



ANNUAL REPORT 2006 - 2007

EEG

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

(Incorporated in Bermuda with limited liability)

GEM Stock Code : 8078

Corporate Information	2
Biographies of Directors and Senior Executives	3-4
Chairperson's Statement	5-8
Directors' Report	9-22
Corporate Governance Report	23-27
Independent Auditor's Report	28-29
Consolidated Income Statement	30
Consolidated Balance Sheet	31-32
Consolidated Statement of Changes in Equity	33
Consolidated Cash Flow Statement	34-35
Notes to the Consolidated Financial Statements	36-75
Financial Summary	76

Directors

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

* *Non-executive director*

** *Independent non-executive directors*

Company Secretary

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

Compliance Officer

Wong Chi Fai, FCCA, AHKSA

Qualified Accountant

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

Authorised Representatives

Fan Man Seung, Vanessa
Mok Fung Lin, Ivy

Audit Committee

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

Remuneration Committee

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

Auditors

Deloitte Touche Tohmatsu

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

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

Registrars (*in Bermuda*)

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

Registrars (*in Hong Kong*)

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

Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Allied Irish Banks plc

Website

<http://www.emp8078.com>

GEM Stock Code

8078

Luk Siu Man, Semon

Non-executive Director and Chairperson

Aged 51, graduated from The University of Toronto with a Bachelor's Degree in Commerce. She had worked in the banking industry for almost 10 years. She is also the non-executive director and chairperson of Emperor International Holdings Limited and Emperor Entertainment Hotel Limited, the shares of both companies are listed on the Main Board of the Stock Exchange. She joined Emperor Entertainment Group Limited (the "Company") in November 2000.

Ng Sui Wan alias Ng Yu

Executive Director

Aged 57, is responsible for the corporate and business strategies, and operations of the Group. Prior to joining the Company, he was the General Manager of Celestial Pictures Limited, an associated company of Television Broadcasts Limited ("TVB"), in charge of motion film production. He had worked for Capital Artists Limited for four years since 1996, holding the position as General Manager. During that period, he had been involved in record production, publishing and distribution and talent management. Before, he was the Production Controller of TVB for 20 years, commanding television programme production and creative teams. He joined the Company in December 2001.

Wong Chi Fai

Executive Director and Compliance Officer

Aged 51, is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He is responsible for the overall corporate and business planning of the Group. He has over 20 years' experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development. He is also the joint managing director of Emperor International Holdings Limited and a director of Emperor Entertainment Hotel Limited, the shares of both companies are listed on the Main Board of the Stock Exchange. He joined the Company in January 1994.

Fan Man Seung, Vanessa

Executive Director

Aged 44, is a lawyer by profession in Hong Kong and a registered accountant. She also holds a Master's Degree in Business Administration. She is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International Holdings Limited and a director of Emperor Entertainment Hotel Limited, the shares of both companies are listed on the Main Board of the Stock Exchange. She joined the Company in January 1994.

Wong Ching Yue

Independent Non-executive Director

Aged 58, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He joined the Company in November 2000.

Chu Kar Wing

Independent Non-executive Director

Aged 50, holds a Bachelor's Degree in Social Science majoring in Economics. He has extensive experience in the banking and finance sector for several well-known corporations. He is also an independent non-executive director of Oriental Investment Corporation Limited, the shares of which are listed on the Main Board of the Stock Exchange and New Chinese Medicine Holdings Limited, the shares of which are listed on the GEM of the Stock Exchange. He joined the Company in September 2004.

Wong Tak Ming, Gary

Independent Non-executive Director

Aged 31, is a certified public accountant (practising) and a fellow member of both the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He obtained his Degree in Applied Accounting (Hons) in the United Kingdom. He has over 10 years' experience in the field of auditing and accounting. Mr. Wong is also an independent non-executive director of Century Legend (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange. He joined the Company in September 2004.

Mok Fung Lin, Ivy

Company Secretary

Aged 42, is a lawyer by profession in Hong Kong and the United Kingdom, and holds a Master's Degree in Business Administration. She is also an executive director of Emperor International Holdings Limited and Emperor Entertainment Hotel Limited, the shares of both companies are listed on the Main Board of the Stock Exchange.

Albert Lee

Aged 53, joined the Group as chief executive officer of Emperor Motion Pictures, the film and television programme production and distribution arm of the Group, in May 2003. He graduated from the University of Wales, Institute of Science and Technology, with a Bachelor's Degree in Science majoring in Economics in 1975. Prior to joining the Group, he has over 20 years' experience in the film industry. He is currently a member of the Election Committee for the Performing Arts sub-sector and has rendered his service in various public bodies in the media, communication and film sector, including acting as director of Hong Kong Kowloon New Territories Motion Picture Industry Association Ltd (MPIA), Independent Film and Television Alliance (IFTA), honorary advisor to the Hong Kong Asia Film Financing Forum (HAF) and a member of the Hong Kong Trade Development Council's Entertainment Industry Advisory Committee.

Fok Man Hei, Mani

Aged 34, is the director of artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group in all aspects including artistes' albums, film production, television commercials, concerts etc. and providing guidance to certain artistes on personal and career developments. She has over 10 years' experience in the artiste management industry. Prior to joining the Group in 1993, she worked in the modeling and advertising industries. She possesses a detailed knowledge of and has a successful track record in the promotion of artistes like Nicholas Tse, Joey Yung and Twins in the industry.

For the financial year ended 31st March, 2007, the Company and its subsidiaries (collectively referred to as the "Group") reported a net profit of approximately HK\$17.3 million, a turnaround from a loss of HK\$32.5 million in the previous year. Turnover of the Group reached approximately HK\$183.9 million as compared with approximately HK\$196.9 million in the previous year. During the year, the film and television production and distribution sector saw substantial improvement in its performance.

OPERATION REVIEW

Music Production and Distribution

The operation recorded a turnover of approximately HK\$63.1 million for the year, compared with HK\$62.1 million in the previous year. Despite keen competition and piracy problems such as free Internet download, the segment saw a cut in segment loss to approximately HK\$6.1 million, as against a HK\$8.5 million loss in the previous year.

To survive from cut-throat competition, the Group focused on making quality music records and exploring new revenue streams. Licence income jumped 44% to approximately HK\$32.3 million, from HK\$22.5 million previously. Album sales contributed approximately HK\$23.5 million, as against HK\$33.4 million in the previous year.

Income from multimedia offerings climbed 18% to HK\$7.3 million during the year. The division provides idols-based mobile entertainment services including connecting tone, content download and mobile games to mobile subscribers in Hong Kong. The management expects the income from multimedia offerings to increase steadily in future.

During the year, the Group released 74 music albums (2006: 77) including 68 for its own artistes and 6 for external artistes. The Group had received 145 awards (2006: 157) in various musical functions and presentations up to the date of this report, including 9 IFPI Hong Kong Top Sales Music Awards.

Film and Television Programme Production and Distribution

This business sector contributed approximately HK\$75.7 million (2006: HK\$75.4 million) to the Group's turnover and recorded a turnaround with profit of approximately HK\$8.7 million for the year under review, compared with a loss of HK\$53.1 million in the previous year. The profit was mainly attributable to distribution income and licensing of films.

Distribution

During the year, the Group received handsome contribution from distribution of films produced by JCE Movies. In particular, *Rob-B-Hood*, starring Jackie Chan, Louis Koo, Michael Hui and directed by long-time collaborator Benny Chan, was one of the top box-office performers of the year and the Group continued to enjoy satisfactory distribution income from *The Myth*.

OPERATION REVIEW (Continued)

Film and Television Programme Production and Distribution (Continued)

Distribution (Continued)

Throughout the year, Emperor Motion Pictures ("EMP") had participated in major international film festivals and markets, including Cannes, Venice, the American Film Market in Los Angeles, as well as the Hong Kong FilMart, and achieved significant sales results.

