



MILKYWAY IMAGE

Milkyway Image Holdings Limited
銀河映像控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8130)

Annual Report 2007

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks 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 on GEM 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 at www.hkgem.com 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 the report.

This report, for which the directors of Milkyway Image Holdings Limited 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 for the purpose of giving information with regard to Milkyway Image Holdings Limited. The directors of Milkyway Image Holdings Limited, 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

Mr. Law Sau Yiu, Dennis (*Chairman*)
 Ms. Teng Chia Lin, Chialina
 Ms. Chan Dao Ho

Independent Non-Executive Directors

Mr. Lung Hak Kau
 Ms. Wai Lai Yung
 Ms. Tsang Kei Ling

Qualified Accountant

Mr. Lee Wai Ming

Company Secretary

Mr. Lee Wai Ming

Authorised Representatives

Mr. Law Sau Yiu, Dennis
 Mr. Lee Wai Ming

Compliance Officer

Mr. Law Sau Yiu, Dennis

Audit Committee

Mr. Lung Hak Kau
 Ms. Wai Lai Yung
 Ms. Tsang Kei Ling

Registered Office

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

Head Office and Principal Place of Business

1st Floor, 77 Hung To Road
 Kwun Tong
 Kowloon
 Hong Kong

Company Website

<http://www.milkywayimage.com>

Note: Information contained in this website does not form part of this annual report

Principal Banker

Hang Seng Bank
 The Bank of East Asia

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
 Strathvale House
 North Church Street
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
 Level 25, Three Pacific Place
 1 Queen's Road East
 Hong Kong

Auditors

CCIF CPA Limited

Legal Advisers to the Company

as to Hong Kong Law
 Gallant Y. T. Ho & Co.

as to the Cayman Islands Law

Conyers Dill & Pearman, Cayman

Stock Code

8130

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Milkyway Image Holdings Limited (the "Company"), I have pleasure in presenting to the shareholders of the Company the 2007 annual report of the Company and its subsidiaries (the "Group").

The local film market in the financial year ended 31 March 2007 continued to be sluggish. Coupled with the impacts from the long-lasting piracy of video products and illegal internet downloading of video contents together with the keen competitions among local films, investors have been becoming cautious in putting funds in this industry. The Group is well aware of the local market condition and in light of this, it commenced in producing films for itself last year and distributes them worldwide besides producing films for other film companies. Nearly 65% of the Group's turnover and gross profits in the year were contributed by the distribution of films which indicates a positive sign of the Group's move in engaging in the film distribution business. Nevertheless, the quality productions from the Group continued to secure growth in the film production business.

Notwithstanding the increase in the gross profit of the Group for the year which was nearly 2.5 times that of in last year, the Group was unable to return to profitability but with an operating loss of approximately HK\$16 million. One of the major underlying reasons for the discouraging results was mainly due to the high level of overall overhead of the Group. This has been causing concern to the management of the Company. In the light of this situation, the management considered that it may not be cost effective to maintain those subsidiaries with consistently high level of overhead. Against this background, the management reached a conclusion to dispose of the Group's interests in its wholly-owned subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited and believe that the overhead can be significantly reduced after the disposal. In April 2007, the Group entered into an agreement with a company beneficially owned by the Group's chief executive officer, Mr. To Kei Fung to disposed of the interests in the two aforementioned subsidiaries to it at a consideration of HK\$26 million. The disposal was unanimously approved by the Company's shareholders at an extraordinary general meeting held in June 2007.

In December 2006, the Group placed shares under general mandate with net proceeds of approximately HK\$3.4 million in order to enhance its working capital base and the existing business.

In January 2007 and in May 2007, the Group issued convertible bonds with principal amounts of HK\$20 million and HK\$25 million respectively with aggregate net proceeds of approximately HK\$40 million. The funds raised from the issue of convertible bonds will be used for the general working capital of the Group and for the financing of any possible diversified future investments identified by the Group. As at the date of this report, convertible bonds of aggregate principal amounts of HK\$44 million have been converted by bondholders indicating the investors' confidence on the Group's future operations. Following the conversions of the convertible bonds, the capital base of the Company was further strengthened.

