*	**227,281**	–
		366,139	299,760
Minority interests		**675**	675
Total equity		**366,814**	300,435

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Current liabilities			
Trade payables	25	**118**	91,081
Accruals and other payables		**13,615**	24,912
Receipt in advance		**–**	19,975
Current income tax liabilities		**–**	33,473
		13,733	169,441
Total liabilities		**13,733**	169,441
Total equity and liabilities		**380,547**	469,876
Net current assets		**334,688**	66,599
Total assets less current liabilities		**366,814**	300,435

On behalf of the Board

Takeyasu Hashizume
Director

Tetsuo Mori
Director

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	**81,385**	91,338
Amounts due from subsidiaries	20	**–**	32,638
		81,385	123,976
Current assets			
Amounts due from subsidiaries	20	**24,530**	25,687
Amount due from a shareholder	20, 28	**112,076**	–
Other receivables and prepayments		**294**	139
Cash and cash equivalents	22	**227,022**	13,804
		363,922	39,630
Total assets		**445,307**	163,606
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	**192,611**	155,468
Reserves	24(b)	**(27,634)**	7,543
Special dividends	13, 24(b)	**227,281**	–
Total equity		**392,258**	163,011
LIABILITIES			
Current liabilities			
Amount due to a subsidiary	20	**49,371**	–
Accruals and other payables		**3,678**	595
Total liabilities		**53,049**	595
Total equity and liabilities		**445,307**	163,606
Net current assets		**310,873**	39,035
Total assets less current liabilities		**392,258**	163,011

On behalf of the Board

Takeyasu Hashizume
Director

Tetsuo Mori
Director

The notes on pages 37 to 80 are an integral part of this financial statement.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Attributable to equity holders of the Company					
	Share capital	**Share premium**	**Exchange reserve**	**(Accumulated losses)/ retained earnings**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2005	155,468	148,329	(8,302)	(7,335)	675	288,835
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	–	(9,910)	–	–	(9,910)
Final dividend for the year ended 31 March 2005	–	–	–	(18,656)	–	(18,656)
Profit for the year ended 31 March 2006	–	–	–	40,166	–	40,166
Balance at 31 March 2006	155,468	148,329	(18,212)	14,175	675	300,435
Balance at 1 April 2006	155,468	148,329	(18,212)	14,175	675	300,435
Issue of shares	37,143	79,857	–	–	–	117,000
Share issue expenses	–	(903)	–	–	–	(903)
Exchange differences realised upon disposal of subsidiaries *(Note 26(c))*	–	–	15,766	–	–	15,766
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	–	2,765	–	–	2,765
Loss for the year ended 31 March 2007	–	–	–	(68,249)	–	(68,249)
Balance at 31 March 2007	192,611	227,283	319	(54,074)	675	366,814

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	*26(a)*	**172,225**	1,421
Overseas tax paid		**(34,315)**	(25,244)
Net cash generated from/(used in) operating activities		**137,910**	(23,823)
Cash flows from investing activities			
Purchase of interests in subsidiaries	*26(b)*	**(5,662)**	–
Net proceeds from disposal of subsidiaries	*26(c)*	**6,887**	–
Purchase of property, plant and equipment	*15*	**(8,157)**	(805)
Purchase of record masters	*14*	**(127,680)**	(50,870)
Interest received		**1,931**	672
Net cash used in investing activities		**(132,681)**	(51,003)
Cash flows from financing activities			
Dividend paid to Company's shareholders		**–**	(18,656)
Net proceeds from issuance of shares		**116,097**	–
Net cash generated from/(used in) financing activities		**116,097**	(18,656)
Net increase/(decrease) in cash and cash equivalents		**121,326**	(93,482)
Cash and cash equivalents at the beginning of the year		**112,068**	209,805
Effect of foreign exchange rate change		**1,500**	(4,255)
Cash and cash equivalents at the end of the year	*22*	**234,894**	112,068

The notes on pages 37 to 80 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands. The Group is principally engaged in record production and distribution, music production, digital distribution and discotheque operation. The businesses of record distribution, music production and digital distribution were disposed of on 31 March 2007.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The following amendments to standards and new interpretation are mandatory for accounting periods beginning on or after 1 April 2006 and are relevant to the Group's operations:

HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities – Cash Flow Hedge Accounting of Forecast Intragroup Transactions – The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS-Interpretation 4	Determining whether an Arrangement contains a Lease

These amendments to standards and new interpretation had no material effect on the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The following new standards, amendment to standard and interpretations have been published that are mandatory for accounting periods beginning on or after 1 April 2007 that the Group has not early adopted:

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)

HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006)

HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

HK(IFRIC)-Int 11 provides guidance on how to account for share-based payment arrangements to an entity's employees involving equity instruments of its parent company. If the equity instruments are granted by its parent company and accounted for as equity-settled in its parent's consolidated financial statements, the entity should account for the share-based payment arrangements as equity-settled. If the equity instruments are granted by the entity, the entity should account for the share-based payment arrangements as cash-settled. The Group will apply HK(IFRIC)-Int 11 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HKFRS 7, Financial Instruments: Disclosures, and the complementary amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007)

HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (See Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (see Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The principal annual rates are as follows:

Leasehold improvements	20% – 50%
Studio equipment	10% – 20%
Office equipment, furniture and fixtures	20% – 25%
Computer equipment	30%
Discotheque equipment	20%
Motor vehicles	20% – 30%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

2.6 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generated units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Record masters*

Record masters mainly represent costs of production for master tapes from which the relevant audio and audio-visual products are released and are stated at accumulated costs incurred in the production, less amortisation and impairment losses, of master tapes of the audio and audio-visual products. The amount recognised as an asset is amortised using the straight-line method over the estimated life of the record performance, with a maximum of 24 months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified in trade and other receivables in the balance sheet (Note 2.10).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for available-for-sale financial assets and loans and receivables. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from investment securities. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

Since the available-for-sale financial assets are unlisted equity securities, the Group establishes fair value by using valuation techniques, including the use of asset approach. Under this approach, the assets of a company are valued by reference to their own worth and without necessarily considering the level of profits which these assets are capable of generating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment assessment of trade and other receivables is described in Note 2.10.

2.9 Inventories

Inventories comprise merchandise and records and audio-visual products and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. The cost of finished goods comprises purchase cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the government regulations in the People's Republic of China (the "PRC") and Japan, the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 22% and 7% of the wages for the year of those workers in the PRC and Japan, respectively. The local municipal government of the PRC and Japan undertake to assume the retirement benefits obligations of those workers of the Group. Contributions to these retirement benefits schemes are charged to the consolidated income statement as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from record production and distribution and digital distribution is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(ii) Revenue from music production services is recognised when the service is rendered.

(iii) Revenue from operation of discotheque, including sales of food and beverages, is recognised when the service is rendered.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

Risk management is carried out by the Group's Treasury function. The Group adopts a conservative and balanced treasury policy which focuses on the financial risks factor as below and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's major operations are in Japan and the PRC. The net assets are exposed to foreign currency translation risk. The Group has an economic hedge in terms of transactional currency risk to the extent that nearly all of the Group's sales, purchases and operating expenses are denominated in local currencies of foreign operations.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group is classified on the consolidated balance sheet as available-for-sale financial asset. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group's sales are made to several major customers. The majority of the Group's trade receivables relate to the record production and distribution, music production and digital distribution. To minimise the concentrations of credit risk, the Group has policies in place to ensure that sales are made to reputable and credit worthy customers. The Group also performs ongoing credit evaluations of its customers' financial conditions. In addition, deposits are also received in advance for certain major customers.