Production

Two feature films were completed and released during this year: namely *The Knot*, a co-production with the China Film Group and Taiwan's Long Shong International, and *Twins Mission*, a co-production with Sundream Motion Pictures, a subsidiary of i-Cable Communications Limited. A third, a thriller entitled *The Deserted Inn*, starring Kenny Kwan and co-produced with Beijing's PolyBona Film Publishing Co., was also completed.

During this year, the Group had also completed three television series co-produced with mainland Chinese partners. It includes a documentary series celebrating the 10th anniversary of the Hong Kong SAR entitled *Films – the Story Between Two Cities*.

Artiste Management

The Group managed singers under the label of Emperor Entertainment Group, as well as artistes for film and television programme production.

Income from artiste management for the year increased by 11% to approximately HK\$37.8 million (2006: HK\$34.1 million). Profit totalled at HK\$18.2 million, compared with HK\$18.3 million previously.

During the year, the Group had recruited 16 artistes, including Jeff Chang Hsin Che and Cheung Ka-fai with renowned reputation in Greater China region. The newly-joined artistes also included 3 from the "EEG Singing Contest 2006" co-organised with Television Broadcasts Limited.

As at the end of the year, the Group managed a total of 54 artistes (2006: 47).

Event Production

The segment recorded income of HK\$7.3 million (2006: \$25.3 million) and profit of HK\$3.0 million (2006: \$15.5 million) for the year under review.

The Group had organised a total of 22 concerts during the year, featuring the Group's artistes and through co-operation with third parties. These include Joey Yung with well-known violinist Yao Jue and Moravian Philharmonic Orchestra, Paul Anka, Connie Francis, Liu Jia Chang, Wang Lee Hom, Jolin Choi, Grasshopper, Elaine Paige in Hong Kong and Rolling Stones in Shanghai.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There is no material change in the Group's sources of fund to finance its operation and capital expenditure, as well as capital structure as disclosed in the Group's annual report for the year ended 31st March, 2006.

As at 31st March, 2007, current assets and liabilities of the Group were approximately HK\$134.5 million and HK\$111.6 million respectively and current ratio (expressed as current assets over current liabilities) was 1.2 times (2006: 1.1 times). Advances from the substantial shareholder, Surplus Way Profits Limited ("Surplus Way"), were approximately HK\$29.6 million, which were denominated in Hong Kong dollars, unsecured, interest bearing at the Hong Kong prime rate and had no fixed repayment term.

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

As at 31st March, 2007 the Group's gearing ratio (expressed as a percentage of total borrowings over net asset value) rose from 23% in the previous year to 33%, which was mainly due to additional advances from Surplus Way during the year.

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

COMMITMENTS

As at 31st March, 2007, the Group had total commitments of approximately HK\$45.6 million, which comprised HK\$4.3 million for operating leases, HK\$10.4 million for artiste fees, HK\$28.3 million for film production costs and HK\$2.6 million for broadcasting service.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 31st March, 2007 was 123 (2006: 118) and total staff costs for the year was approximately HK\$43.0 million (2006: HK\$42.9 million). All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also has a share option scheme for providing incentive to full-time employees of the Group. No options were granted or outstanding during the year.

PROSPECTS

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

During the year, the Group had launched a television channel – EEG Channel – on TVB's pay-television platform. The 24-hour channel broadcasts news, interviews and music videos featuring the Group's artistes. Since its launch in November 2006, the channel had been well-received and was expected to be increasingly popular among audience.

To further expand in the lucrative Mainland market, the Group had established "Emperor Entertainment Group (China)" (i.e. 英皇星藝(北京)文化發展有限公司), a wholly-owned subsidiary to operate artiste management and concert production in the mainland market.

Meanwhile, the Group had also established a joint venture in Shanghai with Shanghai Film Group Corporation, one of the leading nationwide media conglomerates in China called "SFS Emperor" (i.e. 上海上影英皇文化發展有限公司), which focuses on media content production and nurturing young artistes.

The Group has scheduled to organise more concerts in Hong Kong in the coming periods. The management also plans to organise more events and concerts for artistes in Australia, United States, Canada, China and Southeast Asia to further enrich its income stream. The Group also expects to strengthen the popularity of artistes through offering mobile data services in Hong Kong and Mainland China.

In the coming periods, EMP will continue to co-develop a number of feature film projects with local and regional strategic partners and filmmakers, including the China Film Group, StarTV, Shanghai Film Studios and Singapore's Raintree/ Mediacorp.

Planned film productions include *Kung Fu Dunk*, a co-production with Taiwan's Chang-Hong Channel Film & Video and the Shanghai Film Group, starring Jay Chou and Charlene Choi, and *The Sun Also Rises*, a much-anticipated film by Chinese auteur Jiang Wen, *Home Run*, a drama set in Shanghai starring Chapman To and Fan Bingbing co-produced with IEC Production Limited. EMP has also planned to produce *The Fantastic Water Babes* by Jeff Lau on its own starring Gillian Chung, Stephen Fung, Alex Fong and Chinese Olympian Tian Liang. The management expects the coming year to be a busy year for its film and television production and distribution sector.

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st March, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2007 are set out in the consolidated income statement on page 30.

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

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st March, 2007, the Company's reserves available for distribution consisted of contributed surplus of HK\$3,953,000 (2006: HK\$3,953,000) and retained profits of HK\$1,425,000 (2006: HK\$1,793,000).

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

DIRECTORS

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

Non-executive director:

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

Executive directors:

Mr. Wong Chi Fai
Ms. Fan Man Seung, Vanessa
Mr. Ng Sui Wan (*alias Ng Yu*)

Independent non-executive directors:

Mr. Wong Ching Yue
Mr. Chu Kar Wing
Mr. Wong Tak Ming, Gary

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

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Wong Chi Fai, Ms. Fan Man Seung, Vanessa and Mr. Chu Kar Wing retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

On 25th October, 2005, Mr. Ng Sui Wan (alias Ng Yu) ("Mr. Ng Yu") entered into an employment contract with Emperor Entertainment (Hong Kong) Limited, a wholly owned subsidiary of the Company, in relation to his service as the director and Chief Executive Officer of the Group in connection with its businesses, for a term commencing from 10th December, 2005 until terminated by not less than three months' notice in writing served by either party on the other or payment in lieu of notice.

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

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

DIRECTORS (Continued)

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

Name of director	Commencing date
Luk Siu Man, Semon ("Ms. Semon Luk")	30th November, 2002
Wong Ching Yue	1st April, 2002
Chu Kar Wing	30th September, 2004
Wong Tak Ming, Gary	30th September, 2004

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) As announced by the Company on 28th November, 2006, Emperor Motion Picture Limited ("EMP"), a wholly-owned subsidiary of the Company, entered into a distribution agreement dated on 15th May, 2006 (the "Distribution Agreement") with JCE Movies Limited ("JCE") pursuant to which EMP was appointed by JCE as the sales agent of a motion picture entitled "Rob-B-Hood" produced by JCE, for a period from 15th May, 2006 to 31st March, 2009, subject to (a) renewal at the option of EMP for a period from 1st April, 2009 to 31st March, 2012 and (b) automatic renewal for a period of three years upon expiry of such renewed term or any subsequent term (as the case may be) unless the Distribution Agreement is terminated by either party in writing three months in advance prior to the expiry of such term. Under the Distribution Agreement, JCE granted to EMP the sole and exclusive right to distribute the licensed rights of the motion picture "Rob-B-Hood" worldwide in all language versions dubbed and subtitled at the agency fee rates ranging from 2% to 12% of the gross income from theatrical release or from other forms of media under the Distribution Agreement. The rates will depend on the type of media, territories and whether EMP is required to rebate sub-sales agent for the distribution. The directors of the Company consider that the agency fee rates under the Distribution Agreement are on normal commercial terms after comparing with other film distribution agreements made by EMP with independent third parties (as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules")). During the year, the Group received agency fee of approximately HK\$9,685,000 from JCE in connection with the Distribution Agreement. JCE is ultimately beneficially owned as to 50% by The Albert Yeung Discretionary Trust (the "Trust"), a discretionary trust set up by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), a deemed substantial shareholder of the Company, and 50% by other independent third parties (as defined in the GEM Listing Rules). JCE is therefore an associate of Mr. Albert Yeung under the GEM Listing Rules and the transaction constitutes a continuing connected transaction as defined under the GEM Listing Rules. This transaction had been complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

