International Entertainment Corporation

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8118

Annual Report 2007

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

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

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

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

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

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Corporate Information

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

NON-EXECUTIVE DIRECTOR
Mr. WU Wing Kin

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

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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16-18 Queen's Road Central
Hong Kong

COMPANY WEBSITES
http://www.cyberonair.com
http://www.ientcorp.com

COMPANY SECRETARY
Mr. KWOK Chi Kin CPA, FCCA

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

COMPLIANCE OFFICER
Mr. CHOI Wing Kin

QUALIFIED ACCOUNTANT
Mr. KWOK Chi Kin CPA, FCCA

AUDIT COMMITTEE MEMBERS
Mr. CHEUNG Hon Kit *(Committee Chairman)*
Mr. WONG Chi Keung
Mr. WU Wing Kin

REMUNERATION COMMITTEE MEMBERS
Mr. WONG Chi Keung *(Committee Chairman)*
Mr. KWEE Chong Kok, Michael
Mr. WU Wing Kin

PRINCIPAL BANKERS
Public Bank (Hong Kong) Limited
Public Bank Centre
120 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Bank of China (Hong Kong) Limited
Unit G1, Nan Fung Commercial Centre
Wang Kwun Road
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716
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183 Queen's Road East
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Chairman's Statement

Dr. Cheng Kar Shun
Chairman

Dear fellow shareholders,

I am delighted to report on the financial performance from the International Entertainment Corporation (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2007.

The Group's turnover for the year was approximately HK$137.3 million, representing a decrease of 49.9% compared with the previous year's turnover of approximately HK$274.3 million.

While continuing to explore projects involving the production of TV series, films and concerts during the year, the Group also established a Wholly-Owned Foreign Enterprise ("WOFE") in the People's Republic of China ("PRC") to pursue media-related business in the mainland.

Momentum generated during 2005-06 by our IT-sector arm, Cyber On-Air (Asia) Limited ("COAA"), continued into the year under review. One of the most notable developments centred on a partnership arrangement with a global communications leader, for which COAA has become Hong Kong "Canopy" point-to-point solutions provider based on the vendor's unique non-line-of-sight and near-line-of-sight microwave system capability. We also partnered with a world leader in Wi-Fi systems to become one of their sales channel in Hong Kong.

Following establishment of those partnerships, COAA has implemented Wi-Fi systems in Hong Kong for a multinational corporation and a major hotel group's local headquarter, and is participating in tender exercises for provision of Wireless LAN systems for a number of Hong Kong hotels and universities.

Buoyant economic conditions are helping to encourage customers, such as enterprises and carriers, to replace legacy networks with leading-edge solutions. With that in mind, COAA is expected to increase revenue earned by network solution sales via existing and new vendor partnerships. In addition, a rise in project service revenue is anticipated in 2007-08, following final agreement to upgrade a 2G/ 2.5G cellular system in Hong Kong to 3G for one of the world's largest network communications players.

In the move to expand our entertainment business, the Group entered into a conditional sale and purchase agreement for the acquisition of hotel and entertainment operations involving a 51% equity stake in "Hyatt Hotel and Casino Manila" in the Philippines and 40% equity interest in the Arc of Triumph Development Company Limited, which owns prime land in Macau. In the process of seeking approvals for the acquisition, progress was affected by the decision of the Listing Division of the Stock Exchange and the GEM Listing Committee of the Stock Exchange to reject the deemed new listing application of the Company. The management team is now pleased to report that this decision was subsequently overturned by the GEM Listing (Review) Committee of the Stock Exchange, allowing the Group to proceed with the application. This involves a luxury casino hotel in the Philippines covering a gross floor area of more than 90,000 square metres and comprising more than 360 deluxe rooms and suites, a casino and entertainment areas. The proposed development in Macau includes a super-deluxe hotel and residential complex, comprising numerous hotel rooms and casino facilities.

Looking ahead, the management team believes that year 2007 shows considerable promise. This provides added impetus and confidence to drive the Group's continued pursuit of business opportunities in the interests of long-term growth, enhanced and sustainable profitability and our ongoing commitment to improve return on investment for our shareholders.

Finally, I would like to take this opportunity to thank our management team and employees for their innovative approach to ensuring success for the Group, and to express my sincere gratitude to our customers, shareholders and suppliers for their valued support.

Dr. Cheng Kar Shun
Chairman

Hong Kong, 27 June 2007

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2007 was approximately HK$137.3 million, representing a decrease of approximately 49.9%, as compared with approximately HK$274.3 million for the last year. The decrease in turnover was mainly due to the decrease in number of films produced during the year. The Group reported a gross loss of approximately HK$67.3 million for the year under review, as compared to the gross loss of approximately HK$83.0 million in the last year. The gross loss for the year was primarily due to write-downs on some of the films during the year.

Selling and distribution costs, and general and administrative expenses decreased by approximately 33.6% to approximately HK$54.3 million for the year ended 31 March 2007 from approximately HK$81.7 million in the last year. The decrease was mainly attributable to the decrease in marketing expenses for film production, decrease in distribution expenses for film distribution and decrease in allowance for bad and doubtful debts.

In last year, in view of the deteriorating results of certain subsidiaries, an impairment loss of approximately HK$14.8 million has been recognised for the goodwill arising on the acquisition of these subsidiaries.

The Group recorded a loss before taxation for the year ended 31 March 2007, amounted to approximately HK$109.6 million, representing a decrease of approximately 36.7%, as compared with approximately HK$173.0 million in last year. The decrease in loss before taxation was mainly due to the decrease in gross loss, decrease in marketing expenses for film production, decrease in distribution expenses for film distribution and decrease in allowance for bad and doubtful debts during the year.

BUSINESS REVIEW

The principal activities of the Group are provision of network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

1. **Entertainment business**

   The revenue derived from the entertainment business for the year ended 31 March 2007 was approximately HK$118.6 million, representing a decrease of 53.9%, as compared with approximately HK$257.5 million in the last year. The revenue comprised primarily from sales of the theatrical feature films, *Running Scared, Man About Town,* and *Lovewrecked*. *Running Scared* is written and directed by Wayne Kramer and starring Paul Walker. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn and *Lovewrecked* stars Amanda Bynes and Chris Carmack. The decrease in revenue resulted from a decrease in sales attributable to the Group's films and decrease in number of films produced during the year.

   The class A multiple voting shares and the class B subordinate voting shares of M8 Entertainment Inc., a subsidiary of the Company incorporated in Canada, were delisted on the Toronto Stock Exchange ("TSX") at the close of market on 15 March 2007 (Toronto time) for failure to meet the continued listing requirements of TSX, particularly the maintenance of market value.

2. Network solutions

Network solutions are the solutions provided by the Group to customers related to their data communication and telecommunication system. These solutions include Microwave Radio System, Wireless Local Area Network, Data Communication, Network Access Management, Frequency and Time Synchronization network solutions.

During the year ended 31 March 2007, the revenue from network solutions was approximately HK$7.8 million, compared to approximately HK$8.1 million in the last year. The decrease in revenue was due to the keen competition in the market as well as some projects postponed and delayed by customers.

3. Project services

For the year ended 31 March 2007, revenue derived from the provision of project services was approximately HK$9.5 million, compared to approximately HK$6.8 million in the last year. The increase in revenue was due to the increase in demand of site optimization by network operators for the year.

FUTURE OUTLOOK

In the year, the improvement of the economic climate has stimulated the enterprise customers to start investing in the network. With the change of technology, the existing old technology such as frequency synchronization system, may need to be replaced or upgraded by customers. In addition, the change of technology also means existing customers may save operating expenses by replacing their existing system with new technology equipments. Therefore, the Group is going to seek the sales opportunity by working closely with our existing vendor to offer the total solution that can help our customers to improve their network by saving their operating cost with adoption of new technology. The Group will also continue to increase the sales force to strengthen the sales penetration into different industry segments.

Although the revenue derived from the provision of project services increased compared to last year, project services are still in keen competition. The project service team will offer potential customers total service solution packages, including design, supply, project implementation, management service and after sales maintenance support service.

In additional to the production of films, the Group engages in the acquisition of films. The acquired films will be distributed by the Group. Same as previous years, the Group attends major film festivals, including the Cannes Film Festival and Berlin Film Festival, and distributes the films worldwide, to most territories around the world. The Group will also seek for investment opportunities in the production of music concerts in Hong Kong and the PRC.

The Group has taken a further step into the entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau on 23 November 2004. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006, 22 December 2006 and 27 June 2007. As at the date of this report, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing. The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2007, the Group's net current assets amounted to approximately HK$176.2 million (as at 31 March 2006: approximately HK$285.5 million). Current assets amounted to approximately HK$309.4 million (as at 31 March 2006: approximately HK$540.6 million), of which approximately HK$194.4 million (as at 31 March 2006: approximately HK$293.0 million) was cash, bank deposits and pledged deposits, approximately HK$5.8 million (as at 31 March 2006: approximately HK$25.0 million) was trade receivables, approximately HK$13.8 million (as at 31 March 2006: nil) was available-for-sale financial assets, approximately HK$34.8 million (as at 31 March 2006: approximately HK$23.3 million) was other receivable, deposits and prepayments and approximately HK$59.1 million (as at 31 March 2006: approximately HK$198.2 million) was film costs.