The maximum exposure to credit risk at the reporting date is the carrying amount of the trade receivables.

(c) Interest rate risk

The Group is not significantly exposed to fair value interest rate risks as the Group has no significant interest-bearing assets, except cash and cash equivalents of short maturity, and has no borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy to maintain sufficient cash to fund its operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amount of a CGU is determined using discounted cash flow calculations under the basis of value in use. These calculations use cash flow projections based on annual budgets approved by management covering a five-year period.

Key assumptions used for discounted cash flow calculations:

	2007		
	EBIT margin[1]	**Growth rate[2]**	**Discount rate[3]**
Mainland China			
– Discotheque operation	30%	14%	10%

These assumptions have been used for the analysis of each CGU within the business segment.

1. Budgeted earnings before interest and tax.

2. Weighted average growth rate used to extrapolate cash flows beyond the projections period.

3. Discount rate applied to the cash flow projections reflects specific risks relating to the relevant segments.

These assumptions have been used for the analysis of each cash-generating unit within the business segment. Management prepared the financial budgets based on actual and prior year performance and market development expectations. The EBIT margin and growth rate used are within the range of comparable companies in the industry. Management estimates discount rate by reference to the market data of comparable companies in the industry. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

Details of the assumptions are disclosed in Note 14.

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in record production and distribution, music production, digital distribution and discotheque operation during the years ended 31 March 2007 and 2006. Revenues recognised during the year are as follows:

	2007 **HK$'000**	2006 *HK$'000*
Turnover		
Continuing operations		
Discotheque income	**11,860**	15,105
Discontinued operations		
Record production and distribution income	**502,570**	484,383
Digital distribution income	**7,094**	3,053
Music production income	**1,219**	2,040
Others	**1,839**	836
	512,722	490,312
	524,582	505,417

Primary reporting format – business segments

The Group is principally engaged in four main business segments during the years ended 31 March 2007 and 2006:

Discotheque	–	operations of discotheque
Record production and distribution	–	producing and distributing records and audio-visual products under its own labels and records containing master sound recordings which have been licensed from third parties (discontinued on 31 March 2007)
Digital distribution	–	production and provision of digital entertainment content through multi-media platforms such as internet, mobile phones and other digital media (discontinued on 31 March 2007)
Music production	–	provision of encompassing producer services, master tape recordings, mixing services, re-mixing services, arranging services and advisory services in respect of selection of songs for records production (discontinued on 31 March 2007)
Others	–	mainly includes music publishing, event management and merchandise sales (discontinued on 31 March 2007)

The Group's inter-segment transactions mainly consist of record production and distribution and music production between subsidiaries. The transactions were entered into on terms similar to those with independent third parties and were eliminated on consolidation. Unallocated (costs)/income represent corporate (expenses)/income.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred income tax assets and available-for-sale investments and cash and cash equivalents held by corporate office for general working capital purpose.

Segment liabilities comprise operating liabilities and exclude items such as current income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 15) and intangible assets (Note 14).

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results, and capital expenditure and other segment items for the year then ended 31 March 2007 and segment assets and liabilities at 31 March 2007 are as follows:

	Discontinued operations						Continuing operations	Total
	Record production and distribution	Digital distribution	Music production	Others	Elimination	Sub-total	Discotheque	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover								
External sales	502,570	7,094	1,219	1,839	–	512,722	11,860	524,582
Inter-segment sales	12	–	–	–	(12)	–	–	–
Total	502,582	7,094	1,219	1,839	(12)	512,722	11,860	524,582
Segment results	59,586	902	155	1,838	–	62,481	(1,658)	60,823
Finance income								2,026
Unallocated corporate expense								(20,248)
Profit before income tax								42,601
Income tax expense								(82,428)
Loss on disposal of a discontinued operation, net of tax								(28,422)
Loss for the year								(68,249)
Segment assets	–	–	–	–	–	–	39,931	39,931
Unallocated corporate assets								340,616
Total assets								380,547
Segment liabilities	–	–	–	–	–	–	(9,426)	(9,426)
Unallocated corporate liabilities								(4,307)
Total liabilities								(13,733)
Impairment loss on trade receivables *(Note 26(c)(iii))*	115	–	–	–	–	115	–	115
Capital expenditure	129,947	–	–	–	–	129,947	5,890	135,837
Amortisation of intangible assets *(Note 26(c)(iii))*	49,023	–	–	–	–	49,023	–	49,023
Impairment charge on intangible assets *(Note 26(c)(iii))*	13,346	–	–	–	–	13,346	–	13,346
Impairment loss on available-for-sale financial assets *(Note 26(c)(iii))*	–	–	–	4,370	–	4,370	–	4,370
Write down of inventories *(Note 26(c)(iii))*	12,922	–	–	–	–	12,922	–	12,922
Depreciation *(Note 15)*	4,140	–	–	–	–	4,140	659	4,799
Unallocated corporate depreciation								26
								4,825

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results and capital expenditure and other segment items for the year then ended 31 March 2006 and segment assets and liabilities at 31 March 2006 are as follows:

	Discontinued operations						Continuing operations	Total
	Record production and distribution *HK$'000*	Digital distribution *HK$'000*	Music production *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Sub-total *HK$'000*	Discotheque *HK$'000*	Total *HK$'000*
Turnover								
External sales	484,383	3,053	2,040	836	–	490,312	15,105	505,417
Inter-segment sales	19	–	–	–	(19)	–	–	–
Total	484,402	3,053	2,040	836	(19)	490,312	15,105	505,417
Segment results	76,168	480	322	836	–	77,806	1,810	79,616
Finance income								672
Unallocated corporate expense								(6,296)
Profit before income tax								73,992
Income tax expense								(33,826)
Profit for the year								40,166
Segment assets	372,851	–	961	–	–	373,812	40,674	414,486
Unallocated corporate assets								55,390
Total assets								469,876
Segment liabilities	(125,152)	–	(497)	–	–	(125,649)	(8,931)	(134,580)
Unallocated corporate liabilities								(34,861)
Total liabilities								(169,441)
Capital expenditure	51,256	–	–	–	–	51,256	419	51,675
Amortisation of intangible assets *(Note 26(c)(iii))*	33,916	–	–	–	–	33,916	–	33,916
Write down of inventories *(Note 26(c)(iii))*	642	–	–	–	–	642	–	642
Impairment of trade receivables *(Note 26(c)(iii))*	498	–	–	–	–	498	–	498
Depreciation *(Note 15)*	7,316	–	–	–	–	7,316	496	7,812
Unallocated corporate depreciation								38
								7,850

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Although the Group's four business segments are managed on a worldwide basis, they operate in two main geographical areas during the years ended 31 March 2007 and 2006:

Mainland China – operations of discotheque

Japan – record production and distribution, digital distribution and music production

There are no sales or other transactions between the geographical segments.