Looking forward, the Group will continue to focus on its core businesses of provision of film production service and film distribution through its remaining subsidiaries. With the funds raised, the Group can be more responsive to any emerging business opportunities.

Chairman's Statement

Finally, I would like to thank our board of directors, management, staff and all production crews for their contributions to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continued supports.

Law Sau Yiu, Dennis

Chairman

Hong Kong, 27 June 2007

Management Discussion and Analysis

FINANCIAL REVIEW

Financial Performance

The Group recorded a turnover for the year ended 31 March 2007 of approximately HK\$62.3 million (2006: HK\$17.3 million), representing an increase of approximately 261% when compared to that of previous financial year. The growth was attributable to the increased revenue from provision of film production services from approximately HK\$7.9 million in prior year to approximately HK\$22 million this year coupled with the boosted revenue from film distribution from approximately HK\$9.3 million in prior year to approximately HK\$40.3 million this year. Revenue from film distribution segment has overtaken that from provision of film production services and accounted for approximately 65% of the overall turnover for the year.

Gross profit also soared from approximately HK\$3.8 million in prior year to approximately HK\$13.3 million in current year. Gross profit ratio remained similar to prior year of 21% (2006: 22%).

Despite of the encouraging growth in turnover and soaring gross profit, the Group, however, recorded a net loss of approximately HK\$16.2 million (2006: HK\$18.2 million) representing a minor improvement from that in the previous year. The continued loss recorded was attributable to the sustained high level of overhead of the Group. Marketing and promotion expenses increased commensurate with the increased productions while finance costs also hit a new record at the time the Group's borrowings reached a new high. Professional fees incurred during the year in connection with the issue of shares and convertible bonds also contributed to the soared overhead. Coupled with the increase in the aforementioned overhead, the Group also made a provision for a litigation claim from an individual who was injured at the time of rendering service in film production. The combine effect results in a 34% increase in the overall administrative and other operating expenses.

Liquidity, Financial Resources and Capital Structure

A deficit in shareholders' funds of the Group as at 31 March 2007 amounted to approximately HK\$18.1 million (2006: HK\$9.9 million) was recorded. Current assets amounted to approximately HK\$80.8 million (2006: HK\$32.8 million), of which approximately HK\$23.9 million (2006: HK\$3.6 million) were bank deposits and cash representing 29.5% of the current assets. Current liabilities amounted to approximately HK\$94.8 million (2006: HK\$54.6 million) mainly comprised advanced receipts from film companies and loans from related companies. The liability component of convertible bonds not yet converted of approximately HK\$13.8 million (2006: nil) was recorded as non-current liabilities. At 31 March 2007, the Group had loans from related companies amounted to HK\$37.5 million (2006: HK\$15 million). The bank loans of HK\$3 million as at 31 March 2006 was repaid during the year. The Group also incepted a new finance lease of HK\$664,000 during the year for the financing of purchase of property, plant and equipment.

The Group generally financed its film production activities and other operations with inflow of advanced receipts from film companies. During the year, it issued zero coupon convertible bonds to provide funds for its general working capital and financing of any possible diversified future investments. The Group also procured loans from related companies to finance its film production activities. All the Group's borrowings bear interest at commercial rates.

Management Discussion and Analysis

In December 2006, the Group placed 161,000,000 shares of HK\$0.01 each (equivalent to 16,100,000 shares of HK\$0.1 each upon share consolidation in January 2007) under general mandate with net proceeds of approximately HK\$3.4 million.

Foreign Exchange Exposure

As the majority of the Group's business transactions for the year ended 31 March 2007 and its assets and liabilities at the balance sheet date were denominated in Hong Kong Dollars and United States Dollars, the risk on fluctuation in exchange rates was considered to be minimal. Accordingly, the Group did not enter into any foreign exchange contract for hedging purpose.