The Group had current liabilities amounted to approximately HK$133.2 million (as at 31 March 2006: approximately HK$255.1 million), of which approximately HK$92.9 million (as at 31 March 2006: approximately HK$59.4 million) was trade payables, approximately HK$24.2 million (as at 31 March 2006: approximately HK$46.4 million) was other payables and accrued charges, and approximately HK$12.9 million (as at 31 March 2006: approximately HK$130.5 million) was bank and other borrowings, and the Group did not have any loans from Directors and related companies as at 31 March 2007 (as at 31 March 2006: approximately HK$15.6 million).

As at 31 March 2007, the Group had bank borrowings of the Group amounted to approximately HK$12.9 million (as at 31 March 2006: approximately HK$127.1 million), which would be due within one year. The bank borrowings were secured and bore interest at the announced base rate of interest of Bank of America Corporation plus 0.75% to 1.5% per annum. All the bank borrowings were denominated in United States dollars.

The Group had repaid loans from certain Directors of approximately HK$3.0 million during the year. As at 31 March 2006, the Group had loans from certain Directors of approximately HK$3.0 million, of which approximately HK$1.8 million was unsecured, bore interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest free and repayable on demand.

The Group had repaid the loans from related companies of approximately HK$12.6 million and other borrowings of approximately HK$3.4 million during the year. As at 31 March 2006, the Group had loans from related companies of approximately HK$12.6 million, of which approximately HK$11.1 million was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on demand; approximately HK$1.2 million was unsecured, bore interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand. The Company provided guarantees to a related company in respect of loans utilised by subsidiaries of the Group amounting to HK$11.0 million. In addition, the Group had other borrowings of approximately HK$3.4 million, of which approximately HK$2.0 million was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest free and repayable on demand.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 4.1% as at 31 March 2007, compared to approximately 26.9% as at 31 March 2006.

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

CHARGES ON GROUP ASSETS

As at 31 March 2007, the Group's bank deposit of approximately HK$13.9 million has been pledged to bank to secure banking facility granted to the Group. As at 31 March 2006, the Group's bank deposit of approximately HK$59.9 million, trade and other receivables, deposits and prepayments of approximately HK$32.2 million, and film assets of approximately HK$76.3 million have been pledged to banks to secure banking facility granted to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and Chow Tai Fook Enterprises Limited ("CTF") entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entired issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due as at the date of completion of the acquisition agreement from members of Fortune Gate Overseas Limited and its subsidiaries to CTF and its subsidiaries (the "Acquisition") and, in addition to making cash payment of HK$450 million (subject to adjustments), to issue a HK$400 million convertible note due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK$2 per share (subject to adjustments) (the "Convertible Note") as consideration to satisfy part of the purchase consideration of HK$850 million (subject to adjustments) (the "Purchase Price"). As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau (the "Purchase Option") on 17 March 2005 and the Purchase Price will be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006, 22 December 2006 and 27 June 2007. As at the date of this report, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing.

On 28 November 2006, the Group accepted the cash offer made by a party in respect of the 5,000,000 shares of Hanny Holdings Limited (the "Hanny Shares"), the shares of which are listed on the main board of the Stock Exchange, on the basis of HK$3.80 for each Hanny Share. Details of the acceptance are set out in the announcement of the Company dated 5 December 2006 and the circular of the Company dated 21 December 2006.

Save as disclosed above, there were no other material acquisitions and disposals of subsidiaries and affiliated companies, which would have been required to be disclosed under the GEM Listing Rules, for the year ended 31 March 2007.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONTINGENT LIABILITIES

As at 31 March 2007, the Group has the following contingent liabilities:

(a) On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/ MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs, amounting to approximately US$553,000 (equivalent to approximately HK$4.3 million). The Group has been advised by its US legal advisers that the claims made are unfounded. Accordingly, Media 8 Entertainment has applied for a dismissal of the claim made against it and also applied for summary judgement or adjudication on this matter. The parties requested for arbitration. As at the date of this report, the arbiter is considering the motion for summary judgment and the hearing date of the arbitration is pending.

(b) DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. and First Look Studios, Inc. (as plaintiffs) filed a claim against Media 8 Entertainment and MDP Distribution, Inc. (as defendants) on 20 September 2006 before the courts in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution, Inc. (as plaintiffs) against DEJ Productions, Inc. Blockbuster, Inc., First Look Studios, Inc. (as defendants) on 26 January 2006 before the courts in Los Angeles which was subsequently transferred to Texas in respect of a claim by Media 8 Entertainment and MDP Distribution, Inc. for the share of revenue to which they have been underpaid but which are entitled in respect of the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, damages and costs, which amounted to not less than US$8,559,674 (equivalent to approximately HK$66,765,000). As at the date of this report, this case is in pre-trial discovery phase.

As at 31 March 2006, the Company has provided corporate guarantee of approximately HK$11.0 million to secure loans and other borrowings granted to its subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group was 39 as at 31 March 2007 (as at 31 March 2006: 45). The staff costs for the year ended 31 March 2007 was approximately HK$26.0 million (for the year ended 31 March 2006: approximately HK$26.4 million). The remuneration of employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Cheng Kar Shun, aged 60, was appointed as an executive Director in July 2004. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited, NWS Holdings Limited and Taifook Securities Group Limited and the independent non-executive director of HKR International Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of CTF. Dr. Cheng is the chairman of the Advisory Council for the Better Hong Kong Foundation and a committee member of the Tenth Chinese People's Political Consultative Conference of the PRC. In 2001, he was awarded the Gold Bauhinia Star by the Government of Hong Kong.

Mr. Lo Lin Shing, Simon, aged 51, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of CME and IMM since 1986. Mr. Lo is the chairman of Mongolia Energy Corporation Limited and New World Mobile Holdings Limited. He is also the deputy chairman of Taifook Securities Group Limited and a non-executive director of Macau Prime Properties Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange.

Mr. To Hin Tsun, Gerald, aged 58, was appointed as an executive Director in June 2006. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. He is currently the senior and managing partner of Messrs. T. S. Tong & Co., Solicitors and Notaries, a law firm in Hong Kong. Mr. To is also a non-executive director of Taifook Securities Group Limited, Mongolia Energy Corporation Limited and NWS Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange.

Mr. Choi Wing Kin, aged 45, was appointed as executive Director in May 2001. He was the founder and an executive director of Cyber On-Air Limited (a wholly owned subsidiary of the Company). He has over 20 years' experience in information technology and telecommunications industry. Professionally, Mr. Choi possesses a Chartered Engineer qualification from The Engineering Council (UK) and is a member of The Institution of Electrical Engineers (UK), and a member of The Hong Kong Institution of Engineers (HK). He has a Bachelor of Science degree in Electronics and Computer Science from the Chinese University of Hong Kong.

Mr. So Kam Wing, aged 47, joined the Group in January 2002 as Vice President of Technical Operations and was appointed as an executive Director in October 2002. He is responsible for direction steering and management of the overall daily operation of the Group in Hong Kong and Asia Pacific region. Mr. So is presently the General Manager of Cyber On-Air (Asia) Limited (a wholly owned subsidiary of the Company). Mr. So obtained several academic qualifications including Master of Science in E-Commerce for Executives and Higher Diploma in Marine Electronics from Hong Kong Polytechnic University, Graduate Diploma in Management in Hong Kong University of Science and Technology, Professional Diploma in Telecommunication Technology from Hong Kong Management Association. Mr. So has over 15 years of experience in the field of telecommunications.

NON-EXECUTIVE DIRECTOR

Mr. Wu Wing Kin, aged 51, was appointed as a non-executive Director in May 2001. Mr. Wu is presently the general manager of Phillip Securities (HK) Ltd. and Phillip Commodities (HK) Ltd. Mr. Wu is also an ordinary member of the Hong Kong Securities Institute. Mr. Wu has more than 20 years of working experience in the financial, securities and futures industries.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Hon Kit, aged 53, joined the Group in May 2001. Mr. Cheung has over 28 years of experience in real estate development and property investment. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked in key executive position in various leading property development companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and the managing director of Wing On Travel (Holdings) Limited and chairman and executive director of Macau Prime Properties Holdings Limited. He is also a director of Innovo Leisure Recreation Holdings Limited. The shares of all the abovementioned companies are listed on the Stock Exchange.

Mr. Kwee Chong Kok, Michael, aged 60, was appointed as an independent non-executive Director in September 2004. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Gradate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States. Mr. Kwee is the chairman and chief executive officer of PAMA Group Inc. He is also an independent non-executive director of The Sun's Group Limited, the issued shares of which are listed on the Stock Exchange. He served as a member of the Hong Kong Advisory Committee on Legal Education and Hong Kong Financial Secretary's Economic Advisory Committee from 1995 and 2004.

Mr. Wong Chi Keung, aged 52, was appointed as an independent non-executive Director in September 2004. Mr. Wong holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a Responsible Officer for advising on securities, corporate finance and asset management activities for Legend Capital Partners, Inc. under the SFO. He is the managing director of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Ting Group Holdings Limited, Fu Ji Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies whose shares are listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Lee Sammy Sean, aged 48, is the chairman of M8 Entertainment Inc. He has joined the M8 Group since July 2002 and has secured financing from different media funds for the films of the M8 Group including Monster, Havoc and Upside of Anger through his worldwide network of potential financiers. Mr. Lee is a lawyer by training and is experienced in business transaction structuring and corporate consulting.

Mr. Tse Cho Tseung, aged 53, joined the Group as Chief Operating Officer in November 2005. Mr. Tse is responsible for overall general operation of the Group. He holds a Diploma in Accounting from The Hong Kong Baptist University and has over 26 years of experience in accounting and finance, construction, property development and investment, and trading business.