	Turnover 2007 *HK$'000*	**Segment results 2007 *HK$'000***	**Segment assets 2007 *HK$'000***	**Capital Expenditure 2007 *HK$'000***
Continuing operations				
Mainland China	**11,860**	**(1,658)**	**39,931**	**5,890**
Discontinued operations				
Japan	**512,722**	**62,481**	**–**	**129,947**
	524,582	**60,823**	**39,931**	**135,837**
Finance income		**2,026**		
Unallocated costs		**(20,248)**		
Profit before income tax		**42,601**		
Unallocated corporate assets			**340,616**	
Total assets			**380,547**	

	Turnover 2006 *HK$'000*	Segment results 2006 *HK$'000*	Segment assets 2006 *HK$'000*	Capital Expenditure 2006 *HK$'000*
Continuing operations				
Mainland China	15,105	1,810	40,674	419
Discontinued operations				
Japan	490,312	77,806	373,812	51,256
	505,417	79,616	414,486	51,675
Finance income		672		
Unallocated costs		(6,296)		
Profit before income tax		73,992		
Unallocated corporate assets			55,390	
Total assets			469,876	

6. EXPENSES BY NATURE – CONTINUING OPERATIONS

Expenses included in cost of sales and other operating expenses are analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Auditors' remuneration	**3,510**	1,000
Cost of inventories sold	**2,234**	2,525
Depreciation of property, plant and equipment *(Note 15)*	**685**	534
Operating leases on land and buildings	**4,163**	3,481
Employee benefit expense (excluding Directors' emoluments) *(Note 9)*	**5,380**	5,300
Management fee paid to the minority shareholder	**490**	480
Promotion and advertising expenses	**10**	36
Legal and professional fee	**4,013**	489
Others	**6,021**	4,961
Total cost of sales and other operating expenses	**26,506**	18,806

7. OTHER GAINS/(LOSSES), NET – CONTINUING OPERATIONS

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Net foreign exchange gains/(losses)	**1,211**	(708)

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits for the year (2006: Nil).

The PRC income tax has been provided on the taxable profit of the Group's subsidiary in the PRC and is calculated at the applicable rate of 15% (2006:15%).

The amount of income tax (including the discontinued operations) charged to the consolidated income statement represents:

	2007 **HK$'000**	2006 *HK$'000*
Current income tax:		
Japanese corporate income tax	**34,917**	42,615
PRC taxation	**–**	481
(Over)/Under-provision in prior years:		
Japanese corporate income tax	**659**	(552)
PRC taxation	**14**	–
Deferred income tax *(Note 18)*	**46,838**	(8,718)
Income tax expense	**82,428**	33,826

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2007 **HK$'000**	2006 *HK$'000* (restated)
Profit before income tax (including the discontinued operations)	**42,601**	73,992
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**7,455**	12,949
Effect of different taxation rates in other countries	**12,917**	19,038
Income not subject to taxation	**(1,099)**	(96)
Expenses not deductible for taxation purposes	**4,808**	2,487
Tax losses not recognised	**16**	–
(Over-provision)/under-provision in prior year	**673**	(552)
Deferred tax arising from temporary difference *(Note 26(c)(iv))*	**57,658**	–
Income tax expense at the Group's effective tax rate	**82,428**	33,826
Income tax expense attributable to discontinued operations *(Note 26(c)(iv))*	**(82,414)**	(33,345)
Income tax expense attributable to continuing operations	**14**	481

9. EMPLOYEE BENEFIT EXPENSE – CONTINUING OPERATIONS

Employee benefit expense for the continuing operations (excluding directors' emoluments) are as follows:

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Wages and salaries	**5,124**	5,057
Social security costs	**60**	55
Pension costs-defined contribution plans	**196**	188
	5,380	5,300

Note:

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Contributions paid and payable to defined contribution retirement schemes in respect of:		
– Hong Kong	**76**	75
– PRC	**120**	113
	196	188

Pensions – defined contribution plans

Contributions totaling HK$73,000 (2006: HK$94,000) were payable to the fund at the year-end. No contribution was forfeited during the year (2006: Nil).

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

There was no arrangement under which a director waived or agreed to waive any emolument during the year (2006: Nil).

The remuneration of every director for the year ended 31 March 2007, is set out below:

Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Takeyasu Hashizume	–	966	–	966
Tetsuo Mori	–	106	–	106
Osamu Nagashima	–	212	6	218
Mitsuo Sakauchi	–	16	–	16
Arihito Yamada *(Note)*	–	373	–	373
Hiroshi Osaki	–	201	–	201
Yukitsugu Shimizu	–	–	–	–
	–	1,874	6	1,880
Independent Non-Executive Directors				
Seiichi Nakaoda	120	–	–	120
Kwong Pui Kei	120	–	–	120
Law Kar Ping	120	–	–	120
	360	–	–	360
	360	1,874	6	2,240

Note: Mr. Arihito Yamada resigned as director of the Company on 26 June 2006.

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

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 March 2006, is set out below:

Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Takeyasu Hashizume	–	1,405	21	1,426
Tetsuo Mori	–	609	21	630
Osamu Nagashima	–	1,144	36	1,180
Mitsuo Sakauchi	–	583	21	604
Arihito Yamada	–	1,202	21	1,223
Hiroshi Osaki	–	83	–	83
Yukitsugu Shimizu	–	–	–	–
	–	5,026	120	5,146
Independent Non-Executive Directors				
Seiichi Nakaoda	120	–	–	120
Kwong Pui Kei	120	–	–	120
Law Kar Ping	120	–	–	120
	360	–	–	360
	360	5,026	120	5,506

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years include one (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2006: two) individuals during the year are as follow:

	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**4,039**	2,047
Pension costs-defined contribution plans	**120**	72
	4,159	2,119

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**2**	1

No emoluments have been paid by the Group to the directors of the Company and the five highest paid individuals mentioned above as bonus, an inducement to join or upon joining the Group or as compensation for loss of office during the year (2006: Nil).

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The (loss)/profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of profit of HK$113,150,000 for the year ended 31 March 2007 (2006: loss of HK$690,000).

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Continuing operations		
Loss attributable to equity holders of the Company (HK$'000)	**(11,459)**	(4,229)
Weighted average number of ordinary shares in issue (thousands)	**1,870,145**	1,554,684
Basic and diluted loss per share (HK cents per share) *(Note)*	**(0.6)**	(0.3)
Discontinued operations		
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(56,790)**	44,395
Weighted average number of ordinary shares in issue (thousands)	**1,870,145**	1,554,684
Basic and diluted (loss)/earnings per share (HK cents per share) *(Note)*	**(3.0)**	2.9
Total		
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(68,249)**	40,166
Weighted average number of ordinary shares in issue (thousands)	**1,870,145**	1,554,684
Basic and diluted (loss)/earnings per share (HK cents per share) *(Note)*	**(3.6)**	2.6

Note: There were no dilutive potential ordinary shares during the years ended 31 March 2007 and 2006.

13. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Special, of 11.8 HK cents per ordinary share	**227,281**	–

A special dividend in respect of the year ended 31 March 2007 of 11.8 HK cents per share, amounting to a total dividend of HK$227,281,000, was proposed and approved at the extraordinary general meeting on 30 May 2007. These financial statements do not reflect this dividend payable.

14. INTANGIBLE ASSETS – GROUP

	Goodwill *HK$'000*	Record masters *HK$'000*	Total *HK$'000*
At 1 April 2005			
Cost	129,653	80,854	210,507
Accumulated amortisation and impairment	–	(39,219)	(39,219)
Net book amount	129,653	41,635	171,288
Year ended 31 March 2006			
Opening net book amount	129,653	41,635	171,288
Additions	–	50,870	50,870
Amortisation expense for discontinued operations *(Note (a))*	–	(33,916)	(33,916)
Exchange differences	–	(3,468)	(3,468)
Closing net book amount	129,653	55,121	184,774
At 31 March 2006			
Cost	129,653	123,021	252,674
Accumulated amortisation and impairment	–	(67,900)	(67,900)
Net book amount	129,653	55,121	184,774
Year ended 31 March 2007			
Opening net book amount	129,653	55,121	184,774
Acquisition of a business *(Note 26(b))*	4,488	18	4,506
Additions	–	127,680	127,680
Amortisation expense for discontinued operations *(Note (a))*	–	(49,023)	(49,023)
Impairment expenses for discontinued operations *(Note(b))*	–	(13,346)	(13,346)
Disposal of subsidiaries *(Note 26(c))*	(110,622)	(121,285)	(231,907)
Exchange differences	–	835	835
Closing net book amount	23,519	–	23,519
At 31 March 2007			
Cost	23,519	–	23,519
Accumulated amortisation and impairment	–	–	–
Net book amount	23,519	–	23,519

Notes:

(a) Amortisation expense for discontinued operations of HK$49,023,000 (2006: HK$33,916,000) is included in the (loss)/profit for the year of discontinued operations.

(b) Based on the future sales plans, the Directors consider there is an impairment loss on the record masters for the year. As a result, the carrying amount of the record masters has been reduced to its recoverable amount. The impairment loss has been included in other operating expenses of discontinued operations.

14. INTANGIBLE ASSETS – GROUP *(Continued)*

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2007 **HK$'000**	2006 HK$'000
Mainland China		
– Discotheque operation	**23,519**	23,519
Japan		
– Record production and distribution and music production	**–**	106,134
	23,519	129,653

The recoverable amount of a CGU is determined using discounted cash flow calculations under the basis of value in use. These calculations use cash flow projections based on annual budgets approved by management covering a five-year period.

Key assumptions used for discounted cash flow calculations:

	2007		
	EBIT margin[1]	**Growth rate[2]**	**Discount rate[3]**
Mainland China			
– Discotheque operation	30%	14%	10%

These assumptions have been used for the analysis of CGU.

1. Budgeted earnings before interest and tax.

2. Weighted average growth rate used to extrapolate cash flows beyond the projections period.

3. Discount rate applied to the cash flow projections reflects specific risks relating to the segment.

These assumptions have been used for the analysis of the CGU. Management prepared the financial budgets based on actual and prior year performance and market development expectations. The EBIT margin and growth rate used are within the range of comparable companies in the industry. Management estimates discount rate by reference to the market data used by comparable companies in the industry. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improve-ments HK$'000	Studio equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Computer equipment HK$'000	Discotheque equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 April 2005							
Cost	18,629	29,776	1,793	1,961	5,634	229	58,022
Accumulated depreciation	(14,301)	(15,978)	(1,198)	(1,332)	(2,864)	(229)	(35,902)
Net book amount	4,328	13,798	595	629	2,770	–	22,120
Year ended 31 March 2006							
Opening net book amount	4,328	13,798	595	629	2,770	–	22,120
Exchange differences	(279)	(1,163)	(38)	(50)	61	–	(1,469)
Additions	42	–	184	160	419	–	805
Depreciation for continuing operations	(5)	–	(25)	(8)	(496)	–	(534)
Depreciation for discontinued operations	(3,112)	(3,696)	(276)	(232)	–	–	(7,316)
Closing net book amount	974	8,939	440	499	2,754	–	13,606
At 31 March 2006							
Cost	16,896	26,922	1,827	1,953	6,302	–	53,900
Accumulated depreciation	(15,922)	(17,983)	(1,387)	(1,454)	(3,548)	–	(40,294)
Net book amount	974	8,939	440	499	2,754	–	13,606
Year ended 31 March 2007							
Opening net book amount	974	8,939	440	499	2,754	–	13,606
Exchange differences	14	135	6	9	67	–	231
Acquisition of business *(Note 26(b))*	–	103	16	16	–	–	135
Additions	1,372	536	1	371	5,877	–	8,157
Depreciation for continuing operations	–	–	(24)	(2)	(659)	–	(685)
Depreciation for discontinued operations	(1,143)	(2,569)	(137)	(291)	–	–	(4,140)
Disposal of subsidiaries *(Note 26(c))*	(1,217)	(7,144)	(283)	(590)	–	–	(9,234)
Closing net book amount	–	–	19	12	8,039	–	8,070
At 31 March 2007							
Cost	122	–	170	169	12,444	–	12,905
Accumulated depreciation	(122)	–	(151)	(157)	(4,405)	–	(4,835)
Net book amount	–	–	19	12	8,039	–	8,070

15. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expenses for continuing operations have been included in:

	2007	2006
	HK$'000	*HK$'000*
– Cost of sales	**659**	495
– Other operating expenses	**26**	39
	685	534

16. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**81,485**	91,483
Provision for impairment	**(100)**	(145)
	81,385	91,338

At 31 March 2007, the Company had interests in the following subsidiaries all of which are companies with limited liabilities:

Name	**Country/place and date of incorporation/ establishment and kind of legal entity**	**Issued and fully paid up share capital/ registered capital**	**Attributable equity interest**		**Principal activities and place of operation**
			Direct	**Indirect**	
Rojam Entertainment Limited	Hong Kong, 5 November 1997, limited liability company	100,001 ordinary shares of HK$1 each	100%	–	Intellectual property holding and provision of general administration and management services to group companies in Hong Kong and the Mainland China
Rojam Investment Limited	The British Virgin Islands, 15 November 2000, limited liability company	1 registered share of US$1	100%	–	Investment holding in the Mainland China
Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam") *(Note)*	The PRC, 13 November 1993, limited liability company	Registered capital of US$1,000,000	–	90%	Operation of discotheque business in the Mainland China

16. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

Note:

On 18 September 2002, the Group entered into a Chinese-foreign cooperative joint venture contract with the minority shareholder of Shanghai Rojam. By virtue of the said contract, the minority shareholder has agreed to accept a pre-fixed amount as its return on investment and services rendered, whereas the Group will be entitled to/responsible for any or all operating profit or loss. The pre-fixed amount paid or payable to the minority shareholder is recognised as management fee paid or payable to the minority shareholder in the consolidated income statement.

According to the terms of the said contract, the minority shareholder is entitled to a pre-fixed amount of RMB600,000 for the year ended 31 December 2002, and of RMB500,000 per annum from the year beginning 1 January 2003. Such amount covers payment for management services rendered by the minority shareholder and is subject to further negotiation should the business encounter significant changes.

17. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

	2007	2006
	HK$'000	*HK$'000*
Unlisted equity securities – USA	**–**	23,400

	2007	2006
	HK$'000	*HK$'000*
Beginning of the year	**23,400**	–
Transferred from deposit	**–**	23,400
Impairment loss	**(4,370)**	–
Disposal of subsidiaries *(Note 26(c))*	**(19,030)**	–
End of the year	**–**	23,400

During the year ended 31 March 2005, Fandango U.S.A., Inc, a subsidiary of the Company (the "Subsidiary"), has paid a deposit of US$3,000,000 (approximately HK$23,400,000) to Bellrock Media, Inc. ("Bellrock"), an independent third party company established in the USA whose principal focus is to engage in the production and distribution of digital entertainment content through multi-media platforms such as the internet and mobile phones in Japan and the USA, to subscribe for 30,000 Series A Convertible Preferred Stocks (the "Stocks") of Bellrock.

The Series A Convertible Preferred Stock Purchase Agreement was dated on 31 May 2005 and the Stocks were issued to the Subsidiary on the same date. As at 31 March 2007, Fandango U.S.A., Inc, held approximately 14.84% (2006: 22.52%) of the Stocks of Bellrock. Management considered that Fandango U.S.A., Inc, has no significant influence in Bellrock as Fandango U.S.A., Inc, has no voting rights in Bellrock and the Stocks do not have presently exercisable conversion rights to convert to common shares. Fandango U.S.A., Inc, also has no representative on the board of directors and does not participate in the financial and operating policy decisions of Bellrock. However, the Stocks are entitled to discretionary profit distributions from Bellrock and would be automatically converted to common stocks contingent upon certain future events. The investment in Bellrock is disposed of on 31 March 2007.

18. DEFERRED INCOME TAX- GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2007	2006
	HK$'000	*HK$'000*
Deferred income tax assets to be recovered after more than 12 months	**537**	12,056

The gross movement on the deferred income tax account is as follows:

	2007	2006
	HK$'000	*HK$'000*
At the beginning of the year	**12,056**	4,056
Exchange differences	**197**	(718)
Acquisition of subsidiaries *(Note 26(b))*	**47**	–
Recognised in the consolidated income statement for discontinued operations *(Note 26(c)(iv))*	**(46,838)**	8,718
Disposal of subsidiaries *(Note 26(c))*	**35,075**	–
At the end of the year	**537**	12,056

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets/(liabilities)

	Provision	**Tax losses**	**Accelerated tax depreciation**	**Amortisation of record master tape**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	6,753	–	(1,058)	(3,176)	1,537	4,056
Exchange differences	(693)	–	37	161	(223)	(718)
Credited/(Charged) to consolidated income statement for discontinued operations	2,194	–	1,495	3,283	1,746	8,718
At 31 March 2006	8,254	–	474	268	3,060	12,056
Exchange differences	140	–	7	4	46	197
Acquisition of subsidiaries *(Note 26(b))*	–	47	–	–	–	47
Credited/(Charged) to consolidated income statement for discontinued operations *(Note 26(c)(iv))*	7,908	(47)	513	2,366	(57,578)	(46,838)
Disposal of subsidiaries *(Note 26(c))*	(15,765)	–	(994)	(2,638)	54,472	35,075
At 31 March 2007	537	–	–	–	–	537

18. DEFERRED INCOME TAX- GROUP *(Continued)*

Deferred income tax assets/ (liabilities) *(Continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$2,760,000 (2006: HK$2,744,000) in respect of losses amounting to HK$15,772,000 (2006: HK$15,679,000) that can be carried forward against future taxable income. These tax losses have no expiry date.

19. INVENTORIES- GROUP

	2007	2006
	HK$'000	*HK$'000*
Merchandise	**117**	14,553

The cost of inventories recognised as expense and included in cost of sales amounted to HK$2,234,000 (2006: HK$2,525,000) for the continuing operations and HK$249,255,000 (2006: HK$248,520,000) for the discontinued operations.

20. AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND A SHAREHOLDER – GROUP AND COMPANY

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a shareholder represents inter-company receivables assigned to a shareholder under the disposal arrangement (Note 26(c)). The balance is unsecured and repayable on 31 May 2007. Except for a balance of HK$81,385,000 which bears interest at 5.38% per annum, the amount due is interest-free.

21. TRADE RECEIVABLES – GROUP

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables due from:		
Third parties	**–**	94,120
A shareholder/the immediate holding company *(Note 28)*	**–**	749
A related party/a fellow subsidiary *(Note 28)*	**–**	18
A related party *(Note 28)*	**–**	5,480
	–	100,367

The carrying amount of the trade receivables approximates its fair value. All trade receivables are denominated in Japanese Yen.

21. TRADE RECEIVABLES – GROUP *(Continued)*

The majority of the Group's turnover is on credit terms of sixty to ninety days except for the royalty income, of which credit terms are normally negotiable between the Group and its customers, and are 180 days on average. The credit term for sales to DVD rental shop is one year. At 31 March 2007 and 2006, the ageing analysis of the trade receivables, including trading balances due from related parties (Note 28) was as follows:

	2007 **HK$'000**	2006 *HK$'000*
Current	**–**	99,842
30–60 days	**–**	1,516
61–90 days	**–**	29
Over 90 days	**–**	807
	–	102,194
Provision for impairment	**–**	(1,827)
	–	100,367

The Group's sales are made to several major customers. To minimise credit risk, collection of outstanding receivables is closely monitored on an ongoing basis and deposits are also received in advance for sales made to certain customers.

The Group has recognised a loss of HK$115,000 (2006: HK$498,000) for the impairment of its trade receivable for the year. The loss has been included in other operating expenses in the income statement of discontinued operations.

22. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2007 **HK$'000**	2006 *HK$'000*	**2007** **HK$'000**	2006 *HK$'000*
Cash at bank and in hand	**11,365**	99,885	**3,493**	1,621
Short-term bank deposits	**223,529**	12,183	**223,529**	12,183
	234,894	112,068	**227,022**	13,804

The effective interest rates and average maturity of short-term bank deposits are as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
Effective interest rates (% per annum)	**1.2**	4.16	**1.2**	4.16
Average maturity (days)	**6**	8	**6**	8

22. CASH AND CASH EQUIVALENTS *(Continued)*

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollar	**1,578**	8,953	**1,445**	4,629
US dollar	**41,074**	8,255	**41,071**	8,186
Japanese yen	**184,676**	81,187	**184,506**	989
Renminbi	**7,566**	13,673	**–**	–
	234,894	112,068	**227,022**	13,804

At 31 March 2007, funds of the Group amounting to HK$7,566,000 (31 March 2006: HK$13,673,000) are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

23. SHARE CAPITAL

	Authorised ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
At 1 April 2005, 31 March 2006 and 31 March 2007	5,000,000,000	500,000

	Issued and fully paid ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
At 1 April 2005 and 31 March 2006	1,554,684,403	155,468
Issue of new shares *(Note)*	371,430,000	37,143
At 31 March 2007	1,926,114,403	192,611

Note:

On 18 April 2006, the Company entered into an agreement ("Subscription Agreement") with Fandango, Inc. ("Fandango"), a shareholder (Note 28), whereby Fandango subscribed for 371,430,000 new shares ("Subscription Shares") of the Company at HK$0.315 per share (the "Subscription"). The aggregate subscription price for the Subscription Shares was approximately HK$117 million, which was settled in cash upon completion of the Subscription. The Subscription Shares ranked, when fully paid and issued, pari passu in all respects with the existing issued shares. The net proceeds of the Subscription would applied towards the Group's future investment in entertainment related projects, other potential investments and the general working capital of the Group as thought fit by the Directors for such purposes. The ordinary resolution in relation to the Subscription was passed by the independent shareholders on 22 May 2006 and the Subscription was completed on 25 May 2006.