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

- (b) EMP entered into a distribution agreement (the "Second Distribution Agreement") dated 1st November, 2004 with JCE. Pursuant to the Second Distribution Agreement, EMP was granted the sole and exclusive rights to distribute the licensed right worldwide and in all languages of the motion picture "The Myth" produced by JCE, for a period from 1st November, 2004 to 31st March, 2007, subject to (a) renewal at the option of EMP for a period of three years commencing from 1st April, 2007; and (b) automatic renewal for a period of three years upon expiry of such renewed term or any subsequent term (as the case may be) unless the Second Distribution Agreement is terminated by either party in writing three months in advance prior to the expiry of such term. EMP had exercised the option to renew the Second Distribution Agreement from 1st April, 2007 to 31st March, 2010. The agency fee rates ranging from 2% to 12% of the gross income from distribution and any exploitation of the motion picture. The rates will depend on the type of media, territories and whether EMP is required to rebate sub-sales agent for the distribution. The directors of the Company consider that the agency fee rates under the Second Distribution Agreement are on normal commercial terms after comparing with other film distribution agreements made by EMP with independent third parties (as defined in the GEM Listing Rules). During the year, the Group received agency fee of approximately HK\$4,371,000 from JCE in connection with the Second Distribution Agreement. JCE is an associate of Mr. Albert Yeung under the GEM Listing Rules (as mentioned above) and the transaction constitutes a continuing connected transaction as defined under the GEM Listing Rules.
- (c) EMP entered into a marketing agreement (the "Marketing Agreement") dated 1st May, 2006 with JCE. Pursuant to the Marketing Agreement, EMP was to provide marketing and public relation services to promote the motion picture "Rob-B-Hood" in Hong Kong for a fee of HK\$30,000 plus a flexible rate ranging from 5% to 10% of the gross/net media publication charge or cash received from sponsors, depending on the nature of income from sponsors and promotional charge. The directors of the Company consider that the fee is on normal commercial terms. During the year, the Group received income of approximately HK\$1,119,000 from JCE in connection with the Marketing Agreement. JCE is an associate of Mr. Albert Yeung under the GEM Listing Rules (as mentioned above) and the transaction constitutes a connected transaction as defined under the GEM Listing Rules.

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

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

Name of counterparty	Nature of transaction	Terms	Amount for the year ended 31st March, 2007 HK\$'000
Very Sound Investments Limited (Note (1))	Operating lease rentals paid	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$51,270 (exclusive of rates, management fees and other outgoing charges) From 6th February, 2006, the monthly rental decreased to HK\$45,750 (exclusive of rates, management fees and other outgoing charges)	539
	Management fees paid	1st April, 2005 to 31st March, 2008 at a monthly fee of HK\$16,210 (subject to increase) From 6th February, 2006, the monthly fee decreased to HK\$14,469 (subject to increase)	170
	Operating lease rentals paid	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$121,200 (exclusive of rates, management fees and other outgoing charges)	1,454
	Management fees paid	1st April, 2005 to 31st March, 2008 at a monthly fee of HK\$38,334.30 (subject to increase)	460

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

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

Name of counterparty	Nature of transaction	Terms	Amount for the year ended 31st March, 2007 HK\$'000
Active Pace Investment Limited (Note (1))	Car park rentals paid	From 1st February, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,600 (subject to increase)	43
	Car park rentals paid	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,800 (subject to increase)	46
	Car park rentals paid	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$4,800 (subject to increase)	58
	Car park rentals paid	From 4th August, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,400 (subject to increase)	41

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

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

Name of counterparty	Nature of transaction	Terms	Amount for the year ended 31st March, 2007 HK\$'000
Profit Noble Holdings Limited ("Profit Noble") (Note (2))	Advertising fees paid	1st April, 2005 to 31st March, 2008 based on the advertising expenses projection prepared by the management of the Company that will be not more than HK\$500,000 for each of the financial years up to 31st March, 2008	206

Notes:

- (1) The counterparties are all indirect wholly-owned subsidiaries of Emperor International Holdings Limited ("Emperor International"). Emperor International is a listed company, 57.55% of the shares of which were registered in the name of and beneficially owned by Charron Holdings Limited ("Charron") as at 31st March, 2007. The entire issued share capital of Charron was held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A&A Unit Trust under the Trust. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the shares held by Charron in Emperor International. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the issued share capital held by Charron in Emperor International.
- (2) Emperor International entered into an advertising services agreement dated 8th August, 2005 with the Company to provide advertising services to the Company by some of its subsidiaries ("Subsidiaries"). Emperor International disposed the Subsidiaries to Profit Noble with completion on 1st April, 2006. Profit Noble, a company indirectly owned by Perpetual Wealth Investments Limited ("Perpetual Wealth"), a trustee of The A&S Unit Trust under the Trust. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the shares held by Perpetual Wealth in Profit Noble. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the issued share capital held by Profit Noble.

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

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

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

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

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

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

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

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

Save as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries and subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

As at 31st March, 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long position in shares of the Company

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

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

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

(b) Long positions in shares of associated corporations

Name of director	Name of associated corporation	Nature of interests	Number of ordinary share(s) held	Approximate percentage holding
Ms. Semon Luk	Surplus Way (Note (1))	Family	1	100%
Ms. Semon Luk	Jumbo Wealth (Note (1))	Family	1	100%
Ms. Semon Luk	Charron (Note (2))	Family	1	100%
Ms. Semon Luk	Emperor International (Note (2))	Family	813,301,411	57.55%
Mr. Wong Chi Fai	Emperor International (Note (3))	Beneficial	10,000,000	0.71%
Ms. Fan Man Seung, Vanessa	Emperor International (Note (3))	Beneficial	10,000,000	0.71%

Notes:

- (1) Surplus Way was the registered owner of 203,054,000 shares, representing 78.09% of the issued share capital of the Company. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth respectively.
- (2) Charron was the registered owner of 813,301,411 shares in Emperor International. The entire issued share capital of Charron was held by Jumbo Wealth on trust for The A&A Unit Trust. By virtue of the interests of The A&A Unit Trust in Surplus Way and Charron, both Charron and Emperor International were associated corporations of the Company. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Charron and Emperor International respectively. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the share capital of Charron and Emperor International respectively.
- (3) Share options were granted to directors under the share option scheme of Emperor International.

Save as disclosed above, as at 31st March, 2007, none of the directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

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

At the annual general meeting of the Company held on 26th August, 2004, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 11th November, 2004. Details of the share option scheme are set out in note 31 to the consolidated financial statements.

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

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 31st March, 2007, the persons or corporations (other than the directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in shares of the Company

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (Continued)

Long positions in shares of the Company (Continued)

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

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

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

Save as disclosed above, as at 31st March, 2007, the directors of the Company were not aware of any other person or corporation (other than the directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 37% of the revenue of the Group and the largest customer accounted for approximately 9% of the Group's revenue.

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

None of the directors, their associates and shareholders of the Company (which to the knowledge of the directors of the Company owns more than 5% of the issued capital of the Company) had any interest in any of the five largest customers of the Group for the year ended 31st March, 2007.

DONATIONS

During the year, the Group made donations amounting to approximately HK\$880,000.

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

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING INTERESTS

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

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

AUDITORS

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

On behalf of the Board

Luk Siu Man, Semon
Chairperson

Hong Kong, 21st June, 2007

The Board strives to attain and maintain a solid, transparent and sensible framework of corporate governance. The Company has fully complied with all the provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 to the GEM Listing Rules throughout the financial year ended 31st March, 2007.

THE BOARD

The Board is responsible to lead and control the business operations of the Group. It formulates strategic directions, oversees the operations and monitors the financial performance of the Group. The management manages the businesses of the Group within the delegated power and authority by the Board.