Mr. Kwok Chi Kin, aged 30, joined the Group as Chief Financial Officer and was appointed as Qualified Accountant and Company Secretary in May 2004. He is responsible for the finance and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has about 8 years of auditing experience and accounting experience in listed companies in Hong Kong.

Report of the Directors

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 17% and 45% respectively of the Group's total turnover for the year.

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

At no time during the year did a director, an associate of a director or a shareholder of the Company which to the knowledge of the directors owns more than 5% of the Company's share capital have an interest in any of Group's five largest suppliers or customers.

RESULTS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 26.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on pages 69 to 70.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements. There was no movement in the Company's share capital during the year.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity of this Annual Report.

The Company had no reserves available for distribution to shareholders as at 31 March 2007.

DIRECTORS

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

Executive directors

Dr. Cheng Kar Shun
Mr. Lo Lin Shing, Simon
Mr. Choi Wing Kin
Mr. So Kam Wing
Mr. To Hin Tsun, Gerald *(appointed on 30 June 2006)*

Non-executive director

Mr. Wu Wing Kin

Independent non-executive directors

Mr. Cheung Hon Kit
Mr. Kwee Chong Kok, Michael
Mr. Wong Chi Keung

In accordance with article 87A of the Company's articles of association, Dr. Cheng Kar Shun, Mr. So Kam Wing and Mr. Kwee Chong Kok, Michael shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

Save as disclosed below, as at 31 March 2007, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

Long-position in the ordinary shares of the Company

	Number of ordinary shares of HK$1.00 each in the share capital of the Company			Approximate percentage of the issued share capital of the Company
Name of director	**Personal interest**	**Corporate interest**	**Total**	
Mr. Choi Wing Kin	1,329,600	–	1,329,600	0.56%
Mr. So Kam Wing	49,200	–	49,200	0.02%
Mr. Lo Lin Shing, Simon	–	364,800 *(Note)*	364,800	0.15%

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

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

Save as disclosed below, as at 31 March 2007, so far as is known to the directors or chief executives of the Company, the Company has not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

Long positions in the ordinary shares of the Company

Name of shareholder	Capacity	Number of ordinary shares of HK$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	–	–	120,000,079	50.88%
Cross-Growth Co., Ltd. ("Cross-Growth")	Beneficial owner	–	–	200,000,000 *(Note 3)*	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	–	707,494,341 *(Note 4)*	–	1,027,494,420	435.69%
	Interest of a controlled corporation	120,000,079 *(Note 1)*	–	200,000,000 *(Note 3)*		
Centennial Success Limited	Interest of a controlled corporation	120,000,079 *(Notes 1, 5)*	707,494,341 *(Notes 4, 5)*	200,000,000 *(Notes 3, 5)*	1,027,494,420	435.69%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 *(Notes 1, 6)*	707,494,341 *(Notes 4, 6)*	200,000,000 *(Notes 3, 6)*	1,027,494,420	435.69%
Young China Investments Ltd.	Beneficial owner	19,000,000	–	–	19,000,000	8.06%
Mr. Chow Shiu Leung	Interest of a controlled corporation	19,000,000 *(Note 2)*	–	–	19,000,000	8.06%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

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

Notes:

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

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

(3) These underlying shares of the Company represent the new Shares to be issued upon full conversion at the initial conversion price of HK$2 per share of the convertible note to be issued by the Company to Cross-Growth (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth, the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004 and note 37B to the consolidated financial statement.

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

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

(5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 shares held by Mediaster, 200,000,000 underlying shares to be held by Cross-Growth, and 707,494,341 rights shares underwritten by CTF under the SFO.

(6) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 120,000,079 shares held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth, and 707,494,341 rights shares underwritten by CTF under the SFO.

SHARE OPTIONS

Particulars of the share option schemes of the Company and its subsidiaries are set out in note 32 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 37 to the consolidated financial statements and the section headed "Connected Transactions" below, no contracts of significance, to which the Company, its ultimate holding company, any subsidiaries of its ultimate holding company or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

COMPETING BUSINESS

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

CONNECTED TRANSACTIONS

Connected Transactions

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

    As announced on 17 March 2005, the Company exercised the Purchase Option in favour of the Company to purchase 40% equity interest in ATD and the Purchase Price would be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash.

    On 27 June 2007, the Company, Cross-Growth and CTF entered into a supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") pursuant to which Foreign Holiday Philippines, Inc. shall be excluded from the Hotel Group. The Purchase Price would be adjusted to HK$1,198.2 million (subject to adjustments). The Rights Issue would be increased to approximately HK$1,415 million.

    Details of the proposed acquisitions are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005 and 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006, 22 December 2006 and 27 June 2007.

    Under the GEM Listing Rules, the Acquisition and the purchase of 40% equity interest in ATD will constitute a connected transaction and a very substantial acquisition of the Company which is treated as a reverse takeover and the Stock Exchange has indicated to the Company that it would treat the Company as a new listing applicant if the Acquisition proceeds.

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

CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

(2) On 18 April 2007, Cyber-On-Air (Asia) Limited ("COAA"), a wholly owned subsidiary of the Company, entered into a project service agreement ("Project Service Agreement") with New World Telecommunications Limited, an associate of CTF, for the provision of installation service of indoor cellular stations in a property in Hong Kong. The total service fee payable under the Project Service Agreement is approximately HK$2,282,000.

Continuing Connected Transactions

(3) On 27 April 2005, COAA entered into an agreement with New World PCS Limited ("NWPCS"), an associate of CTF as at the date of entering into the agreement, pursuant to which COAA would be a non-exclusive contractor for the provision of installation work of cellular base stations to NWPCS from 1 May 2005 to 30 April 2006. The maximum aggregate turnover of the Group arising from the provision of installation work of cellular base stations by COAA to NWPCS for the year ended 31 March 2006 and the period from 1 April 2006 to 30 April 2006 were expected to be HK$9,000,000 and HK$1,000,000 respectively. During the year ended 31 March 2007, the project service income generated from the provision of installation work of cellular base stations by COAA to NWPCS amounted to approximately HK$639,000.

(4) Pursuant to the tenancy agreements date 10 August 2004 and 24 February 2005 entered into between Future Growth Limited, a wholly owned subsidiary of the Company, and New World Tower Company Limited ("NWT"), an associate of CTF, for the lease of office premises at Rooms 1502-5, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong. The total maximum aggregate annual value of the transactions under the tenancy agreements is approximately HK$1,003,000. During the year, the Group paid rental, air-conditioning charges and management charges of approximately HK$153,000 to NWT.

(5) On 23 May 2006, Future Growth Limited has renewed the tenancy agreement with NWT, for the lease of Rooms 1502-5, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with an area of approximately 3,938 square feet for two years commencing from 24 May 2006 to 23 May 2008 (both dates inclusive). The maximum aggregate annual value of the transactions (including the rent, air-conditioning charges and management charges) under the tenancy agreement is approximately HK$1,489,000. During the year, the Group paid rental, air-conditioning charges and management charges of approximately HK$1,086,000 to NWT. The tenancy agreement of the premises was terminated by mutual agreement and Future Growth Limited surrendered the premises to the landlord on 14 February 2007.

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

Pursuant to Rule 20.38 of the Rules Governing the Listing Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors.

Save as disclosed above, other related party transactions entered by the Group during the year are disclosed in note 37 to the consolidated financial statements.

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 Board has established a remuneration committee (the "Remuneration Committee") which has three members, comprising two independent non-executive directors and a non-executive director, Mr. Wong Chi Keung, Mr. Kwee Chong Kok, Michael and Mr. Wu Wing Kin. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the board of the directors on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of directors, senior management and other employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2007.

PRE-EMPTIVE RIGHTS

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

DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2007 (2006: nil).

AUDITOR

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

On behalf of the Board

Dr. Cheng Kar Shun
Chairman
Hong Kong, 27 June 2007

Corporate Governance Report

The Company is committed to high standards of corporate governance and complied with the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 15 of the GEM Listing Rules. This report summaries the Group's corporate governance practices and explains deviations, if any, from the Code.

BOARD OF DIRECTORS

The principal duty of the board of directors (the "Board") of the Company is to ensure that the Company is properly managed in the interest of shareholders.

The Chairman is responsible for the management of the Board. The Company does not have Chief Executive Officer. The Board is primarily responsible for the overall management of the Company and oversight of the management. Management is responsible for the day-to-day operations of the Company.

As at 31 March 2007, the Board comprised nine Directors, of whom five are executive Directors, one is non-executive Director and three are independent non-executive Directors. Biographical details of the Directors are set out on pages 11 to 12 of this Annual Report.

The Board held 14 meetings during the year ended 31 March 2007. The attendance records of individual Directors are set out below:

Directors	**Attendance**
Executive directors	
Dr. Cheng Kar Shun *(Chairman)*	10/14
Mr. Lo Lin Shing, Simon	11/14
Mr. To Hin Tsun, Gerald *(Note)*	10/11
Mr. Choi Wing Kin	14/14
Mr. So Kam Wing	14/14
Non-executive director	
Mr. Wu Wing Kin	12/14
Independent non-executive directors	
Mr. Cheung Hon Kit	13/14
Mr. Kwee Chong Kok, Michael	13/14
Mr. Wong Chi Keung	13/14

Note: Mr. To Hin Tsun, Gerald was appointed as an executive Director on 30 June 2006.