24. RESERVES

(a) Group

	Share premium HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 April 2005	148,329	(8,302)	(7,335)	132,692
Exchange adjustment on translation of accounts of overseas subsidiaries	–	(9,910)	–	(9,910)
Final dividend for the year ended 31 March 2005	–	–	(18,656)	(18,656)
Profit for the year ended 31 March 2006	–	–	40,166	40,166
At 31 March 2006	148,329	(18,212)	14,175	144,292
Representing:				
Reserves				144,292
Proposed dividends				–
At 31 March 2006				144,292
At 1 April 2006	148,329	(18,212)	14,175	144,292
Issue of shares	79,857	–	–	79,857
Share issue expenses	(903)	–	–	(903)
Exchange differences realised upon disposal of subsidiaries *(Note 26(c))*	–	15,766	–	15,766
Exchange adjustment on translation of accounts of overseas subsidiaries	–	2,765	–	2,765
Loss for the year ended 31 March 2007	–	–	(68,249)	(68,249)
At 31 March 2007	227,283	319	(54,074)	173,528
Representing:				
Reserves				(53,753)
Special dividends				227,281
At 31 March 2007				173,528

24. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	148,329	(121,440)	26,889
Final dividend for the year ended 31 March 2005	–	(18,656)	(18,656)
Loss for the year ended 31 March 2006	–	(690)	(690)
At 31 March 2006	148,329	(140,786)	7,543
Representing:			
Reserves			7,543
Proposed dividends			–
At 31 March 2006			7,543
At 1 April 2006	148,329	(140,786)	7,543
Issue of shares	79,857	–	79,857
Share issue expenses	(903)	–	(903)
Profit for the year ended 31 March 2007	–	113,150	113,150
At 31 March 2007	227,283	(27,636)	199,647
Representing:			
Reserves			(27,634)
Special dividends			227,281
At 31 March 2007			199,647

25. TRADE PAYABLES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Trade payables due to:		
Third parties	**118**	83,952
A shareholder/the ultimate holding company *(Note 28)*	**–**	7,129
	118	91,081

The carrying amounts of the trade payables approximate their fair values.

At 31 March 2007 and 2006, the ageing analysis of the trade payables, including trading balances due to a related party (Note 28) was as follows:

	2007	2006
	HK$'000	*HK$'000*
Current	**118**	81,677
30-60 days	**–**	9,306
Over 90 days	**–**	98
	118	91,081

Trade payables are denominated in the following currencies:

	2007	2006
	HK$'000	*HK$'000*
Japanese yen	**–**	90,869
Renminbi	**118**	212
	118	91,081

26. NOTES TO CASH FLOW STATEMENT

(a) Cash generated from operations

	2007 HK$'000	2006 HK$'000 (restated)
(Loss)/profit before income tax		
– Continuing operations	**(11,445)**	(3,748)
– Discontinued operations	**54,046**	77,740
Profit before income tax	**42,601**	73,992
Adjustments for:		
– Depreciation of property, plant and equipment	**4,825**	7,850
– Amortisation of record masters	**49,023**	33,916
– Impairment of record masters	**13,346**	–
– Impairment of available-for-sales financial asset	**4,370**	–
– Interest income	**(2,026)**	(672)
Operating profit before working capital changes	**112,139**	115,086
– Amount due from a shareholder	**(112,076)**	–
– Inventories	**(5,434)**	(7,032)
– Trade receivables, other receivables and prepayments	**(2,307)**	(88,189)
– Trade payables, accruals and other payables and receipt in advance	**179,903**	(18,444)
Cash generated from operations	**172,225**	1,421

(b) Acquisition of subsidiaries

On 8 June 2006, R and C Ltd ("R&C", a wholly-owned subsidiary of the Company and has been disposed of on 31 March 2007 (Note 26(c)), entered into agreements with independent third parties, collectively the "Sellers", to acquire from the Sellers 100% equity interests in KARINTO FACTORY INC. ("Karinto") and Jacobetty Inc. ("Jacobetty"), together the "Investee Companies". The purchase considerations for the acquisition of Karinto and Jacobetty are JPY74.8 million (approximately HK$5.1 million) and JPY15.0 million (approximately HK$1.0 million) respectively, and were settled in cash. The Investee Companies are principally engaged in master-tape production and records promotion, master-tape right licensing, as well as music copyright management in Japan. The transaction was completed on 12 June 2006. The Investee Companies are subsequently disposed of on 31 March 2007 (Note 26(c)).

The Investee Companies contributed revenues of HK$1,652,000 and net loss of HK$1,107,000 to the Group for the period from 12 June 2006 to 31 March 2007. If the acquisition had occurred on 1 April 2006, the Group's revenue would have been HK$525,843,000 and loss before allocations would have been HK$69,124,000. These amounts have been calculated using the Group's accounting policies.

26. NOTES TO CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries *(Continued)*

Details of net assets acquired and goodwill are as follows:

	Karinto *HK$'000*	Jacobetty *HK$'000*	Total *HK$'000*
Purchase consideration	5,086	1,020	6,106
Fair value of net (assets)/liabilities acquired – shown as below	(1,882)	264	(1,618)
Goodwill *(Note 14)*	3,204	1,284	4,488

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of Karinto and Jacobetty in record master production and music copyright management.

The assets and liabilities as of 12 June 2006 arising from the acquisition are as follows:

	Karinto		Jacobetty	
	Fair value *HK$'000*	Carrying amount *HK$'000*	Fair value *HK$'000*	Carrying amount *HK$'000*
Intangible assets	18	18	–	–
Property, plant and equipment	135	135	–	–
Deferred income tax assets	47	47	–	–
Inventories	94	94	–	–
Trade receivables	971	971	206	206
Other receivables and prepayments	908	908	5	5
Cash and cash equivalents	363	363	81	81
Tax recoverable	424	424	–	–
Short-term loan	–	–	(408)	(408)
Trade payables	(784)	(784)	(107)	(107)
Accruals and other payables	(294)	(294)	(36)	(36)
Current income tax liabilities	–	–	(5)	(5)
Net assets/(liabilities)	1,882	1,882	(264)	(264)
Purchase consideration settled in cash	5,086		1,020	
Purchase consideration settled in cash				6,106
Cash and cash equivalents in subsidiaries acquired				(444)
Cash outflow on acquisition				5,662

26. NOTES TO CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

On 30 January 2007, the Company and Fandango, Inc., (a shareholder (Note 28), "the Purchaser") entered into a conditional Sale and Purchase Agreement (the "Agreement") whereby the Company agreed to sell its equity interest in Fandango U.S.A., Inc. ("Fandango USA"), R and C Ltd. ("R&C"), KARINTO FACTORY, INC. and Jacobetty, Inc. (collectively the "Fandango USA Group" or the "Disposal Group") to the Purchaser at a consideration of JPY2,743 million (approximately HK$184 million) for the disposal of business. In addition, the Company assigned to the Purchaser certain inter-company receivables due to the Company by the Fandango USA Group (Note 20). This transaction constitutes a connected transaction under the GEM Listing Rules and the details are included in the circular of the Company dated 15 March 2007. The transaction was completed on 31 March 2007.