Material Acquisition, Disposal and Significant Investments

For the year ended 31 March 2007, the Group did not made any significant capital investment other than investment in film projects which were recorded as films in progress at the production stage and transferred to film rights upon completion. The Group owns these film rights for future distribution purpose.

In April 2007, the Group entered into an agreement with a company beneficially owned by the Group's chief executive officer, Mr. To Kei Fung to disposed of the interests in two subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited to it at a consideration of HK\$26 million. The disposal was unanimously approved by the Company's shareholders at an extraordinary general meeting held in June 2007.

Employees and Remuneration Policies

As at 31 March 2007, the Group employed a total of 20 employees (2006: 22), including the executive directors. The Group remunerated its employees in accordance with their work performance and experience. The Directors had their discretions in granting share options and bonuses to the Group's employees depending upon the work performance of particular employee and the financial performance of the Group. No share options were granted in previous year. For the year ended 31 March 2007, total staff costs, including Directors' emoluments, amounted to approximately HK\$10.7 million (2006: HK\$11.1 million).

Charges on Group Assets

As at 31 March 2007, the Group did not have any charges on its assets.

Gearing Ratio

As at 31 March 2007, the gearing ratio, expressed as a percentage of total liabilities over total assets, was 120% (2006: 122.2%).

Contingent Liabilities

As at 31 March 2007, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

BUSINESS REVIEW

Segment Information

For the year ended 31 March 2007, the Group's total turnover amounted to approximately HK\$62.3 million (2006: 17.3 million), of which approximately HK\$40.3 million (2006: 9.3 million) or 65% (2006: 54%) was derived from film distribution and the remaining of approximately HK\$22 million (2006: 7.9 million) or 35% (2006: 46%) was derived from film production.

During the year, the Group continued to devote more resources to investments in its own productions for distribution purpose. As a consequence, the revenue from film distribution overtook that from provision of production services to outsiders. The outcome was appealing as the gross profit attributable to the film distribution business accounted for 65% of the overall gross profit of the Group.

For the year ended 31 March 2007, the Group did not produce any television movies. Nevertheless, the Group will continue to explore business opportunities in this segment in the future.

Sales and Marketing

With the aim of raising public awareness and enhancing the sales potential of the films produced by the Group, the Group continued to actively promote and market its films by participating in both local and international film festivals and it became an integral part of the Group's marketing strategy.

Management Discussion and Analysis

The Group has not only earned praises and achieved encouraging box office receipts in local market for the films produced by itself, but has also proven its competitiveness in international film market. Details of awards and acclaims received by the Group in the year are set out below:

Name of Films	Film Festivals	Awards and Acclaims
Eye in the Sky	The 31st Hong Kong Film Festival	Opening Film
	The 9th Udine Fareast Film Festival	Official Entry
	The 10th Shanghai Film Festival	Opening Film
	The 25th Cognac Film Festival	Official Entry
Exiled	The 2006 Hong Kong Asia Film Festival	Closing Film
	The 39th Sitges International Film Festival of Catalonia	Best Film (Young Jury Award)
	The 43rd Taipei Golden Horse Award	Best Action Choreography
	The 13th Hong Kong Film Critics Society Award	Best Director Recommended Film
Election	The 25th Cognac Film Festival	Opening Film
	The 39th Auckland Film Festival	Official Entry
	The 8th Jeonju Film Festival	Closing Film
	The 51st Asia-Pacific Film Festival	Official Entry
Election 2	The 7th Tokyo Filmex Film Festival	Official Entry
	The 31st Toronto International Film Festival	Official Entry
	The 2006 Munich Asia Filmfest	Official Entry
	The 44th New York Film Festival	Official Selection
Triangle	The 24th Torino Film Festival	Official Selection
	The 30th Hong Kong International Film Festival	Opening Film (World Premiere)
	The 2006 Cannes International Film Festival	Out of Competition Official Selection
	The 7th Tokyo Filmex Film Festival	Official Entry
Triangle	The 31st Toronto International Film Festival	Official Entry
	The 2006 Munich Asia Filmfest	Official Entry
	The 13th Hong Kong Film Critics Society Award	Best Film
	The 60th Cannes Film Festival	Official Selection