The Directors (including the non-executive Directors) are subject to rotation in accordance with the Articles of Association of the Company (that at each annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office) provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. This means a Director's specific term of appointment cannot exceed three years. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Code, except for the following deviation:

Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The chairman of the Board had not attended the annual general meeting of the Company held on 25 August 2006 as he was having his business commitment at the time of such meeting. One of the executive directors were elected as the chairman of the annual general meeting and responded to the questions of the shareholders. The management considers that the Board endeavor to maintain an on-going dialogue with shareholders.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung an annual confirmation of his independence pursuant to the Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors are independent.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 March 2007.

REMUNERATION OF DIRECTORS

The Board has established a remuneration committee (the "Remuneration Committee") which has three members, comprising two independent non-executive directors and a non-executive director, Mr. Wong Chi Keung, Mr. Kwee Chong Kok, Michael and Mr. Wu Wing Kin. The primary duties of the Remuneration Committee are, *inter alia*, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of directors and senior management is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. The Remuneration Committee held one meeting during the year ended 31 March 2007. The attendance records of the members of Remuneration Committee are set out below:

Committee members	**Attendance**
Mr. Wong Chi Keung *(Chairman)*	1/1
Mr. Kwee Chong Kok, Michael	1/1
Mr. Wu Wing Kin	1/1

NOMINATION OF DIRECTORS

The Board has the power under the Articles of Association of the Company to appoint any person as a director either to fill a casual vacancy on the Board, or as an additional member to the Board. Mr. To Hin Tsun, Gerald was appointed as an executive Director on 30 June 2006.

AUDITORS' REMUNERATION

For the year ended 31 March 2007, approximately HK$2,679,000 (2006: HK$1,800,000) was charged to the Group's income statement for the audit service provided by the auditors of the Group. During the year, the auditors of the Group have performed the following non-audit services.

Description of service performed	**Fee** HK$'000
Preparation of accountants' report for the proposed acquisition of hotel business, audit for Arc of Triumph Development Company Limited for the year ended 31 December 2006 and review of sufficiency of working capital, pro-forma statement of assets and liabilities and statement of indebtedness of the enlarged group	895
Hong Kong profits tax return filing services	*Note*

Note: The auditors of the Group have been appointed as the tax representative of the Company and the services fee is subject to negotiation.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met four times with the executive Directors and the management to review the financial reporting process, internal controls of the Group, the Company's reports and accounts including the annual report for the year ended 31 March 2007, and provided advice and recommendations to the board of directors. The Audit Committee also met with external auditors once to discuss the financial reporting process and internal controls of the Group during the year.

The attendance records of the members of Audit Committee are set out below:

Committee members	**Attendance**
Mr. Cheung Hon Kit *(Chairman)*	4/4
Mr. Wong Chi Keung	4/4
Mr. Wu Wing Kin	4/4

FINANCIAL REPORTING

The Board acknowledges their responsibility for preparing the financial statements of the Group for the year ended 31 March 2007. The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The auditors of the Company also set out their reporting responsibilities on the Independent Auditor's Report on page 25 of this Annual Report.

Deloitte.
德勤

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

We have audited the consolidated financial statements of International Entertainment Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 68, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE 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 the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 June 2007

Consolidated Income Statement

For the Year Ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	6	**137,310**	274,311
Cost of sales		**(204,609)**	(357,328)
Gross loss		**(67,299)**	(83,017)
Other income	8	**16,872**	9,281
Selling and distribution costs		**(12,786)**	(21,012)
Impairment loss recognised in respect of goodwill		**–**	(14,843)
General and administrative expenses		**(41,512)**	(60,717)
Finance costs	9	**(4,828)**	(2,704)
Loss before taxation	10	**(109,553)**	(173,012)
Taxation	13	**(1,260)**	(22,049)
Loss for the year		**(110,813)**	(195,061)
Attributable to:			
Equity holders of the Company		**(110,813)**	(117,063)
Minority interests		**–**	(77,998)
		(110,813)	(195,061)
Loss per share	14		
Basic		**HK$(0.47)**	HK$(0.50)
Diluted		**HK$(0.47)**	HK$(0.50)

Consolidated Balance Sheet

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**1,473**	1,952
Goodwill	16	**–**	–
Interest in an associate	17	**–**	–
		1,473	1,952
Current assets			
Inventories	18	**1,581**	655
Film costs	19	**59,089**	198,207
Available-for-sale financial assets	20	**13,786**	–
Trade receivables	21	**5,759**	25,001
Other receivables, deposits and prepayments		**34,761**	23,295
Amounts due from related companies	22	**41**	458
Tax recoverable		**–**	15
Pledged bank deposits	23	**13,853**	59,861
Bank balances and cash	23	**180,538**	233,123
		309,408	540,615
Current liabilities			
Trade payables	24	**92,859**	59,371
Other payables and accrued charges		**24,219**	46,444
Tax liabilities		**1,260**	–
Amounts due to related companies	25	**1,330**	2,454
Loans from directors	26	**–**	3,044
Loans from related companies	27	**–**	12,582
Preference dividend payable		**673**	673
Other borrowings	28	**–**	3,374
Bank borrowings	29	**12,853**	127,133
		133,194	255,075
Net current assets		**176,214**	285,540
Total assets less current liabilities		**177,687**	287,492
Capital and reserves			
Share capital	30	**235,831**	235,831
Share premium and reserves		**(58,144)**	51,661
Equity attributable to equity holders of the Company		**177,687**	287,492
Minority interests		**–**	–
Total equity		**177,687**	287,492

The consolidated financial statements on pages 26 to 68 were approved and authorised for issue by the Board of Directors on 27 June 2007 and are signed on its behalf by:

Dr. Cheng Kar Shun
DIRECTOR

Mr. Lo Lin Shing, Simon
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Merger reserve** HK$'000 *(Note)*	**Investment revaluation reserve** HK$'000	**Exchange reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 April 2005	235,831	263,832	53,022	–	(2,793)	(145,968)	403,924	77,377	481,301
Exchange differences on translation to presentation currency	–	–	–	–	631	–	631	621	1,252
Loss for the year	–	–	–	–	–	(117,063)	(117,063)	(77,998)	(195,061)
Total recognised income and expense for the year	–	–	–	–	631	(117,063)	(116,432)	(77,377)	(193,809)
At 31 March 2006	235,831	263,832	53,022	–	(2,162)	(263,031)	287,492	–	287,492
Fair value change in available-for-sale financial assets	–	–	–	188	–	–	188	–	188
Exchange differences on translation to presentation currency	–	–	–	–	820	–	820	–	820
Net income recognised directly in equity	–	–	–	188	820	–	1,008	–	1,008
Loss for the year	–	–	–	–	–	(110,813)	(110,813)	–	(110,813)
Total recognised income and expense for the year	–	–	–	188	820	(110,813)	(109,805)	–	(109,805)
At 31 March 2007	235,831	263,832	53,022	188	(1,342)	(373,844)	177,687	–	177,687

Note: *Merger reserve of the Group represents the difference between the share capital and share premium of HKCYBER whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation.*

Consolidated Cash Flow Statement

For the Year Ended 31 March 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(109,553)**	(173,012)
Adjustments for:		
Interest income	**(10,036)**	(9,227)
Interest expenses	**4,828**	2,704
Allowance for bad and doubtful debts	**1,085**	11,874
Allowance for obsolete inventories	**45**	–
Loss on disposal of property, plant and equipment	**152**	–
Loss on write-off of property, plant and equipment	**–**	67
Impairment loss recognised in respect of film costs	**102,815**	100,748
Impairment loss recognised in respect of goodwill	**–**	14,843
Depreciation of property, plant and equipment	**1,417**	2,647
Gain on disposal of available-for-sale financial assets	**(5,434)**	–
Amortisation of film costs	**88,862**	235,577
Dividend income	**(300)**	–
Operating cash flows before movements in working capital	**73,881**	186,221
Increase in film costs	**(44,839)**	(66,930)
(Increase) decrease in inventories	**(971)**	1,218
Decrease in trade receivables	**18,157**	58,320
Increase in other receivables, deposits and prepayments	**(11,731)**	(14,538)
Decrease in amounts due from related companies	**417**	126
Increase in trade payables	**31,581**	6,721
Decrease in other payables and accrued charges	**(22,225)**	(65,233)
(Decrease) increase in amounts due to related companies	**(1,124)**	905
Cash generation from operations	**43,146**	106,810
Hong Kong Profits Tax refunded (paid)	**15**	(15)
NET CASH FROM OPERATING ACTIVITIES	**43,161**	106,795
INVESTING ACTIVITIES		
Interest received	**10,301**	8,908
Dividend income	**300**	–
Purchase of property, plant and equipment	**(1,067)**	(600)
Proceeds on disposal of property, plant and equipment	**13**	–
Decrease (increase) in pledged bank deposits	**46,327**	(50,550)
Purchase of available-for-sale financial assets	**(27,164)**	–
Proceeds of disposal of available-for-sale financial assets	**19,000**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**47,710**	(42,242)

Consolidated Cash Flow Statement

For the Year Ended 31 March 2007

	2007	2006
	HK$'000	HK$'000
FINANCING ACTIVITIES		
Interest paid	**(8,276)**	(17,651)
Repayment of loans from related companies	**(12,582)**	–
New bank borrowings	**–**	31,679
Repayment of bank borrowings	**(116,454)**	(161,088)
Repayment of promissory notes	**–**	(36,084)
Repayment of other borrowings	**(3,374)**	–
Repayment of loans from directors	**(3,044)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(143,730)**	(183,144)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(52,859)**	(118,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**233,123**	350,858
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**274**	856
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**180,538**	233,123

1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 July 2000. Its immediate holding company is Mediastar International Limited (incorporated in British Virgin Islands). Its intermediate holding company and ultimate holding company are Chow Tai Fook Enterprises Limited ("CTF") (incorporated in Hong Kong) and Cheng Yu Tung Family (Holdings) Limited (incorporated in British Virgin Islands) respectively. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the group entities is United States dollars ("USD"), the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Hong Kong dollars as the directors consider that it is more appropriate presentation for a company listed in Hong Kong and for the convenience of the shareholders.