	HK$'000
Sales proceeds	183,781
Net book value of net assets disposed	(196,437)
Exchange reserves	(15,766)
Loss on disposal of the Fandango USA Group	(28,422)
The assets and liabilities disposed of at the date of disposal were as follows:	
Intangible assets	231,907
Property, plant and equipment	9,234
Available-for-sale financial asset	19,030
Deferred income tax assets	22,583
Inventories	20,185
Trade receivables	102,498
Other receivables and prepayments	10,368
Cash and cash equivalents	176,894
Trade payable	(273,779)
Accruals and other payables	(29,988)
Current income tax liabilities	(34,837)
Deferred income tax liabilities	(57,658)
	196,437
Net cash inflow arising on disposal:	
Cash consideration	183,781
Bank balances and cash disposed of	(176,894)
	6,887

26. NOTES TO CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries *(Continued)*

The financial information of Fandango USA Group, which constitutes a discontinued operation, is as follows:

(i) Analysis of the results of discontinued operations

	2007	2006
	HK$'000	*HK$'000*
Turnover	**512,722**	490,312
Cost of sales	**(280,967)**	(290,529)
Gross profit	**231,755**	199,783
Selling and distribution expenses	**(109,727)**	(87,722)
Other operating expenses	**(68,018)**	(34,331)
Other losses, net	**–**	(1)
Operating profit	**54,010**	77,729
Finance income	**36**	11
Profit before income tax	**54,046**	77,740
Income tax expense *(Note 26(c)(iv))*	**(82,414)**	(33,345)
(Loss)/profit after income tax	**(28,368)**	44,395
Loss on disposal of subsidiaries, net of tax	**(28,422)**	–
(Loss)/profit for the year from discontinued operations	**(56,790)**	44,395

(ii) Analysis of the cash flows from discontinued operations

	2007	2006
	HK$'000	*HK$'000*
Operating cash flows	**149,618**	(24,098)
Investing cash flows	**(135,753)**	(51,245)
Financing cash flows *(Note)*	**(408)**	–
Total cash flows	**13,457**	(75,343)

Note: The net financing outflow excludes the inter-company loan due to the Company of US$10 million (approximately HK$81 million). The loan is assigned to the Purchaser upon the disposal of Fandango USA Group.

26. NOTES TO CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries *(Continued)*

(iii) Expenses by nature

	2007 **HK$'000**	2006 *HK$'000*
Auditors' remuneration	**1,500**	986
Cost of inventories sold	**249,255**	248,520
Depreciation of property, plant and equipment *(Note 15)*	**4,140**	7,316
Operating leases on land and buildings	**2,752**	2,332
Record masters *(Note 14)*		
– Amortisation	**49,023**	33,916
– Impairment charges	**13,346**	–
Write down of inventories	**12,922**	642
Impairment loss of available-for-sale financial asset	**4,370**	–
Impairment loss of trade receivables	**115**	498
Employee benefit expense (excluding directors' emoluments)	**24,844**	20,389
Promotion and advertising expenses	**56,615**	50,123
Others	**39,830**	47,860
Total cost of sales, selling and distribution and other operating expenses	**458,712**	412,582

(iv) Income tax expense

No provision for United States income tax has been made as the subsidiaries in the United States of America (the "USA") have no assessable profits for the year (2006: Nil).

The Japanese corporate income tax has been provided on the taxable profit of the Group's subsidiaries in Japan and is calculated at the applicable rates, ranging from 6.2% to 30%.

	2007 **HK$'000**	2006 *HK$'000*
Overseas taxation		
Current income tax	**35,576**	42,063
Deferred income tax *(Note 18)*	**46,838**	(8,718)
	82,414	33,345

As approved by the board of directors of the Company on 2 January 2007, Fandango USA would be liquidated. In order to complete the liquidation procedures, retained earnings of R&C would be distributed to Fandango USA. As a result, the exemption criteria for recognition of deferred tax liability arising from undistributed retained earnings under HKAS 12 "Income taxes" could no longer be met. The deferred tax liability and income tax expense arising from such temporary difference, amounted to HK$57,658,000, is recognised in the income statement for the year ended 31 March 2007.

27. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDINGS – GROUP

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**4,103**	5,088
Later than one year and not later than five years	**8,896**	6,110
Over five years	**975**	–
	13,974	11,198

28. RELATED PARTY TRANSACTIONS

The Company's substantial shareholders (as defined in the GEM Listing Rules) are Fandango, Inc. ("Fandango", incorporated in Japan whose shares are listed on Hercules Nippon New Market of the Osaka Securities Exchange) and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto", incorporated in Japan whose shares are listed on the Tokyo Stock Exchange Section 1 and the Osaka Securities Exchange Section 1).

The immediate holding company was Fandango and the ultimate holding company was Yoshimoto as at 31 March 2006.

The Group has no immediate holding company and ultimate holding company as at 31 March 2007.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) Save as disclosed in other notes to the consolidated financial statements, the Group has carried out the following material transactions with related parties during the year:

	Note	**2007** **HK$'000**	2006 HK$'000
A shareholder/the ultimate holding company:			
– Yoshimoto Kogyo Co., Ltd.			
– sales of records and audio-visual products	*(a)*	**10**	69
– rental payment and other charges	*(b)*	**(1,819)**	(1,752)
– artistes royalties	*(c)*	**(21,507)**	(14,489)
– promotion costs	*(i)*	**(601)**	(1,813)
– production costs	*(a)*	**(701)**	–
A shareholder/the immediate holding company:			
– Fandango, Inc.			
– sales of records and audio-visual products	*(a)*	**188**	109
– digital distribution revenue, net	*(d)*	**715**	695
– production costs	*(a)*	**(391)**	(635)
– homepage production service fee	*(e)*	**–**	(418)
– reimbursement of operating expense	*(f)*	**(140)**	(55)
Other related parties:			
– Bellrock Media K.K.			
– sales of records and audio-visual products	*(a)*	**253,647**	111,350
– distribution costs	*(g)*	**(48,395)**	(21,629)
– Yoshimoto Club Co., Ltd			
– sales of records and audio visual products	*(a)*	**614**	230
– production costs	*(h)*	**(852)**	(717)
– Yes Visions Co., Ltd and Y's Vision Co., Ltd.			
– master video production costs	*(j)(i)*	**–**	(1,383)
– International Television System, Inc.			
– master video production costs	*(j)(ii)*	**(80)**	(166)

(a) Sales of records and audio-visual products and production costs paid to related parties were entered into in the normal course of business of the Group at terms mutually agreed by relevant parties.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(b) Pursuant to the sub-lease agreements dated 29 March 2002 and 10 October 2002 and entered into between the Group and Yoshimoto, the Group sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,430,000 (approximately HK$100,000), and electricity and water charges, for a lease term up to 31 March 2005. On 19 July 2004, the Group had terminated the sub-lease agreements with Yoshimoto.