As at 31st March, 2007, the Board comprised seven directors, with one non-executive director who is also the Chairperson of the Company, three executive directors and three independent non-executive directors. The biographies of the directors are set out on pages 3 to 4 of this report under the "Biographies of Directors and Senior Executives" section.

The Company has received a confirmation of independence from each of the independent non-executive directors. The Board considers each of them to be independent by reference to the factors stated in the GEM Listing Rules. The independent non-executive directors have been expressly identified as such in all corporate communications of the Company that disclose the names of directors.

The Board, led by the Chairperson, Ms. Semon Luk since November 2000. The Chairperson, with the support of the Company Secretary, ensures all Board members work effectively and discharge his/her responsibility by providing timely, reliable and sufficient information on issues to be discussed at Board meetings. The Chairperson is responsible to set the agenda for each Board meeting, taking into account any matters proposed by the directors. The Board members are properly briefed of the issues discussed and the meeting material is dispatched to the directors before the meetings. The independent non-executive directors who bring in strong expertise, contributing a more impartial view and making independent judgement on issues to be discussed at Board meetings.

The experienced management team implements the decisions from the Board and proposes management and investment proposals for the Board to approve. The team assumes full accountability to the Board for all operations of the Group.

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

THE BOARD (Continued)

The non-executive directors are appointed for a term of two years, with all the terms being renewed automatically for successive terms of one year each commencing from the date next after the expiry of the then current terms, unless terminated by not less than three months' notice in writing served by either party. Pursuant to the Bye-laws of the Company, every director shall be subject to retirement by rotation at least once every three years in order to comply with the requirement of the Code.

The Company has not established a nomination committee. During the financial year ended 31st March, 2007, there is no appointment of new directors to the Board. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of any recommended candidates for directorship.

The Board held five meetings during the financial year 2006-2007 with the attendance of each directors as follows:

Name of director	Number of Board meeting attended	Attendance rate
<i>Non-executive director</i>		
Luk Siu Man, Semon (<i>Non-executive director & Chairperson</i>)	5/5	100%
<i>Executive directors:</i>		
Wong Chi Fai	5/5	100%
Fan Man Seung, Vanessa	4/5	80%
Ng Sui Wan	5/5	100%
<i>Independent non-executive directors:</i>		
Wong Ching Yue	3/5	60%
Chu Kar Wing	5/5	100%
Wong Tak Ming, Gary	5/5	100%

The Board meeting notice was sent to the directors at least 14 days prior to the regular meeting. The directors also have access to the advice and services of the Company Secretary and key officers of the Company Secretarial team regarding the Board procedures, and all applicable rules and regulations are followed. Draft and final versions of the minutes of Board meetings and Board committee meetings, drafted in sufficient details by the secretary of the meetings, were circulated to the directors for their comment and record respectively. An original copy of such minutes, being kept by the Company Secretary, is open for inspection at any reasonable time on reasonable notice by any directors. A procedure has been approved by the Board to enable the directors to seek independent professional advice at the Company's expenses in appropriate circumstances.

The Company has adopted a code of conduct regarding securities transactions by directors and senior executives on no less terms than the required standard of dealings set out in Rules 5.48 to Rules 5.67 of the GEM Listing Rules. Having made specific enquiry to all directors of the Company, all the directors confirmed that they have complied with the required standard of dealings and the code of conduct.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Remuneration Committee consists of three members. It is chaired by the executive director, Mr. Wong Chi Fai with two independent non-executive directors, Mr. Chu Kar Wing and Mr. Wong Tak Ming, Gary. The major responsibility of the Remuneration Committee is assisting the Board to attract, retain and motivate the high calibre executives, and making recommendations on the establishment of a formal and transparent procedure for developing remuneration policy. Details of the remuneration of each of the directors for the year ended 31st March, 2007 are set out in note 11(a) to the consolidated financial statements. The specific written terms of reference of the Remuneration Committee are available in the Company's website: www.emp8078.com.

The Remuneration Committee has convened a meeting in September 2006, which was attended by all Committee members. The task performed by the Remuneration Committee including (i) reviewed and endorsed the remuneration structure of the directors; (ii) reviewed the market data of directors' remuneration; and (iii) recommended to the Board the annual directors' fees.

ACCOUNTABILITY AND AUDIT

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

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

Audit Committee

The Audit Committee consists of three independent non-executive directors, namely Messrs. Chu Kar Wing, Wong Ching Yue and Wong Tak Ming, Gary. They possess accounting, banking and other professional expertise. The Board has adopted a revised terms of reference on 9th November, 2006, which is updated to reflect the current requirements of the GEM Listing Rules. The revised terms of reference has been set out in the Company's website: www.emp8078.com. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the external auditors, to approve the remuneration and terms of engagement of external auditor, review financial information and oversight of the financial reporting system and internal control procedures.

The Audit Committee convened six meetings during the financial year ended 31st March, 2007 with the attendance as follows:-

Name of Committee member	Number of meeting attended	Attendance rate
Chu Kar Wing	6/6	100%
Wong Ching Yue	6/6	100%
Wong Tak Ming, Gary	6/6	100%

ACCOUNTABILITY AND AUDIT *(Continued)*

Audit Committee *(Continued)*

All Committee members attend the meetings. Draft and final versions of minutes were circulated to Committee members for their review and record respectively. The summary of work performed by the Audit Committee during the financial year ended 31st March 2007 is set out below:

- i. Reviewed with the external auditors and senior management of the audit plans for the financial years ended 31st March, 2006 and 2007;
- ii. Reviewed with the senior management and/or the external auditors the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual, interim and quarterly financial statements for the financial year ended 31st March, 2007;
- iii. Reviewed the impact to the Group in respect of the amendments to the accounting principles with the external auditors;
- iv. Reviewed the revised terms of reference of audit committee and recommended to the Board for adoption;
- v. Approved the scope of internal control;
- vi. Determined the external auditor's independence and reviewed the effectiveness of the audit process ;
- vii. Approved the audit fees for the financial year 2005-2006; and
- viii. Meeting with the external auditors and review their work and findings relating to the annual audit

Internal Control

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. The internal control system is implemented to minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatements or losses.

The internal control system has been implemented by the Company since 2000. During the financial year ended 31st March 2007, the Company has formulated an internal self-assessment process of all material controls including financial, operational and compliance controls and risk management functions and the Audit Committee is charged with the task to evaluate the effectiveness of the system.

During the financial year ended 31st March 2007, the management has analysed the control environment and risk assessment, assessed the various controls implemented and agreed with the Audit Committee on the scope of review. The approach of the review includes conducting interviews with relevant management and staff members, reviewing relevant documentation of the internal control system and evaluating findings on any deficiencies in the design of the internal controls and developing recommendations for improvement, where appropriate.

ACCOUNTABILITY AND AUDIT *(Continued)*

Internal Control *(Continued)*

The management has reported the results of the review to the Audit Committee for its evaluation of effectiveness of the system.

COMMUNICATION WITH SHAREHOLDERS

The Company communicated with the shareholders in the following ways: (i) the holding of annual general meeting which provide an opportunity for the shareholders to raise questions to the Board on the business of the Group, if any and the issuance of annual report and/or circular as required under the GEM Listing Rules providing up-dated information of the Group; and (ii) the shareholders and investors are welcome to visit our website for the latest information of the Group. Separate resolutions are proposed at the annual general meeting on each substantial separate issues, including the election of individual directors as required under the GEM Listing Rules.

The Chairperson and the chairmen of the committees, was available at the annual general meeting held on 24th August, 2006 to answer questions from the shareholders.

Voting by Poll

The rights to demand a poll were set out in the circular dispatched to the shareholders during the year. The chairperson of the annual general meeting held on 24th August, 2006 had explained the rights and procedures to demand a poll.