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 38 to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs has 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 standards, amendment, revised or interpretations will have no any material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 23 (Revised)	Borrowing costs [2]
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 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 March 2007.
7 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. 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.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. 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 requires delivery of assets with the time frame established by regulation or convention in the market price. 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 an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposits, bank balances and amounts due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are 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 what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to related companies, loans from directors, loans from related companies, preference dividend payable and bank and other borrowings 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.

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 expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium and share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Engineering service income is recognised over the relevant contract period on straight line basis.

Other service income is recognised when the services are rendered.

Fee licensing income is recognised when the film production is completed, the ownership of the production has been passed to the distributors, the licensing contract is signed with a fixed or determinable fees and the collectibility of proceeds is reasonable assured.

Interest income from a financial asset 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses (other than goodwill)

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. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Film costs

Film costs represents film rights and films and animation series produced by the Group or acquired by the Group.

Film rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. 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.

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 or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 profit 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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 borrowings costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group 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 period, 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 exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense when the employee have rendered service entitling them to the contribution.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment and amortisation of film costs

Once there is an indication of impairment of film costs, the management of the Group reviews the fair values of film costs on a film-by-film basis by referring to respective present value which was calculated based on the estimated future income. The income forecast calculation requires the Group to estimate the future income expected to arise. Where the actual income less than expected, impairment loss of film costs may arise. Besides, the Group amortises its film costs based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights. The Group assesses the total estimated income on a regular basis and if the expectation differs from the original estimate, such difference will impact the amortisation charge in the year in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, available-for-sale financial assets, pledged bank deposits, bank balances, trade payables, other payables, amounts due to related companies, and bank borrowings. 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.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 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, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable 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 credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest rate risk

Interest bearing financial assets comprise bank balances and pledged bank deposits which are all short-term in nature and are therefore not exposed to significant fair value interest rate risk.

The Group's cash flow interest rate risk mainly relates to variable-rate borrowings. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

Fair value

The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices. The fair value of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value *(Continued)*

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. TURNOVER

	2007	2006
	HK$'000	HK$'000
The Group's turnover comprises:		
Sales of goods	**7,824**	8,112
Service income	**10,869**	8,727
Film licensing income	**118,617**	257,472
	137,310	274,311

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

Network solutions	–	Providing total system solution including data networking solution, synchronisation solution, timing solution, wireless local area network solution and network access control solution
Project services	–	Providing infrastructure installation services for customers which include cellular base station and antenna system installation service, structural cabling installation service and microwave installation service
Entertainment business	–	Production and licensing of theatrical motion pictures in a variety of genres

Segment information about these businesses is presented below.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Income statement for the year ended 31 March 2007

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER					
External sales	7,824	9,469	118,617	1,400	137,310
RESULTS					
Segment results	2,268	2,640	(111,634)	988	(105,738)
Other income					16,872
Unallocated expenses					(15,859)
Finance costs					(4,828)
Loss before taxation					(109,553)
Taxation					(1,260)
Loss for the year					(110,813)

Balance sheet at 31 March 2007

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	3,376	3,540	80,919	–	87,835
Unallocated corporate assets					223,046
Consolidated total assets					310,881
LIABILITIES					
Segment liabilities	3,380	3,195	106,567	674	113,816
Unallocated corporate liabilities					19,378
Consolidated total liabilities					133,194

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Other information for the year ended 31 March 2007

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
Additions to property, plant and equipment and film costs	–	–	48,547	807	49,354
Depreciation and amortisation	116	–	89,115	1,048	90,279
Loss on disposal of property, plant and equipment	–	–	–	152	152
Impairment loss recognised in respect of film costs	–	–	102,815	–	102,815
Allowance for obsolete inventories	7	38	–	–	45
Allowance for bad and doubtful debts	32	–	1,053	–	1,085

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Income statement for the year ended 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	8,112	6,796	257,472	1,931	–	274,311
Inter-segment sales	105	–	–	–	(105)	–
Total	8,217	6,796	257,472	1,931	(105)	274,311
Inter-segment sales are charged at prevailing market prices						
RESULTS						
Segment results	(2,500)	1,641	(162,672)	983	–	(162,548)
Other income						9,281
Unallocated expenses						(17,041)
Finance costs						(2,704)
Loss before taxation						(173,012)
Taxation						(22,049)
Loss for the year						(195,061)

Balance sheet at 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	1,040	1,198	240,837	422	243,497
Unallocated corporate assets					299,070
Consolidated total assets					542,567
LIABILITIES					
Segment liabilities	1,515	2,407	95,132	1,005	100,059
Unallocated corporate liabilities					155,016
Consolidated total liabilities					255,075

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Other information for the year ended 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
Additions to property, plant and equipment and film costs	38	–	83,411	176	83,625
Depreciation and amortisation	168	–	235,838	2,218	238,224
Loss on write-off of property, plant and equipment	–	–	–	67	67
Impairment loss recognised in respect of film costs	–	–	100,748	–	100,748
Impairment loss recognised in respect of goodwill	4,807	–	10,036	–	14,843
Allowance for bad and doubtful debts	–	–	11,874	–	11,874

Geographical segments

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

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

	Turnover by geographical market	
	2007	2006
	HK$'000	HK$'000
Hong Kong	**20,321**	14,669
Elsewhere in the PRC	**1,022**	2,170
USA	**46,301**	127,978
Europe	**65,358**	112,596
Asia other than Hong Kong and the PRC	**4,308**	16,898
	137,310	274,311

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment and film costs	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**15,100**	27,798	**1,417**	25,692
Elsewhere in the PRC	**943**	676	**55**	9
USA	**71,792**	215,023	**47,882**	57,924
	87,835	243,497	**49,354**	83,625

8. OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Gain on disposal of available-for-sale financial assets	**5,434**	–
Interest income on bank deposits	**10,036**	9,227
Sundry income	**1,102**	54
Dividend income from listed securities	**300**	–
	16,872	9,281

9. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank overdrafts and bank borrowings	**7,838**	17,651
Interest on loans from related companies	**308**	510
Interest on loans from directors	**65**	111
Interest on other borrowings	**65**	111
Imputed interest expense on promissory notes	**–**	416
	8,276	18,799
Less: Amount capitalised in film costs	**(3,448)**	(16,095)
	4,828	2,704

10. LOSS BEFORE TAXATION

	2007 HK$'000	2006 HK$'000
Loss before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	**1,085**	11,874
Allowance for obsolete inventories (included in cost of sales)	**45**	–
Amortisation of film costs (included in cost of sales)	**88,862**	235,577
Auditors' remuneration	**2,469**	1,800
Underprovision in previous year	**210**	–
	2,679	1,800
Cost of inventories recognised as an expense	**12,097**	11,034
Depreciation of property, plant and equipment	**1,417**	2,647
Impairment loss recognised in respect of film costs (included in cost of sales) (note 19)	**102,815**	100,748
Loss on write-off of property, plant and equipment	**–**	67
Loss on disposal of property, plant and equipment	**152**	–
Net foreign exchange loss	**220**	376
Rental expenses under operating leases on		
– premises	**3,998**	3,699
– equipment	**283**	394
Staff costs, including directors' emoluments		
– Salaries and allowances	**25,478**	25,875
– Retirement benefits schemes contributions (note 33)	**509**	495
	25,987	26,370

11. DIRECTORS' EMOLUMENTS

	2007 HK$'000	2006 HK$'000
Directors' fees	**2,037**	660
Other emoluments:		
Salaries and other benefits	**500**	501
Contributions to retirement benefits scheme	**12**	12
	512	513
	2,549	1,173

11. DIRECTORS' EMOLUMENTS *(Continued)*

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

	Cheng Kar Shun HK$'000	Lo Lin Shing, Simon HK$'000	To Hin Tsun, Gerald HK$'000	Choi Wing Kin HK$'000	So Kam Wing HK$'000	Wu Wing Kin HK$'000	Cheung Hon Kit HK$'000	Kwee Chong Kok, Michael HK$'000	Wong Chi Keung HK$'000	Total HK$'000
2007										
Fees:										
Executive directors	500	500	377	100	100	–	–	–	–	1,577
Non-executive directors	–	–	–	–	–	120	110	110	120	460
Other emoluments:										
Salaries and other benefits	–	–	–	–	500	–	–	–	–	500
Contributions to retirement benefits scheme	–	–	–	–	12	–	–	–	–	12
Total emoluments	500	500	377	100	612	120	110	110	120	2,549

	Cheng Kar Shun HK$'000	Lo Lin Shing, Simon HK$'000	Choi Wing Kin HK$'000	So Kam Wing HK$'000	Wu Wing Kin HK$'000	Cheung Hon Kit HK$'000	Kwee Chong Kok, Michael HK$'000	Wong Chi Keung HK$'000	Total HK$'000
2006									
Fees:									
Executive directors	100	100	–	–	–	–	–	–	200
Non-executive directors	–	–	–	–	120	110	110	120	460
Other emoluments:									
Salaries and other benefits	–	–	–	501	–	–	–	–	501
Contributions to retirement benefits scheme	–	–	–	12	–	–	–	–	12
Total emoluments	100	100	–	513	120	110	110	120	1,173

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

12. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group did not include any director of the Company (2006: nil). The emoluments of the five (2006: five) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**8,576**	8,405
Contributions to retirement benefits scheme	**97**	118
	8,673	8,523

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**2**	1
	5	5

13. TAXATION

	2007 HK$'000	2006 HK$'000
Current tax – Hong Kong	**1,260**	–
Deferred taxation (note 31)	**–**	22,049
	1,260	22,049

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year. No taxation arising in other jurisdiction has been made in the financial statements as its overseas operations have no assessable profits for the year.