Pursuant to a sub-lease agreement dated 20 July 2004 and entered into between the Group and Yoshimoto, the Group sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,687,618 (approximately HK$113,000), and electricity, gas and water charges. The term of this agreement is from 20 July 2004 to 31 March 2006. The Group has entered into a renewal agreement with Yoshimoto on 19 June 2006 to extend the term of this agreement for a period from 1 April 2006 to 31 March 2009.

(c) (i) Pursuant to a master royalty agreement dated 10 October 2002 between the Group and Yoshimoto ("Master Royalty Agreement 2002"), Yoshimoto will procure artistes or groups of artistes managed by Yoshimoto and nominated by the Group, to perform to enable the Group to reproduce and distribute the records or videogram of those artistes. Artiste royalties in connection with the sales of such audio and audio-visual recordings are payable to Yoshimoto by the Group according to the rates as stipulated in the agreement. The terms of this agreement is from 10 October 2002 to 31 March 2005. On 30 August 2004, the Group and Yoshimoto entered into another master royalty agreement (see below) below to supersede the Master Royalty Agreement 2002.

(ii) Pursuant to a master royalty agreement dated 30 August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will also include promotional activities and copyright licensing in addition to the artiste performance arrangements. Yoshimoto will also include the Group's visual and audio-visual recordings in certain television programs produced by Yoshimoto for promotion purpose and grant the Group the right to manufacture and sell audio-visual products containing the content of the television programs for which Yoshimoto is the copyright owner. Artistes royalties in connection with the sales of such audio and audio-visual recordings are payable to Yoshimoto by the Group according to the rates as stipulated in the agreement. The term of this agreement is from 30 August 2004 to 31 March 2007.

(d) Pursuant to a master digital distribution agreement dated 30 August 2004 and entered into between the Group and Fandango, Fandango will distribute the Group's audio and audio-visual recordings through the internet, mobile telephones, or other digital media on an order by order basis. Under this agreement, Fandango is liable to pay to the Group in connection with the distribution of the Group's content a commission of 50% of the revenue for distributing the Group's content after subtracting external cost. The term of this agreement is from 30 August 2004 to 31 March 2007.

(e) Pursuant to web production agreements dated 1 April 2002 and 10 October 2002 between the Group and Fandango, Fandango will render production services for the homepages of the Group for an aggregate monthly fee of JPY900,000 (approximately HK$60,000) for a contract term up to 31 March 2005. Up to 31 March 2006, the term of each of these agreements has lapsed and remained in force as agreed by both parties.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(f) Reimbursement of operating expenses is recharged on an actual basis.

(g) Pursuant to a sales consignment agreement dated 24 June 2005 between the Group and Bellrock Media K.K., a wholly-owned subsidiary of Bellrock, Bellrock Media K.K. will render distribution services to the Group at a percentage of the selling price of the records and audio-visual products for a contract term from 1 July 2005 to 31 March 2006. A director of Fandango is also a director of Bellrock.

(h) Pursuant to a master consignment agreement dated 30 August 2004 and entered into between the Group and Yoshimoto Club Co., Ltd. ("Yoshimoto Club"), a subsidiary of Yoshimoto, the Group will engage Yoshimoto Club to produce and sell merchandise to the Group on an order by order basis. The term of this agreement is from 30 August 2004 to 31 March 2007. Under this agreement, the Group is liable to pay Yoshimoto Club production costs of the merchandise, being Yoshimoto Club's out-of-pocket expenses relating to the production plus administration cost which is fixed at 10% of such out-of pocket expenses.

(i) Pursuant to a master promotion agreement dated 30 August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will promote the Group's audio and audiovisual recordings through television and radio programs, magazines, or any other advertisements produced by Yoshimoto and local television stations for the Group on an order by order basis. Under this agreement, the Group is liable to pay to Yoshimoto in connection with the promotion of the Group's contents a fee based on Yoshimoto's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of this agreement is from 30 August 2004 to 31 March 2007.

(j) (i) Yes Visions Co., Ltd. ("Yes Visions") and Y's Vision Co., Ltd. ("Y's Vision") are subsidiaries of Yoshimoto. Pursuant to a master video production agreement dated 10 October 2002 and entered into between the Group and Yes Visions, and a master video production agreement dated 10 October 2002 and entered into between the Group and Y's Vision, the Group will engage Yes Visions and Y's Vision respectively to produce videos, containing visual or audio-visual recordings, to complement the Group's promotional activities in conjunction with its release of artistes' music records and other products. Under these agreements, the Group is liable to pay Yes Visions and Y's Vision production costs of the videos, containing visual or audio-visual recordings, being Yes Visions' and Y's Vision's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of each of these agreements is from 10 October 2002 to 31 March 2005. Upon the expiry of the terms of each of the master video product agreements, R&C continued to engage Yes Visions and Y's Vision for production of videos. During the year ended 31 March 2006, master video production costs paid to Yes Visions and Y's Vision were entered in the normal course of business of the Group at terms mutually agreed by the relevant parties.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(ii) Pursuant to a master video production agreement dated 30 August 2004 and entered into between the Group and International Television System, Inc. ("ITS"), a subsidiary of Yoshimoto, the Group will engage ITS to produce videos, containing visual or audio-visual recordings in accordance with requirements and specifications of and in such form specified by the Group. Under this agreement, the Group is liable to pay ITS production costs of the videos, containing visual or audio-visual recordings, being ITS's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of this agreement is from 30 August 2004 to 31 March 2007.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and on terms mutually agreed between the Group and the respective related parties.

(ii) Balances at the end of the year arising from related party transactions as disclosed in Note 28(i) above were as follows:

	2007 **HK$'000**	2006 *HK$'000*
Balance with a shareholder/the ultimate holding company – Yoshimoto		
– Payable *(Note 25)*	**–**	(7,129)
Balance with a shareholder/the immediate holding company – Fandango		
– Trade receivable *(Note 21)*	**–**	749
– Other receivable *(Note 20)*	**112,076**	–
Balances with other related parties		
– Receivable from Bellrock Media K.K. *(Note 21)*	**–**	5,480
– Receivable from Yoshimoto Club *(Note 21)*	**–**	18

Balances with related parties are unsecured. Except for a receivable from Fandango of HK$81,385,000 which bears interest of 5.38% per annum, the balances are non-interest bearing. Except for the other receivable due from Fandango of HK$112,076,000 which is to be repaid on 31 May 2007, the balances have no fixed repayment terms.

(iii) Key management compensation

	2007 **HK$'000**	2006 *HK$'000*
Fees, salaries and other short-term employee benefits	**6,273**	7,433
Pension costs – defined contribution plans	**126**	192
	6,399	7,625