AUDITOR'S REMUNERATION

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

Service rendered	fee paid/payable HK\$'000
Audit services	2,258



**TO THE SHAREHOLDERS OF
EMPEROR ENTERTAINMENT GROUP LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Emperor Entertainment Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 75, which comprise the consolidated balance sheet as at 31st 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 CONSOLIDATED 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 Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Group as at 31st March, 2007 and of the Group's profit 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21st June, 2007

30 Consolidated Income Statement

For the year ended 31st March, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Revenue	6 & 7	183,915	196,917
Other income		5,929	10,133
Cost of music production and distribution		(46,046)	(48,909)
Cost of film and television programme production and distribution		(47,554)	(98,343)
Cost of provision of event production services		(1,193)	(2,544)
Distribution costs		(13,547)	(24,858)
Administrative expenses		(61,131)	(62,256)
Finance costs	8	(750)	(2,218)
Gain on disposal of a subsidiary	9	822	–
Share of results of a jointly controlled entity		(377)	–
Profit (loss) before taxation	10	20,068	(32,078)
Taxation	12	(2,976)	(2,383)
Profit (loss) for the year		17,092	(34,461)
Attributable to:			
Equity holders of the Company		17,280	(32,549)
Minority interests		(188)	(1,912)
		17,092	(34,461)
		HK cents	HK cents
Earnings (loss) per share – basic	13	6.65	(12.52)

At 31st March, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	14	2,708	2,102
Interests in a jointly controlled entity	15	2,084	–
Prepayments and other receivables	16	11,928	9,244
Film rights	17	55,124	55,335
		71,844	66,681
Current assets			
Inventories and record masters	18	2,430	2,335
Trade receivables	19	30,022	21,648
Prepayments and other receivables	16	31,947	37,871
Taxation recoverable		125	–
Bank balances and cash	20	69,951	68,551
		134,475	130,405
Assets classified as held for sale	9	–	3,181
		134,475	133,586
Current liabilities			
Trade payables	21	14,697	8,354
Other payables and accrued charges	22	64,283	84,871
Amount due to ultimate holding company	23	29,643	16,050
Amount due to a related company	24	–	8,999
Loan from a minority shareholder of a subsidiary	25	2,000	2,000
Taxation payable		939	611
		111,562	120,885
Liabilities directly associated with assets classified as held for sale	9	–	1,266
		111,562	122,151
Net current assets		22,913	11,435
		94,757	78,116

32 Consolidated Balance Sheet

At 31st March, 2007

	Note	2007 HK\$'000	2006 HK\$'000
Capital and reserves			
Share capital	26	2,600	2,600
Reserves		93,845	76,230
Equity attributable to equity holders of the Company		96,445	78,830
Minority interests		(1,688)	(714)
Total equity		94,757	78,116

The consolidated financial statements on pages 30 to 75 were approved and authorised for issue by the Board of Directors on 21st June, 2007 and are signed on its behalf by:

Wong Chi Fai
Director

Fan Man Seung, Vanessa
Director

Consolidated Statement of Changes in Equity

33

For the year ended 31st March, 2007

	Attributable to equity holders of the Company						Total	Minority interests	Total equity
	Share capital	Share premium	Contributed surplus	Special reserve	Translation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000 (Note 27(a))	HK\$'000 (Note 27(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005	2,600	105,614	91,063	75,000	(528)	(154,919)	118,830	1,136	119,966
Exchange differences on translation of foreign operations	-	-	-	-	(171)	-	(171)	62	(109)
Loss for the year	-	-	-	-	-	(32,549)	(32,549)	(1,912)	(34,461)
Total recognised expense for the year	-	-	-	-	(171)	(32,549)	(32,720)	(1,850)	(34,570)
Dividend paid for 2005	-	-	(7,280)	-	-	-	(7,280)	-	(7,280)
At 31st March, 2006 and 1st April, 2006	2,600	105,614	83,783	75,000	(699)	(187,468)	78,830	(714)	78,116
Exchange differences on translation of foreign operations	-	-	-	-	393	-	393	22	415
Share of changes in equity of a jointly controlled entity	-	-	-	-	(39)	-	(39)	-	(39)
Net income recognised directly in equity	-	-	-	-	354	-	354	22	376
Profit (loss) for the year	-	-	-	-	-	17,280	17,280	(188)	17,092
Transfer to profit or loss on disposal of a subsidiary	-	-	-	-	(19)	-	(19)	(808)	(827)
Total recognised income (expense) for the year	-	-	-	-	335	17,280	17,615	(974)	16,641
At 31st March, 2007	2,600	105,614	83,783	75,000	(364)	(170,188)	96,445	(1,688)	94,757

34 Consolidated Cash Flow Statement

For the year ended 31st March, 2007

Note	2007 HK\$'000	2006 HK\$'000
Cash flows from operating activities		
Profit (loss) before taxation	20,068	(32,078)
Adjustments for:		
Allowance for bad and doubtful debts	34	904
Amortisation of film rights	43,112	85,318
Depreciation of property, plant and equipment	1,714	1,805
Finance costs	750	2,218
Impairment loss on film rights recognised	2,969	12,260
Imputed interest included in distribution costs	1,807	957
Interest income	(1,719)	(2,215)
Gain on disposal of a subsidiary	(822)	–
Loss on disposal of property, plant and equipment	191	2
Share of loss of a jointly controlled entity	377	–
Write-off of property, plant and equipment	–	368
Operating cash flows before movements in working capital	68,481	69,539
(Increase) decrease in inventories and record masters	(95)	1,985
(Increase) decrease in trade receivables	(8,374)	38,166
Decrease in prepayments and other receivables	2,267	13,635
Increase (decrease) in trade payables	6,343	(9,029)
Decrease in other payables and accrued charges	(20,564)	(840)
(Decrease) increase in amount due to a related company	(8,999)	8,999
Cash generated from operations	39,059	122,455
Hong Kong Profits Tax paid	(2,773)	(4,855)
Net cash from operating activities	36,286	117,600
Cash flows from investing activities		
Additional costs incurred in film rights	(45,870)	(15,955)
Purchase of property, plant and equipment	(2,510)	(1,545)
Capital contribution to a jointly controlled entity	(2,500)	–
Interest received	1,344	681
Disposal of a subsidiary, net of cash and cash equivalents disposed of	845	–
Proceeds from disposal of property, plant and equipment	17	1
Net cash used in investing activities	(48,674)	(16,818)

For the year ended 31st March, 2007

	2007	2006
	HK\$'000	HK\$'000
Cash flows from financing activities		
Advances from ultimate holding company	110,600	139,266
Repayment of advances to ultimate holding company	(97,007)	(212,253)
Interest paid	(750)	(2,218)
Repayment to a minority shareholder of a subsidiary	–	(264)
Dividend paid	–	(7,280)
Net cash from (used in) financing activities	12,843	(82,749)
Net increase in cash and cash equivalents	455	18,033
Cash and cash equivalents at beginning of the year	69,496	51,463
Cash and cash equivalents at end of the year	69,951	69,496
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	69,951	68,551
Bank balances and cash included in assets classified as held for sale	–	945
	69,951	69,496

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate and ultimate holding company is Surplus Way Profits Limited ("Surplus Way"), a company which is incorporated in the British Virgin Islands. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is 28/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding company. The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of its principal subsidiaries are set out in note 33.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1st April, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

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

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st May, 2006.

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

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

⁶ Effective for annual periods beginning on or after 1st March, 2007.

⁷ Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value on initial recognition, as explained in the accounting policies set out below.

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

Certain comparative figures have been reclassified to conform with the current year's presentation.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net asset of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Revenue

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business, net of discounts and sales related taxes.