No provision for Hong Kong Profits Tax or taxation arising in other jurisdiction was made in the 2006 financial statements as the Company and its subsidiaries have no assessable profits for the year ended 31 March 2006.

The income tax rate of the Group's subsidiaries operating in Hong Kong is 17.5% (2006: 17.5%).

The income tax rate of the Group's subsidiaries operating in the USA is 36.8% (2006: 36.8%).

13. TAXATION *(Continued)*

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

	USA		Hong Kong		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Loss before taxation	**(91,286)**	(150,197)	**(18,267)**	(22,815)	**(109,553)**	(173,012)
Tax at the domestic rates applicable to profits in the country concerned	**(33,593)**	(55,272)	**(3,197)**	(3,993)	**(36,790)**	(59,265)
Tax effect of expenses not deductible for tax purpose	**13,535**	2,370	**2,924**	2,631	**16,459**	5,001
Tax effect of income not taxable for tax purpose	**–**	–	**(1,716)**	(1,545)	**(1,716)**	(1,545)
Tax effect of utilisation of tax losses not previously recognised	**–**	–	**(23)**	–	**(23)**	–
Tax effect of tax losses and deductible temporary not recognised	**20,058**	52,902	**3,280**	2,904	**23,338**	55,806
Effect of different tax rates of subsidiaries operating in other jurisdiction	**–**	–	**(158)**	(6)	**(158)**	(6)
Reversal of deferred tax assets due to change in estimate	**–**	22,049	**–**	–	**–**	22,049
Others	**–**	–	**150**	9	**150**	9
Tax charge for the year	**–**	22,049	**1,260**	–	**1,260**	22,049

Details of the deferred taxation are set out in note 31 to the consolidated financial statements.

14. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company for the year ended 31 March 2007 together with the comparative figures for 2006 are based on the following data:

	2007 HK$'000	2006 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(110,813)**	(117,063)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**235,831,447**	235,831,447

	2007 HK$	2006 HK$
Loss per share		
Basic and diluted loss per share	**(0.47)**	(0.50)

The computation of diluted loss per share does not assume the exercise of the subsidiary's outstanding share options since their exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware HK$'000	Total HK$'000
COST				
At 1 April 2005	2,074	892	6,706	9,672
Exchange adjustments	1	7	–	8
Additions	383	27	190	600
Write-off	–	–	(102)	(102)
At 31 March 2006	2,458	926	6,794	10,178
Exchange adjustments	(1)	(116)	–	(117)
Additions	773	–	294	1,067
Disposals	(1,985)	(262)	(717)	(2,964)
At 31 March 2007	**1,245**	**548**	**6,371**	**8,164**
DEPRECIATION AND IMPAIRMENT				
At 1 April 2005	698	198	4,715	5,611
Exchange adjustments	1	2	–	3
Provided for the year	1,296	313	1,038	2,647
Eliminated on write-off	–	–	(35)	(35)
At 31 March 2006	1,995	513	5,718	8,226
Exchange adjustments	(3)	(150)	–	(153)
Provided for the year	271	267	879	1,417
Eliminated on disposals	(1,890)	(216)	(693)	(2,799)
At 31 March 2007	**373**	**414**	**5,904**	**6,691**
CARRYING VALUES				
At 31 March 2007	**872**	**134**	**467**	**1,473**
At 31 March 2006	463	413	1,076	1,952

15. 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 rental lease terms or 30%, whichever is the shorter period
Furniture, fixtures and equipment	15% – $33\frac{1}{3}$%
Computer hardware	15% – $33\frac{1}{3}$%

16. GOODWILL

	HK$'000
COST	
At 1 April 2005, at 31 March 2006 and at 31 March 2007	14,843
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	–
Impairment loss recognised	14,843
At 31 March 2006 and at 31 March 2007	14,843
CARRYING VALUES	
At 31 March 2007	**–**
At 31 March 2006	–

17. INTEREST IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of investment in an associate, unlisted	**–**	–
Share of post-acquisition losses	**–**	(1,271)
	–	(1,271)
Amount due from an associate	**–**	3,500
	–	2,229
Impairment loss recognised	**–**	(2,229)
	–	–

At 31 March 2007, Target Wise Holdings Limited ("Target Wise") ceased to be the associate of the Group upon the dissolution of Flash Star Group Limited, which held 50% equity interest in Target Wise, during the year ended 31 March 2007.

At 31 March 2006, the amount due from an associate was unsecured, non-interest bearing and has no fixed repayment terms.

18. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Raw materials	**–**	49
Work in progress	**750**	470
Finished goods	**831**	136
	1,581	655

19. FILM COSTS

	HK$'000
COST	
At 1 April 2005	471,806
Exchange adjustments	17,944
Additions during the year	83,025
At 31 March 2006	572,775
Exchange adjustments	8,634
Additions during the year	48,287
At 31 March 2007	**629,696**
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	30,495
Exchange adjustments	7,748
Provided for the year	235,577
Impairment loss recognised	100,748
At 31 March 2006	374,568
Exchange adjustments	4,362
Provided for the year	88,862
Impairment loss recognised	102,815
At 31 March 2007	**570,607**
CARRYING VALUES	
At 31 March 2007	**59,089**
At 31 March 2006	198,207

Amortisation of film costs is determined on a film-by-film basis in accordance with the proportion of actual income earned during the year to the total estimated income from the sale of films.

19. FILM COSTS *(Continued)*

The directors reassessed the recoverability of the film costs as at 31 March 2007 by reference to the future prospect and present value of expected revenue to be generated from the films derived from discounting the projected cash flows by a discount rate of 12.50% (2006: 12.00%) and determined that an impairment loss of approximately HK$102,815,000 (2006: HK$100,748,000) be recognised in the consolidated income statement.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong at fair value	**13,786**	–

21. TRADE RECEIVABLES

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

	2007	2006
	HK$'000	HK$'000
Aged:		
0 – 30 days	**3,306**	1,112
31 – 60 days	**750**	172
61 – 90 days	**779**	6,624
Over 90 days	**924**	17,093
	5,759	25,001

22. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are disclosed as follows:

Name of related company	Relationship	2007 HK$'000	2006 HK$'000
New World CyberBase (Greater China) Limited ("NWC")	Common director, Mr. Lo Lin Shing, Simon	**13**	–
New World CyberBase (Shanghai) Limited	Common director, Mr. Lo Lin Shing, Simon	**28**	28
上海創時信息系統有限公司	Subsidiary of NWC	**–**	405
廣州易圖通信息技術有限公司	Subsidiary of NWC	**–**	14
Cyber On-Air (BVI) Ltd.	Common director, Mr. Choi Wing Kin ("Mr. Choi")	**–**	11
		41	458

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

23. OTHER CURRENT FINANCIAL ASSETS

Bank deposits are short term highly liquid investments carrying interest at market rate which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

The bank balances (included in bank balances and cash) and pledged bank deposits carry fixed interest rate ranging from 1.00% to 4.98% (2006: 0.25% to 4.17%) and 2.90% to 5.19% respectively (2006: 2.15% to 4.38%).

24. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2007 HK$'000	2006 HK$'000
Aged:		
0 – 30 days	**3,821**	2,871
31 – 60 days	**390**	253
61 – 90 days	**270**	65
Over 90 days	**88,378**	56,182
	92,859	59,371

25. AMOUNTS DUE TO RELATED COMPANIES

Related companies are companies in which directors of the Company have beneficial interests.

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

26. LOANS FROM DIRECTORS

	2007	2006
	HK$'000	HK$'000
Mr. Choi	–	2,849
Mr. So Kam Wing ("Mr. So")	–	195
	–	3,044

The amounts were unsecured and repayable on demand. As at 31 March 2006, included in the total amount of HK$3,044,000 was approximately HK$1,776,000 which carried interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum. The remaining balance was non-interest bearing. The loans from directors were fully repaid during the year.

27. LOANS FROM RELATED COMPANIES

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

As at 31 March 2006, the Group obtained loan advances of HK$11,800,000 from Cyber Network Technology Limited ("Cyber Network"). Included in this amount was HK$1,200,000, which carried interest at the best lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited, and subject to a corporate guarantee issued by the Company and repayable on 30 June 2006. The loan advance of HK$1,200,000 was fully repaid during the year. Besides, approximately HK$800,000, which carried interest at HIBOR plus 2% per annum, was unsecured as at 31 March 2006 and repayable on demand. The loan advance of HK$800,000 was fully repaid during the year. The remaining balance of HK$9,800,000, which carried interest at HIBOR plus 2% per annum, was subject to a corporate guarantee issued by the Company and repayable on 30 June 2006. The loan advance of HK$9,800,000 was fully repaid during the year.