The Group's film directors also received acclaims during the year, out of which Mr. To Kei Fung was granted the title "Filmmaker In Focus" at the 36th International Film Festival Rotterdam. He was also granted "Best Director" (based on the Group's previous production entitled "The Mission") at The 10th Anniversary of the Establishment of HKSAR Film Election.

Management Discussion and Analysis

Film Investment

During the year, the Group completed the production of three film projects entitled, "Election 2" 「黑社會以和為貴」, "love@first note" 「戀愛初歌」 and "Fatal Contact" 「黑拳」. The Group owns the film rights of these films for distribution. The corresponding distribution income was recognized during the year in accordance with the Group's revenue recognition policy. At the balance sheet date, several other film projects to which the Group will solely or partially own the film rights are in the production phases or in their pre-production phases. One of these films, titled "Triangle" 「鐵三角」 has completed subsequent to the balance sheet date and pending for release. It was selected as the Official Selection at The 60th Cannes Film Festival. The Directors are confident in the Group's productions and believe that by investing in the film projects produced by the itself, the Group is able to broaden its recurrent income base and will benefit the shareholders in the long-run. The encouraging results of film distribution during the year supported this move.

Film Production

During the year, the Group continued in the provision of film production services to other film companies. It completed the production of two film projects entitled "Exiled" 「放·逐」 and "Eye in the Sky" 「跟蹤」. The films were completed and delivered during the year. At the date of this report, the Group has entered into production agreements with several film companies, to produce and/or to provide production resources for a number of films. The productions of some of these films have commenced at the balance sheet date.

Future Plans for Material Investments

Save as the aforementioned film investment activity, the Group does not have any concrete future plans for material investments.

Prospects

Despite of the drastic increase of turnover for the year, the Group still recorded a net loss of approximately HK\$16 million. The Group considers the overhead of two wholly-owned subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited has been at a consistently high level which is one of the major underlying reasons for the operating loss. With the decision made in disposing of the Group's interest in these two subsidiaries, the Group believes that the overall overhead in future can be significantly reduced and it will be in the best interests of the Group and the shareholders as a whole.

Following the conversions of nearly all the convertible bonds issued during the year and subsequent to the balance sheet date, the capital base of the Group has strengthened and the gearing ratio further reduced. As a consequence, the Group can be more responsive to any emerging business opportunities. The board of directors may invite talents to join the management of the Group in order to bring new thoughts and expertise to the Group.

Meanwhile, the name of the Company will be changed from "Milkyway Image Holdings Limited" to "Brilliant Arts Multi-Media Holding Limited". The Group considers the current principal activities undertaken by the Group only relate to the media of film whereas the new name indicate multi-media which including various kinds of media and is to reflect the nature of the business of the Group in future.

Profiles of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Law Sau Yiu, Dennis, aged 44, joined the Group in October 2003 and was appointed as the Chairman. Mr. Law is currently the managing director of Yu Tai Hing Company Limited which is a well-established private property investment and development group in Hong Kong. He has 18 years of experience in property investment and development. Mr. Law is responsible for overall strategic planning and policy making for the Group. He also acts as film director and producer of particular film projects of the Group. Mr. Law holds a Bachelor of Arts Degree in Communications from Loyola Marymount University of Los Angeles, California in the United States of America.