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

Income from licensing of musical works is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

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

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

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

Property, plant and equipment

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

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

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

Disposal company held for sale

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Film rights

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

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

Borrowing costs

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

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

Inventories

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

Record masters

Record masters represent accumulated costs incurred in the production of master tapes of which the relevant audio-visual products are not yet released as at the balance sheet date less any expected loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest rate method, less any identified impairment loss. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment loss is reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed that the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade payables, other payables, amount due to ultimate holding company, amount due to a related company and loan from a minority shareholder of a subsidiary are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Operating leases

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

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

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Amortisation and impairment on film rights

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

Currency risk

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

Interest rate risk

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

Interest bearing financial assets are mainly bank balances and other receivables carried at prevailing market rate, that exposed the Group to cash flow interest risk. However, such exposure is immaterial to the Group as the bank balances are all short-term in nature.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

For the year ended 31st March, 2007

6. REVENUE

	2007	2006
	HK\$'000	HK\$'000
An analysis of the Group's revenue is as follows:		
Music production and distribution		
– sales of albums	23,518	33,399
– licence income	32,271	22,462
– multimedia income	7,346	6,221
	63,135	62,082
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	58,337	60,225
– distribution of films and television programmes	17,319	15,217
	75,656	75,442
Artiste management fee income	37,787	34,072
Event production		
– income from jointly organised events	207	20,789
– income from provision of event production services	7,130	4,532
	7,337	25,321
	183,915	196,917

7. SEGMENT INFORMATION

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

Principal activities are as follows:

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

For the year ended 31st March, 2007

7. SEGMENT INFORMATION (Continued)

(a) By activity

	2007		2006	
	Revenue HK\$'000	Contribution to profit for the year HK\$'000	Revenue HK\$'000	Contribution to loss for the year HK\$'000
Music production and distribution	63,135	(6,067)	62,082	(8,518)
Film and television programme production, distribution and licensing	75,656	8,671	75,442	(53,070)
Artiste management	37,787	18,164	34,072	18,266
Event production	7,337	2,972	25,321	15,463
	183,915	23,740	196,917	(27,859)
Other income not allocated to principal activities		2,063		2,215
Unallocated corporate expenses		(5,430)		(4,216)
Finance costs		(750)		(2,218)
Gain on disposal of a subsidiary		822		–
Share of results of a jointly controlled entity (note)		(377)		–
Profit (loss) before taxation		20,068		(32,078)
Taxation		(2,976)		(2,383)
Profit (loss) for the year		17,092		(34,461)

Note: The share of results of a jointly controlled entity belongs to the segment of film and television programme production, distribution and licensing.

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2007					
ASSETS					
Segment assets	32,837	76,855	11,594	10,547	131,833
Interests in a jointly controlled entity	-	2,084	-	-	2,084
Unallocated corporate assets					72,402
Consolidated total assets					206,319
LIABILITIES					
Segment liabilities	39,010	25,201	5,686	7,511	77,408
Unallocated corporate liabilities					34,154
Consolidated total liabilities					111,562

For the year ended 31st March, 2007

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Other information for the year ended 31st March, 2007					
Depreciation of property, plant and equipment	686	245	312	96	1,339
Unallocated depreciation of property, plant and equipment					375
					1,714
Amortisation of film rights	-	43,112	-	-	43,112
Impairment loss on film rights	-	2,969	-	-	2,969
Additions to property, plant and equipment and film rights	1,168	45,961	555	56	47,740
Unallocated additions					640
					48,380
Allowance for bad and doubtful debts	34	-	-	-	34

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2006					
ASSETS					
Segment assets	33,258	73,419	7,413	12,778	126,868
Unallocated corporate assets					73,399
Consolidated total assets					200,267
LIABILITIES					
Segment liabilities	46,959	39,208	6,675	9,801	102,643
Unallocated corporate liabilities					19,508
Consolidated total liabilities					122,151

For the year ended 31st March, 2007

7. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

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

7. SEGMENT INFORMATION (Continued)

(b) By geographical market

	Revenue	
	2007 HK\$'000	2006 HK\$'000
Greater China		
– Hong Kong	75,158	109,489
– Mainland China	52,504	38,848
– Taiwan	1,782	4,816
Japan	2,668	7,630
Other Asian countries	9,489	14,174
North America	18,738	3,692
European countries	9,422	3,403
Other areas	14,154	14,865
	183,915	196,917

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

	Carrying amount of segment assets		Additions to property, plant and equipment and film rights	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Greater China				
– Hong Kong	95,617	90,847	47,686	21,070
– Mainland China	3,958	6,545	54	990
– Taiwan	–	672	–	–
Other Asian countries	30,837	4,650	–	–
Ireland	1,421	24,154	–	–
	131,833	126,868	47,740	22,060

8. FINANCE COSTS

Amount represents interest on amount due to ultimate holding company.

For the year ended 31st March, 2007

9. DISPOSAL OF A SUBSIDIARY

On 30th December, 2005, the Group entered into an agreement with the minority shareholder of a subsidiary, 北京中北英皇文化發展有限公司 (“中北英皇”), which was engaged in provision of management services to artistes and holding company of an artiste training school, for disposal of its 60% equity interest in 中北英皇 to the minority shareholder. Such disposal was completed on 14th June, 2006 (“Date of Disposal”), on which date control of 中北英皇 passed to the minority shareholder. The assets and liabilities of 中北英皇 had been classified as held for sale on 31st March, 2006.

The net assets of 中北英皇 at the Date of Disposal and as at 31st March, 2006 were as follows:

	At 14th June, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Loan to a minority shareholder of a subsidiary	60	60
Property, plant and equipment	1,154	1,154
Prepayments and other receivables – non-current portion	276	276
Prepayments and other receivables – current portion	448	544
Trade receivables	202	202
Bank balances and cash	1,076	945
Other payables and accrued charges	(1,290)	(1,266)
	1,926	1,915
Minority interests	(808)	
Translation reserve realised	(19)	
Gain on disposal of a subsidiary	822	
Total consideration	1,921	
Satisfied by:		
Cash	1,921	
Net cash inflow arising on disposal of a subsidiary:		
Cash consideration received	1,921	
Cash and cash equivalent disposed of	(1,076)	
	845	

9. DISPOSAL OF A SUBSIDIARY (Continued)

The impact of the disposal of 中北英皇 on the Group's revenue and results in the period up to the Date of Disposal and prior year were as follows:

	Period ended 14th June, 2006 HK\$'000	Year ended 31st March, 2006 HK\$'000
Revenue	–	323
Other income	–	1,823
Distribution costs	–	(570)
Administrative expenses	–	(3,541)
Loss for the year	–	(1,965)

During the period up to the Date of Disposal, 中北英皇 had no significant impact on cash flows of the Group. In the prior year, 中北英皇 paid approximately HK\$1,434,000 in respect of the Group's net operating cash flows, paid approximately HK\$232,000 in respect of investing activities and paid approximately HK\$398,000 in respect of financing activities.

For the year ended 31st March, 2007

10. PROFIT (LOSS) BEFORE TAXATION

	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' emoluments (<i>note 11(a)</i>)	4,013	3,873
Retirement benefit scheme contributions, net of forfeited contributions of nil (2006: HK\$13,000)	1,273	1,274
Other staff costs	37,699	37,714
Total staff costs	42,985	42,861
Allowance for bad and doubtful debts	34	904
Amortisation of film rights charged to cost of film and television programme production and distribution	43,112	85,318
Auditors' remuneration		
– current year	1,814	1,318
– underprovision in prior years	444	84
Cost of inventories recognised as expense	23,183	18,402
Depreciation of property, plant and equipment	1,714	1,805
Impairment loss on film rights recognised and included in cost of film and television programme production and distribution	2,969	12,260
Loss on disposal of property, plant and equipment	191	2
Operating lease rentals in respect of rented premises	3,490	4,046
Write-off of property, plant and equipment	–	368
and after crediting:		
Interest on bank deposits	648	292
Imputed interest income on non-current interest-free loans to artistes and staff	375	1,534
Interest on loans to artistes	696	389
Total interest income	1,719	2,215
Rental income	363	457

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the seven (2006: eight) directors as follows:

	Mr. Wong Chi Fai HK\$'000	Ms. Fan Man Seung, Vanessa HK\$'000	Mr. Ng Sui Wan (alias Ng Yu) HK\$'000	Ms. Luk Siu Man, Semon (Chairperson) HK\$'000	Mr. Wong Ching Yue HK\$'000	Mr. Chu Kar Wing HK\$'000	Mr. Wong Tak Ming, Gary HK\$'000	2007 Total HK\$'000
Fees	100	100	100	-	100	100	100	600
Other emoluments								
Salaries and other benefits	-	-	3,000	-	-	-	-	3,000
Contributions to retirement benefit schemes	-	-	163	-	-	-	-	163
Performance related incentive payment (note (a))	-	-	250	-	-	-	-	250
	100	100	3,513	-	100	100	100	4,013

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

Notes:

- (a) The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics during both years.
- (b) Dr. So Shu Fai retired on 25th August, 2005.