As at 31 March 2006, the Group also obtained loan advances from Wellington Equities Inc. ("Wellington") amounting to approximately HK$782,000. Included in this amount was HK$456,000, which carried interest at HIBOR plus 2% per annum, unsecured and repayable on demand. The remaining balance of HK$326,000 was interest free. The loan advances of HK$782,000 was fully repaid during the year.

28. OTHER BORROWINGS

As at 31 March 2006, the amounts were unsecured and repayable on demand. Included in this amount was approximately HK$1,968,000 which carried interest at the prevailing market rates. The remaining balance was non-interest bearing and repayable on demand. The amounts were fully repaid during the year.

The Group's other borrowings were denominated in Hong Kong dollars, which is the same functional currency of the group entity.

29. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Secured bank loans, repayable within one year	**12,853**	127,133

The bank borrowings of the Group are variable-rate borrowings that carry interests in excess of the announced base rate of interest of Bank of America Corporation ranging from 0.75% to 1.50% during the year ended 31 March 2007 (2006: 0.75% to 1.25%). All of the Group's borrowings are denominated in USD, which is the same functional currency of the group entities.

The effective interest rates on the Group's bank borrowings are also equal to contracted interest rates.

As at balance sheet date, the Group's undrawn borrowing facility amounted to HK$1,000,000 (2006: HK$7,806,000) with floating rate expiring within one year.

30. SHARE CAPITAL

	Par value of shares HK$	Number of shares	Value HK$'000
Authorised:			
Ordinary shares			
At 1 April 2005, 31 March 2006 and 2007	1.00 each	500,000,000	500,000
Issued and fully paid:			
Ordinary shares			
At 1 April 2005, 31 March 2006 and 2007	1.00 each	235,831,447	235,831

31. DEFERRED TAXATION

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

	Accelerated accounting depreciation and amortisation	Estimated tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 April 2005	10,662	11,881	22,543
Exchange adjustments	(234)	(260)	(494)
Charge to income statement	(10,428)	(11,621)	(22,049)
At 31 March 2006 and 2007	–	–	–

At the balance sheet date, the Group had estimated unused tax losses of approximately HK$637,305,000 (2006: HK$542,494,000) and deductible temporary differences of HK$157,000 (2006: HK$1,422,000) available for offset against future profits. As at 31 March 2007, no deferred tax assets has been recognised (2006: nil) of such losses due to the unpredictability of future profit streams. Tax losses amounting to HK$274,657,000 (2006: HK$260,880,000) may be carried forward indefinitely. The remaining HK$48,489,000 and HK$314,159,000 will expire before 2016 and 2027 respectively (2006: HK$31,636,000 and HK$249,978,000 will expire before 2015 and 2026 respectively).

32. SHARE OPTION SCHEMES

THE COMPANY

Share option scheme adopted on 20 August 2004

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

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

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

32. SHARE OPTION SCHEMES *(Continued)*

THE COMPANY *(Continued)*

Share option scheme adopted on 20 August 2004 *(Continued)*

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

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates shall be subject to the prior approval of the independent non-executive directors of the Company (excluding an independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

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

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

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

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

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

This share option scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 20 August 2004.

There were no share options granted under this share option scheme.

32. SHARE OPTION SCHEMES *(Continued)*

A SUBSIDIARY OF THE COMPANY

Share option scheme of M8 Entertainment Inc. ("M8")

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

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

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

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

Save as determined by the board of directors of M8 and provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period nor a performance target which must be achieved before it can be exercised.

No payment is required on acceptance of option.

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

32. SHARE OPTION SCHEMES *(Continued)*

A SUBSIDIARY OF THE COMPANY *(Continued)*

Share option scheme of M8 Entertainment Inc. ("M8") *(Continued)*

The Plan shall continue as long as the board of directors of M8 does not terminate it. Details of the share options outstanding as at 31 March 2007 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Vesting period	Exercisable period	Exercise price per share CAD	At 1 April 2005	Options cancelled during the year	At 31 March 2006	Options cancelled during the year (Note)	At 31 March 2007
Employee	25 May 2000	–	26 May 2000 – 25 May 2010	0.120	100,000	–	100,000	–	100,000
Employee	29 August 2000	30 August 2000 – 29 August 2002	30 August 2002 – 29 August 2010	0.100	137,500	–	137,500	(137,500)	–
Employee	29 August 2000	30 August 2000 – 29 August 2003	30 August 2003 – 29 August 2010	0.100	306,250	–	306,250	(212,500)	93,750
Employee	29 August 2000	30 August 2000 – 29 August 2004	30 August 2004 – 29 August 2010	0.100	306,250	–	306,250	–	306,250
Employee	24 May 2001	–	25 May 2001 – 24 May 2011	0.035	200,000	(100,000)	100,000	–	100,000
Employee	15 February 2002	16 February 2002 – 15 February 2003	16 February 2003 – 15 February 2012	0.075	1,230,000	(400,000)	830,000	(320,000)	510,000
Employee	13 May 2002	–	14 May 2002 – 31 May 2012	0.170	100,000	(100,000)	–	–	–
Employee	13 May 2002	14 May 2002 – 13 May 2003	14 May 2003 – 13 May 2012	0.170	850,000	(100,000)	750,000	(700,000)	50,000
Employee	13 May 2002	14 May 2002 – 13 May 2004	14 May 2004 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2002 – 13 May 2005	14 May 2005 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2002 – 13 May 2006	14 May 2006 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	28 August 2002	29 August 2002 – 28 August 2004	29 August 2004 – 28 August 2012	0.160	1,200,000	–	1,200,000	–	1,200,000
Employee	1 May 2003	–	2 May 2003 – 1 May 2013	0.075	6,970,000	(1,000,000)	5,970,000	(50,000)	5,920,000
Total					14,850,000	(1,700,000)	13,150,000	(1,420,000)	11,730,000

No option was exercised or granted during the year ended 31 March 2006 and 2007.

Note: The options were cancelled due to cessation of employment of participants with the subsidiary.

33. RETIREMENT BENEFITS SCHEMES

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

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 31% to 32% (2006: 31% to 32%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to the retired staff.

The relevant USA subsidiaries participates in a 401K retirement plan, a defined contribution scheme. The administrator of the plan is Nationalwide Life Insurance. During the year ended 31 March 2007, the relevant subsidiaries make contributions to the plan in a range of 1.5% to 4.0% (2006: 1.5% to 4.0%) of the basic salary of the employees under the plan on bi-weekly basis.

The Group's contributions to the retirement benefits schemes charged to the income statements are as follows:

	2007				2006			
	Hong Kong HK$'000	**PRC HK$'000**	**USA HK$'000**	**Total HK$'000**	Hong Kong HK$'000	PRC HK$'000	USA HK$'000	Total HK$'000
Employers' contributions	**265**	**52**	**192**	**509**	244	68	183	495

34. PLEDGE OF ASSETS

As at 31 March 2007, the Group obtained general banking facilities from various banks upon the following securities:

(a) Pledged bank deposits owned by the Group of approximately HK$13,853,000 (2006: HK$59,861,000).

(b) Mortgages of copyright and assignments of licensing agreements with the film costs of approximately HK$76,319,000 at 31 March 2006.

(c) Floating charges on assets of M8 and its subsidiaries, including trade receivables, other receivables, deposits and prepayments of approximately HK$32,183,000 at 31 March 2006.

35. CONTINGENT LIABILITIES

The directors of the Company, after considering the status of the following claims and the advices by legal advisers, are of the opinion that no provision is required to be made in the consolidated financial statements of the Group:

On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment, a subsidiary of the Company under an agreement between the parties dated 14 August 2000, together with damages and costs amounting to approximately US$553,000 (equivalent to approximately HK$4,313,000). The Group has been advised by its US legal advisers that the claims made are unfounded. Accordingly, Media 8 Entertainment has applied for a dismissal of the claim made against it and also applied for summary judgment or adjudication on this matter. The parties requested for arbitration. As at the date of this report, the arbiter is considering the motion for summary judgment and the hearing date of the arbitration is pending.

35. CONTINGENT LIABILITIES *(Continued)*

DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. ("Blockbuster") and First Look Studios, Inc. ("First Look") (as plaintiffs) filed a claim against Media 8 Entertainment and MDP Distribution, Inc. a subsidiary of the Company (as defendants) for declaratory relief to the effect that DEJ, Blockbuster and First Look owe no additional money to Media 8 Entertainment and MDP Distribution, Inc. under the licence agreement entered by Media 8 Entertainment and MDP Distribution, Inc. and DEJ on 20 September 2006 before the courts in Texas, USA this originally having been a complaint lodged by M8 and MDP Distribution, Inc. (as plaintiffs) against DEJ, Blockbuster and First Look (as defendants) on 26 January 2006 before the courts in Los Angeles which was subsequently transferred to Texas in respect of a claim by Media 8 Entertainment and MDP Distribution, Inc. for the share of revenue to which they have been underpaid but which are entitled in respect of the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, damages and costs, which amounted to not less than US$8,559,674 (equivalent to approximately HK$66,765,000). As at the date of this report, this case is in pre-trial discovery phase.