Ms. Teng Chia Lin, Chialina, aged 42, is a practising dental surgeon. Ms. Teng joined the Group in October 2003. She graduated from Guy's Hospital Medical & Dental School of The United Medical and Dental Schools of Guy's and St. Thomas' (now known as the Guy's, King's and St. Thomas' Schools of Medicine, Biomedical Sciences and the Dental Institute), University of London in the United Kingdom in 1989, with a Bachelor degree in Dental Surgery. She joined The Prince Philip Dental Hospital in 1990, and then started her own private practice in 1991. Ms. Teng also held directorship in a number of property investment companies. She is the spouse of Mr. Law.

Ms. Chan Dao Ho, aged 43, was appointed executive director in August 2002 and subsequently resigned from the office of director in October 2003 but remained as the production executive of the Group. She was re-appointed as executive director in August 2005. Ms. Chan is responsible for overseeing and supervising the administration and film production project of the Group. Prior to joining the Group in May 1996, Ms. Chan worked as an assistant director for Film Workshop Limited and then joined DLO Productions Limited as a production manager. Ms. Chan has 19 years experience in the Hong Kong film industry.

Independent Non-Executive Directors

Mr. Lung Hak Kau, aged 45, was appointed by the Group in August 2004. Mr. Lung has 18 years of experience in investment management and investment banking. He has worked in several multinational financial institutions. He is a Chartered Financial Analyst and is, currently the President of The Hong Kong Society of Financial Analysts and a fellow member of The Hong Kong Institute of Directors.

Ms. Wai Lai Yung, aged 49, was appointed by the Group in September 2004. She has been a director of Yorkshire Capital Limited, a company providing business consultancy service, since 1993. Ms. Wai is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Ms. Tsang Kei Ling, aged 43, was appointed by the Group in January 2005. Ms. Tsang has been a director of C.L. Management Limited, a company providing secretarial and consultancy services, since 1995. She has been a director of a trading company, Great Party Hong Kong Limited, since 2003.

Profiles of Directors and Senior Management

SENIOR MANAGEMENT

Mr. To Kei Fung, aged 52, is the founder of the Group responsible for overseeing and supervising the Group's film production projects. He also acts as film director, producer and consultants of the Group's particular film projects. Mr. To has over 20 years experience in the Hong Kong television and film industries as a producer and director. Prior to establishing the Group in May 1996, Mr. To had worked as a producer for Television Broadcasts Limited for approximately 15 years. He had also held the position of Chief Operational Officer of China Star Laser Disc Co. Ltd. Mr. To was a former executive director of the Company. He resigned from the office of director in August 2005 and was appointed as the chief executive officer of the Group in August 2005.

Mr. Ding Yui-Shan, aged 32, is the Assistant General Manager-Business Development of the Group and is in charge of the Group's business development and promotion. He received a master degree in film theory from New York University. Prior to joining the Group in November 2001, he worked for China Star Entertainment Group as film coordinator and was responsible for overseeing film festival activities.

Mr. Lee Wai Ming, aged 39, is the Financial Controller and Company Secretary of the Group. Prior to joining the Group in May 2004, he has over 10 years experience in the auditing and accounting fields. He received a Bachelor of Arts Degree in Accountancy from the Hong Kong Polytechnics University. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieve high standard of corporate governance practices to protect the interests of its shareholders. The Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the year ended 31 March 2007.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After making specific enquiry to all Directors, it is confirmed by the Company that the Directors had complied with such code of conduct and the required standard of dealings as regarding directors' securities transactions throughout the year ended 31 March 2007.

BOARD OF DIRECTORS

Operation of the Board

The Board, chaired by Mr. Law Sau Yiu, Dennis, is responsible for supervision of the management of the business and affairs, approval of strategic plans and reviewing of financial performance. The Board comprises three executive directors and three independent non-executive directors. The names and biographical details of the Directors are set out in the "Profiles of Directors and Senior Management" on pages 10 and 11 of the annual report.

The positions of the Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer is responsible for managing the Group's business and overall operations. The day-to-day running of the Company is delegated to the management.

Relationship among members of the Board

To the best knowledge of the Company, save and except that Mr. Law Sau Yiu, Dennis, the Chairman, is the husband of Ms. Teng Chia Lin, Chialina, executive director of the Company, there is no financial, business and family relationship among members of the Board. All of them are free to exercise their independent judgment.