For the year ended 31st March, 2007

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

During the year, the five highest paid individuals included one director (2006: one director). The total emoluments of the remaining four (2006: four) highest paid individuals were as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	5,172	5,101
Bonuses	273	268
Retirement benefit scheme contributions	113	111
	5,558	5,480

	Number of individuals	
	2007	2006
Emoluments of the employees were within the following bands:		
Nil - HK\$1,000,000	–	1
HK\$1,000,001 - HK\$1,500,000	3	1
HK\$1,500,001 - HK\$2,000,000	1	2

During the year, no emoluments (2006: nil) were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

12. TAXATION

	2007 HK\$'000	2006 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits for the year	3,090	2,547
Overprovision in prior years	(114)	(164)
	2,976	2,383

12. TAXATION (Continued)

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

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

	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation	20,068	(32,078)
Tax charge (credit) of Hong Kong Profits Tax at 17.5%	3,512	(5,614)
Tax effect of expenses not deductible for tax purpose	5,846	15,524
Tax effect of income not taxable for tax purpose	(7,163)	(6,293)
Tax effect of tax losses not recognised	3,859	4,170
Tax effect of utilisation of tax losses previously not recognised	(1,922)	(4,224)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(989)	(1,231)
Overprovision in prior years	(114)	(164)
Others	(53)	215
Taxation for the year	2,976	2,383

At 31st March, 2007, the Group had unused tax losses of HK\$192,060,000 (2006: HK\$180,991,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the year attributable to equity holders of the Company of HK\$17,280,000 (2006: loss of HK\$32,549,000) and the 260,000,000 shares in issue during both years.

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

For the year ended 31st March, 2007

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1st April, 2005	3,376	3,690	2,008	3,045	1,496	13,615
Currency realignment	4	8	13	19	7	51
Additions	428	444	163	113	397	1,545
Disposals	(240)	(93)	(98)	(332)	–	(763)
Reclassified as held for sale	(285)	(409)	(516)	(782)	(235)	(2,227)
At 31st March, 2006	3,283	3,640	1,570	2,063	1,665	12,221
Currency realignment	4	–	–	–	17	21
Additions	1,306	551	236	417	–	2,510
Disposals	(330)	(35)	(84)	(752)	–	(1,201)
At 31st March, 2007	4,263	4,156	1,722	1,728	1,682	13,551
DEPRECIATION						
At 1st April, 2005	2,718	2,898	1,335	2,206	598	9,755
Currency realignment	2	6	6	9	1	24
Provided for the year	383	601	258	201	362	1,805
Eliminated on disposals	(129)	(53)	(87)	(123)	–	(392)
Reclassified as held for sale	(69)	(300)	(228)	(370)	(106)	(1,073)
At 31st March, 2006	2,905	3,152	1,284	1,923	855	10,119
Currency realignment	–	–	–	–	3	3
Provided for the year	782	462	182	134	154	1,714
Eliminated on disposals	(174)	(29)	(60)	(730)	–	(993)
At 31st March, 2007	3,513	3,585	1,406	1,327	1,012	10,843
CARRYING VALUES						
At 31st March, 2007	750	571	316	401	670	2,708
At 31st March, 2006	378	488	286	140	810	2,102

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold improvements	Over the shorter of unexpired lease term or 20%
Computer equipment	33 $\frac{1}{3}$ %
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY

As at 31st March, 2007, the Group had interests in the following jointly controlled entity:

Name of entity	Place of incorporation or registration/ operation	Registered capital	Proportion of nominal value of registered capital held by the Group	Principal activities
上海上影英皇文化發展有限公司	Mainland China	Capital contribution - HK\$5,000,000	50%	Production and distribution of films and television programmes
				2007
				HK\$'000
				2,500
Cost of unlisted investments in a jointly controlled entity				(377)
Share of post-acquisition losses				(39)
Share of translation reserve				(39)
				2,084

For the year ended 31st March, 2007

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY (Continued)

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2007 HK\$'000
Current assets	2,081
Non-current assets	6
Current liabilities	3
Income	–
Expenses	377

16. PREPAYMENTS AND OTHER RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Prepaid artiste fees (note (a))	4,402	3,272
Prepaid salaries (note (b))	233	617
Loan to a director (note (c))	–	1,000
Loans to artistes (note (d))	21,300	18,321
Staff loans (note (e))	167	314
Other prepayments and receivables	17,773	23,591
	43,875	47,115
The amount of prepayments and other receivables is analysed for reporting purpose as follows:		
Non-current portion	11,928	9,244
Current portion	31,947	37,871
	43,875	47,115

16. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

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

	2007 HK\$'000	2006 HK\$'000
Non-current portion	739	2,006
Current portion	3,663	1,266
	4,402	3,272

- (b) The unamortised amount of salaries prepaid to the employees of the Group at the balance sheet date is analysed for reporting purpose as follows:

	2007 HK\$'000	2006 HK\$'000
Non-current portion	33	233
Current portion	200	384
	233	617

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

	2007 HK\$'000	2006 HK\$'000
Non-current portion	–	–
Current portion	–	1,000
	–	1,000

Director	Terms of loan	Balance at 31st March, 2007 HK\$'000	Balance at 1st April, 2006 HK\$'000	Maximum amount outstanding during the year HK\$'000
Mr. Ng Yu	Unsecured, interest-free	–	1,000	1,000

For the year ended 31st March, 2007

16. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (d) The loans to artistes are unsecured. An amount of HK\$10,198,000 (2006: HK\$6,087,000) bears prevailing market interest rates ranging from 4.75% per annum to 8% per annum (2006: 3.25% per annum to 5% per annum) and is repayable by fixed monthly instalment with reference to the terms of respective agreements. Other amounts are interest-free and have no fixed repayment terms. The amount of the loans to artistes that is expected to be repaid within twelve months from the balance sheet date is classified as current asset. The remaining balance is classified as non-current asset. Effective interest rate of the interest-free loans to artistes is 10% (2006: 10%) per annum. The directors of the Company consider that the carrying amount of the loans to artistes approximates to its fair value. The amount of the loans to artistes at the balance sheet date is analysed for reporting purpose as follows:

	2007 HK\$'000	2006 HK\$'000
Non-current portion	11,107	6,847
Current portion	10,193	11,474
	21,300	18,321

- (e) The staff loans are unsecured and interest-free. They are repayable by fixed monthly instalments with reference to the terms of respective agreements. The amount of the staff loans which is repayable within twelve months from the balance sheet date is classified as current asset. The remaining balance is classified as non-current asset. Effective interest rate of the interest-free staff loans is 10% (2006: 10%) per annum. The directors of the Company consider that the carrying amount of the staff loans approximates to its fair value. The amount of the staff loans at the balance sheet date is analysed for reporting purpose as follows:

	2007 HK\$'000	2006 HK\$'000
Non-current portion	49	158
Current portion	118	156
	167	314

17. FILM RIGHTS

	HK\$'000
COST	
At 1st April, 2005	516,414
Additions	20,655
Overprovision in prior years	(4,700)
	<hr/>
At 31st March, 2006	532,369
Additions	45,870
	<hr/>
At 31st March, 2007	578,239
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st April, 2005	379,456
Provided for the year	85,318
Impairment loss recognised in the year	12,260
	<hr/>
At 31st March, 2006	477,034
Provided for the year	43,112
Impairment loss recognised in the year	2,969
	<hr/>
At 31st March, 2007	523,115
	<hr/>
CARRYING AMOUNT	
At 31st March, 2007	55,124
	<hr/> <hr/>
At 31st March, 2006	55,335
	<hr/> <hr/>

For the year ended 31st March, 2007

17. FILM RIGHTS (Continued)

During the year, in light of the circumstances of film industry, the Group undertook a review of its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts. The directors of the Company determined that a number of these film rights were impaired due to worsen marketability of respective film rights. The recoverable amounts of the relevant assets have been determined on the basis of their fair value less costs to sell. The fair value was determined by reference to the film market. The carrying amount of certain of the film rights amounting to HK\$2,969,000 (2006: HK\$12,260,000) was written off to the consolidated income statement.