36. OPERATING LEASE COMMITMENTS

At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**2,843**	3,013
In the second to fifth year inclusive	**1,441**	2,307
	4,284	5,320

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

37. RELATED PARTY TRANSACTIONS

A. Apart from the related party transactions as disclosed in notes 22, 25, 26 and 27, the Group entered into the following transactions with related parties during the year:

	2007	2006
	HK$'000	HK$'000
Rentals and office administrative expenses (note a)	**625**	644
Rental expenses (note b)	**1,334**	1,003
Finance costs to related companies (note c)	**308**	510
Finance costs to directors (note d)	**65**	111
Project service income (note e)	**639**	3,267

37. RELATED PARTY TRANSACTIONS *(Continued)*

A. *(Continued)*

Notes:

(a) A company, in which Mr. Lo Lin Shing, Simon ("Mr. Lo"), a director of the Company has a beneficial interest, provided office space for the Group and shared certain office administrative expenses and the above sum was charged.

(b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has managerial duties and significant influence in the financial and operating policy, leased office premises to the Group.

(c) Companies, in which Mr. Lo, a director of the Company has a beneficial interest, provided loans to the Group. Details of the interest rate and terms of the loans are disclosed in note 27.

(d) The amounts included finance costs paid in respect of loans from Mr. Choi and Mr. So, directors of the Company. Details of interest rate and terms of the loans are disclosed in note 26.

(e) Project service income represented service provided to a company, in which Dr. Cheng is a director of the Company and Dr. Cheng has managerial duties and significant influence in the financial and operating policy.

B. On 23 November 2004, Cross Growth Co., Ltd. (a company wholly-owned by CTF, the Company's intermediate holding company), CTF and the Company entered into a conditional agreement ("Acquisition Agreement") pursuant to which Cross Growth Co., Ltd. agreed to sell its entire equity interest in Fortune Gate Overseas Limited ("Fortune Gate") and the shareholders loans due to CTF and its subsidiaries (excluding the Company and its subsidiaries) ("CTF Group") for a purchase price of HK$850 million (subject to adjustment) and Cross Growth Co., Ltd. and CTF granted the Company an option ("Purchase Option") to purchase (through Fortune Gate) the 40% equity interest in Arc of Triumph Development Company Limited ("ATD") and the 40% of the related shareholders' loans ("Macau Interest") from Cheung Hung Development (Holdings) Limited ("Cheung Hung") at a price of HK$363.2 million (subject to adjustment). The purchase price of HK$850 million will be settled as to HK$400 million by the convertible note (which will due in 3 years and convertible into a share of the Company at an initial conversion price of HK$2 per share (subject to adjustment)) issued by the Company and as to the remaining HK$450 million (subject to adjustment) by cash. If the Company exercises the Purchase Option, the purchase price will be increased by HK$363.2 million (which will be settled by cash) and the shareholders' loans will be increased by the 40% of the related shareholders' loan due to CTF Group. In order to finance the acquisitions, the Company proposed to raise about HK$1,229 million by way of right issue at HK$1.5 per right share (the "Rights Issue"). The principal asset of Fortune Gate will be the 51% equity in a hotel group ("Hotel Group") whose principal asset is a property in Manila partly owned and partly leased by the Hotel Group for the operation of the Hyatt Hotel and Casino Manila. ATD, a company incorporated in Macau and its principal asset is a parcel of land in Macau, is 40% owned by Cheung Hung. On 17 March 2005, the Company exercised the option and will acquire the Macau Interest.

On 27 June 2007, the Company, Cross-Growth and CTF entered into a supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") pursuant to which Foreign Holiday Philippines, Inc. shall be excluded from the Hotel Group. The total purchase price would be adjusted to HK$1,198.2 million (subject to adjustments). The Rights Issue would be increased to approximately HK$1,415 million.

37. RELATED PARTY TRANSACTIONS *(Continued)*

B. *(Continued)*

CTF holds a 100% equity interest in Fortune Gate, which was incorporated in the British Virgin Islands and is investment holding and holds a 73% attributable interest in the Hotel Group, CTF and Mr. Cheng Yu Tung and his family members owns a 48.75% equity interest in Cheung Hung respectively. Cross Growth Co., Ltd. and CTF have undertaken to effect a corporate reorganization to transfer 51% equity interest in the Hotel Group and the associated shareholders' loans and the Macau Interest from the CTF Group and its associate to Fortune Gate before the completion of acquisitions in accordance with the Acquisition Agreement.

The completion of the acquisition of Fortune Gate and the purchase of the Macau Interest is subject to the approvals from the independent shareholders of the Company and the listing committee of the Stock Exchange as well as other conditions precedent set out in the Acquisition Agreement.

At the date of this report, the acquisition of Fortune Gate and the purchase of the Macau Interest have not yet been completed.

C. Compensation of key management personnel

The remuneration of other members of key management exclude emoluments of directors and the five (2006: five) employees with the highest emoluments in the Group as disclosed in note 11 and note 12 respectively during the year was as follows:

	2007	2006
	HK$'000	HK$'000
Short-term benefits	**742**	3,683

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance and experience of individuals and market trends.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Anbo Global Company Limited	Hong Kong	Limited company	Ordinary	HK$2	–	100	Investment holding
China On-Air Inc.	British Virgin Islands	Limited company	Ordinary	HK$1	–	100	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Cyber On-Air (Asia) Limited	Hong Kong	Limited company	Ordinary	HK$100 HK$100,000* Non-voting deferred	–	100	Sales of telecommunication products, provision of network installation and engineering services
Cyber On-Air Group Limited	British Virgin Islands	Limited company	Ordinary	HK$100	100	–	Investment holding
Five Stories, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Future Growth Limited	Hong Kong	Limited company	Ordinary	HK$2	100	–	General business
Gugo Entertainment Company Limited	Hong Kong	Limited company	Ordinary	HK$21,260,100	–	75	Animation/ development of cartoon services, licensing and merchandising distribution
Image Organisation, Inc.	USA	Limited company	Ordinary	US$1,382,494	–	50.4	Film production and distribution
Happy Noodle	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Loverwrecked, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Lucky Genius Limited	BVI	Limited company	Ordinary	US$1	100	–	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
M8	Canada	Limited company	Ordinary	Class A CAD 4,520,000 Class B CAD 103,246,000 "Class B M8 Shares" Class C CAD 24,171,000 "Class C M8 Shares"	–	50.4	Film production and distribution
M8 Production 2 Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production
Man About Town Films Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production and distribution
Media 8 Distribution I	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution II	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution III	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution IV	USA	Limited company	Ordinary	US$100	–	50.4	Film production and financing
Media 8 Distribution V	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution VI	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
IEC Production Limited (formerly known as "Media 8 Entertainment Limited")	Hong Kong	Limited company	Ordinary	HK$1	–	100	Media related business

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
IEC Record Production Company Limited	Hong Kong	Limited company	Ordinary	HK$1	–	100	Record production
Media 8 Entertainment	USA	Limited company	Ordinary	US$10,000	–	50.4	Film production and distribution
Mediamaster Limited	British Virgin Islands	Limited company	Ordinary	HK$1	100	–	Investment holding
Media 8 Holdings (formerly known as "MDP Holdings USA, Inc.")	USA	Limited company	Ordinary	US$100,000	–	50.4	Investment holding
MDP Licensing Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
MDP Production, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Mystic Demons Publishing	USA	Limited company	Ordinary	US$100	–	50.4	Film production
Running Scared, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Stuhall Production Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Tropical Production Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Young Racers, Inc.	USA	Limited company	Ordinary	US$12,000	–	50.4	Film production
Zodiac Productions Inc.	USA	Limited company	Ordinary	US$2,000	–	50.4	Film production

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
廣州創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US$210,000	–	100	Provision of telecom systems installation and maintenance service
北京國娛匯星文化傳播有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of HK$3,000,000	–	100	Media related business

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

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

RESULTS

	Year ended 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	38,877	16,131	34,448	274,311	**137,310**
Cost of sales	(21,894)	(11,488)	(35,308)	(357,328)	**(204,609)**
Gross profit (loss)	16,983	4,643	(860)	(83,017)	**(67,299)**
Other income	948	52	3,977	9,281	**16,872**
Selling and distribution expenses	(599)	(407)	(2,424)	(21,012)	**(12,786)**
General and administrative expenses	(28,414)	(13,829)	(28,210)	(60,717)	**(41,512)**
Other expenses	(9,125)	(3,672)	(1,244)	–	**–**
Impairment loss recognised	(34)	(20,692)	–	(14,843)	**–**
Finance costs	(2,596)	(1,214)	(1,117)	(2,704)	**(4,828)**
Loss on discontinuing operations	–	(433)	–	–	**–**
Loss before taxation	(22,837)	(35,552)	(29,878)	(173,012)	**(109,553)**
Taxation	–	–	–	(22,049)	**(1,260)**
Loss for the year	(22,837)	(35,552)	(29,878)	(195,061)	**(110,813)**
Attributable to:					
Equity holders of the Company	(22,661)	(35,552)	(19,295)	(117,063)	**(110,813)**
Minority interests	(176)	–	(10,583)	(77,998)	**–**
	(22,837)	(35,552)	(29,878)	(195,061)	**(110,813)**

Financial Summary

For the Year Ended 31 March 2007

ASSETS AND LIABILITIES

	At 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	81,658	15,243	951,792	542,567	**310,881**
Total liabilities	(118,420)	(87,558)	(469,986)	(255,075)	**(133,194)**
Shareholders' funds	(36,762)	(72,315)	481,806	287,492	**177,687**
Equity attributable to equity holders of the Company	(36,762)	(72,315)	404,429	287,492	**177,687**
Minority interests	–	–	77,377	–	**–**
	(36,762)	(72,315)	481,806	287,492	**177,687**