Number of board meeting held during the financial year

The Board convenes at least four regular Board meetings during the financial year at approximately quarterly intervals in addition to other Board meetings that are required for significant and important issues, and for statutory purposes. Appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments and thus can assist them in discharging their duties.

Corporate Governance Report

Independent Non-executive Directors

The Company has appointed three Independent Non-executive Directors. Two of the Independent Non-executive Directors have appropriate accounting or related financial management expertise. The Company complies at all time during the year with the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors and one of which should have appropriate professional qualifications or accounting or related financial management expertise.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Independent Non-executive Directors have been appointed as directors for a term of one year commencing from their respective date of appointments and will continue thereafter unless and until terminated by either the Company or the respective Independent Non-executive Directors. All Independent Non-executive Directors are subject to retirement by rotation and re-election at least once every three years in accordance with the provision of the Company's articles of association.

Attendance record at Board Meetings

The following table shows the attendance of Directors at meetings of the Board during the year:–

	Number of meeting attended/ Number of meeting held for the year ended 31/3/2007
Directors	
<i>Executive Directors</i>	
Mr. Law Sau Yiu, Dennis (<i>Chairman</i>)	7/7
Ms. Teng Chia Lin, Chialina	7/7
Ms. Chan Dao Ho	7/7
<i>Independent Non-executive Directors</i>	
Mr. Lung Hak Kau	7/7
Ms. Wai Lai Yung	7/7
Ms. Tsang Kei Ling	7/7

Corporate Governance Report

COMMITTEES OF BOARD

The Board has established committees, namely, Audit Committee and Remuneration Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

Audit Committee

Composition

The Company formulated written terms of reference for the Audit Committee in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee consists of three directors, all of which are independent non-executive directors.

The Audit Committee member and their respective attendance record for the year ended 31 March 2007 were:–

	Number of meeting attended/ Number of meeting held for the year ended 31/3/2007
Mr. Lung Hak Kau (<i>Chairman</i>)	4/4
Ms. Wai Lai Yung	4/4
Ms. Tsang Kei Ling	4/4

Role and Function

The Audit Committee is mainly responsible for supervising the Company's internal control system and its execution, evaluating financial information and related disclosure, reviewing the internal control system, auditing major connected transactions and also communicating, supervising and investigating the Company's internal and external audits.

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

Corporate Governance Report

Remuneration Committee

Composition

The Company has established Remuneration Committee with written terms of reference as stated in Code B.1.3 of the Appendix 15 of the GEM Listing Rules. The Remuneration Committee consists of three directors, of which two are independent non-executive directors and Mr. Law Sau Yiu, Dennis is the chairman of the Remuneration Committee.

The Remuneration Committee member and their respective attendance record for the year ended 31 March 2007 were:–

	Number of meeting attended/ Number of meeting held for the year ended 31/3/2007
Mr. Law Sau Yiu, Dennis (<i>Chairman</i>)	1/1
Mr. Lung Hak Kau	1/1
Ms. Wai Lai Yung	1/1

Role and Function

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the Executive Directors and senior management. The Remuneration Committee is mainly responsible for formulating the Company's human resources development strategies and plans, approving the human resources development plans, deciding the remuneration standards of directors and senior management, evaluating the gross salary adjustment plans, reward system and option schemes and also modifying the remuneration system. It takes into account factors such as salaries paid by comparable companies with similar size and trade, qualification of each Directors time commitment and responsibilities of Directors. The Remuneration Committee meets at least once a year.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

In preparing the financial statements of the Group for the year ended 31 March 2007, the Directors have given consideration to the future liquidity of the Group in light of its deficit in equity of approximately HK\$18,144,000 as at 31 March 2007 and the loss attributable to the equity holders of the Company of approximately HK\$16,154,000 during the year. The Directors have taken the measures subsequent to the balance sheet date, which included (i) the placing of convertible bonds with a principal amount of HK\$25 million; and (ii) the disposal of two loss-making subsidiaries with a total consideration of HK\$26 million to improve the liquidity position of the Group. Against this background, the Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are of the opinion that the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight liquidity as at 31 March 2007.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining a proper and effective system of internal control of the Group. The internal control system includes safeguard of the interest of shareholders and the Group's assets. The Board has delegated to management the implementation of all relevant financial, operational, compliance controls and risk management function within a defined framework.