18. INVENTORIES AND RECORD MASTERS

	2007 HK\$'000	2006 HK\$'000
Record masters	2,392	2,335
Finished goods	38	–
	2,430	2,335

19. TRADE RECEIVABLES

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

	2007 HK\$'000	2006 HK\$'000
Current	15,779	8,291
Overdue		
0 – 30 days	1,049	3,250
31 – 60 days	6,851	3,613
61 – 90 days	1,527	3,624
over 90 days	4,816	2,870
	30,022	21,648

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

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of seven days at prevailing market interests rates ranging from 2.5% per annum to 2.75% per annum (2006: 0.25% per annum to 2.55% per annum). The directors of the Company consider that the carrying amounts of these assets approximate their fair values.

21. TRADE PAYABLES

The following is an aged analysis of trade payables:

	2007	2006
	HK\$'000	HK\$'000
Current	1,526	773
Overdue		
0 – 30 days	1,690	2,049
31 – 60 days	3,233	1,283
61 – 90 days	4,161	220
over 90 days	4,087	4,029
	14,697	8,354

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

22. OTHER PAYABLES AND ACCRUED CHARGES

	2007	2006
	HK\$'000	HK\$'000
Deposits from customers	30,915	47,736
Accrued charges	15,833	16,941
Artiste payables	7,185	10,595
Others	10,350	9,599
	64,283	84,871

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

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, bears interest at rates ranging from 7.75% per annum to 8% per annum (2006: 5.25% per annum to 7.75% per annum) and is repayable on demand. The directors of the Company consider that the carrying amount of the amount due to ultimate holding company approximates its fair value.

24. AMOUNT DUE TO A RELATED COMPANY

The amount in 2006 was a trading balance due to JCE Movies Limited, a company which is ultimately beneficially owned as to 50% by The Albert Yeung Discretionary Trust, a discretionary trust set up by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), a substantial shareholder of the Company. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Luk Siu Man, Semon, spouse of Mr. Albert Yeung, had a deemed interest in this related company.

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

The amount was unsecured, interest-free and fully repaid during the year. The directors of the Company considered that the carrying amount of the amount due to a related company approximated its fair value.

25. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

As at 31st March, 2007 and 31st March, 2006, the loan from a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand. The directors of the Company consider the carrying amount of the loan from a minority shareholder of a subsidiary approximates its fair value. The minority shareholder was entitled to repayment only after its share of losses in the relevant subsidiary was made good.

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 1st April, 2005, 31st March, 2006 and 31st March, 2007	10,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2005, 31st March, 2006 and 31st March, 2007	260,000,000	2,600

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

27. RESERVES

- (a) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition and the dividend paid in 2005.
- (b) The special reserve of the Group represents advances of HK\$75,000,000 from Questrel Holdings Limited ("Questrel"), a former substantial shareholder of the Company, which were waived by Questrel as part of the group reorganisation in November 2000.

28. RETIREMENT BENEFITS SCHEME

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

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

28. RETIREMENT BENEFITS SCHEME (Continued)

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

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

29. OPERATING LEASE COMMITMENTS

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

	2007 HK\$'000	2006 HK\$'000
In respect of :		
(a) Rented premises		
Within one year	3,222	3,006
In the second to fifth year inclusive	1,092	2,003
	4,314	5,009
(b) Broadcasting service		
Within one year	960	–
In the second to third year inclusive	1,600	–
	2,560	–

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

30. OTHER COMMITMENTS

	2007 HK\$'000	2006 HK\$'000
Amounts contracted for but not provided in respect of:		
Artiste fees	10,399	12,915
Film production costs	28,292	29,463
	38,691	42,378

31. SHARE OPTION SCHEME

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

The total number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of total number of shares on the adoption date unless the shareholders approve to refresh the 10% limit. The overall limit in the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the shares of the Company in issue from time to time.

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

For the year ended 31st March, 2007

31. SHARE OPTION SCHEME (Continued)

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

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

32. RELATED PARTY TRANSACTIONS

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

	2007	2006
	HK\$'000	HK\$'000
Distribution and promotion income received	17,345	15,197
Fee received for back office support services (including accounting and tax consultancy services)	260	525
Fee received for professional services (including legal, and production assistance and consultancy services)	30	561
Sales of goods	291	29
Sponsorship fee received	412	–
Advertising and promotion expenses paid	206	348
Car park rentals paid	188	173
Corporate secretarial fee paid	320	320
Sharing of administrative expenses	3,839	4,940
Interest paid to ultimate holding company	750	2,218
Management fees and air-conditioning charges paid	630	653
Operating lease rentals paid	2,403	2,222

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

(b) Compensation of key management personnel

Remuneration paid key management personnel include solely the directors of the Company as determined with reference to remuneration committee, is disclosed in note 11(a).

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company all of which are limited liability companies, as at 31st March, 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share/registered capital	Proportion of nominal value of issued capital/registered capital held by the Company	Principal activities
Directly held				
Mile Oak Profits Limited	British Virgin Islands	Ordinary – US\$6	100%	Investment holding
Music Icon Entertainment Limited	British Virgin Islands	Ordinary – US\$1	100%	Investment holding
Indirectly held				
Artlanda Limited	Hong Kong	Ordinary – HK\$2	100%	Production of films and provision of agency services to group companies
EEG Music Publishing Limited	Hong Kong	Ordinary – HK\$2	100%	Licensing of musical works
Emperor Entertainment Group (International) Limited	Mauritius	Ordinary – US\$1,000	100%	Licensing of musical and multimedia works
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands/ Taiwan	Ordinary – US\$1	100%	Production and licensing of musical works
Emperor Entertainment (Hong Kong) Limited	Hong Kong	Ordinary – HK\$10,000,000	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation

For the year ended 31st March, 2007

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
<i>Indirectly held (Continued)</i>				
Golden Port Productions Limited	Ireland	Ordinary – Euro 4	100%	Production and distribution of films, licensing of distribution rights, and provision of distribution services
Goldpeak Corporation Limited	Hong Kong	Ordinary – HK\$2	100%	Production and distribution of films and licensing of distribution rights
Music Icon Records Limited	Hong Kong	Ordinary – HK\$2	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes and concert management and organisation
英皇星藝(北京)文化發展有限公司	Mainland China	Capital contribution – HK\$5,000,000	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation

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

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

	Year ended 31st March,				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
RESULTS					
Revenue	183,915	196,917	245,137	378,729	166,482
Profit (loss) before taxation	20,068	(32,078)	17,882	20,188	(15,947)
Taxation	(2,976)	(2,383)	(8,675)	(632)	–
Profit (loss) for the year	17,092	(34,461)	9,207	19,556	(15,947)
Attributable to:					
Equity holders of the Company	17,280	(32,549)	10,689	20,656	(15,940)
Minority interests	(188)	(1,912)	(1,482)	(1,100)	(7)
	17,092	(34,461)	9,207	19,556	(15,947)
ASSETS AND LIABILITIES					
Total assets	206,319	200,267	321,210	292,818	514,735
Total liabilities	(111,562)	(122,151)	(198,684)	(181,080)	(426,307)
Total equity	94,757	78,116	122,526	111,738	88,428
Attributable to:					
Equity holders of the Company	96,445	78,830	121,390	111,003	90,349
Minority interests	(1,688)	(714)	1,136	735	(1,921)
	94,757	78,116	122,526	111,738	88,428