AUDITORS' REMUNERATION

For the year ended 31 March 2007, the external auditors of the Group provided the following services to the Group:–

	2007
	HK\$'000
Audit services	220
Non-audit services	15
	<hr/>
	235
	<hr/> <hr/>

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the activities of its subsidiaries are set out in note 18 to the financial statements.

RESULTS

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

The directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 72 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 25 to the financial statements.

CONVERTIBLE BONDS

Details of movements during the year in convertible bonds are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company did not have any distributable reserves (2006: Nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$1,000 (2006: HK\$2,000).

Directors' Report

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 33 to the financial statements.

CONNECTED TRANSACTIONS

Details of connected transactions are set out in note 31 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS

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

Executive directors:

Mr. Law Sau Yiu, Dennis (*Chairman*)

Ms. Teng Chia Lin, Chialina

Ms. Chan Dao Ho

Independent non-executive directors:

Mr. Lung Hak Kau

Ms. Wai Lai Yung

Ms. Tsang Kei Ling

In accordance with article 87 of the Company's articles of association, Ms. Teng Chia Lin, Chialina and Ms. Wai Lai Yung shall retire by rotation. Both directors, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina, both of whom are executive directors, have entered into service agreements with the Company for an initial fixed term of three years commencing from 9 October 2003 and shall continue thereafter until terminated by six months prior written notice served by either party or the other.

Under the said service agreements, Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are entitled to an annual salary of HK\$1,800,000 and HK\$456,000 respectively, subject to any increment at such rate as the board of directors may at its absolute discretion determine and Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina shall abstain from voting in respect of the resolution regarding such increase.

Directors' Report

Mr. Lung Hak Kau entered into a letter of appointment with the Company on 10 July 2004 for a term of one year commencing on 4 August 2004 and will continue thereafter unless and until terminated by either the Company or Mr. Lung Hak Kau and such appointment is subject at all times to the articles of association of the Company.

Ms. Wai Lai Yung entered into a letter of appointment with the Company on 24 September 2004 for a term of one year commencing on 28 September 2004 and will continue thereafter unless and until terminated by either the Company or Ms. Wai Lai Yung and such appointment is subject at all times to the articles of association of the Company.

Ms. Tsang Kei Ling entered into a letter of appointment with the Company on 20 January 2005 for a term of one year commencing on 21 January 2005 and will continue thereafter unless and until terminated by either the Company or Ms. Tsang Kei Ling and such appointment is subject at all times to the articles of association of the Company.

Save as disclosed above, none of the directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2007, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or which are required to be recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

a) Long positions in the ordinary shares of HK\$0.1 each of the Company

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	% of the Company's issued share capital
Mr. Law Sau Yiu, Dennis	-	-	37,376,000 (Note)	-	37,376,000	35.19%
Ms. Teng Chia Lin Chialina	-	-	37,376,000 (Note)	-	37,376,000	35.19%

Directors' Report

Note: These shares are held by Right Opportune Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Law Sau Yiu, Dennis. Ms. Teng Chia Lin, Chialina is the spouse of Mr. Law Sau Yiu, Dennis and thus is deemed to be interested in the shares held by Right Opportune Limited.

b) Long positions in shares options

Name of chief executive	Personal interests	Family interests	Corporate interests	Other interests	Total number of options held	Number of underlying shares
Mr. To Kei Fung	6,440,000	-	-	-	6,440,000	6,440,000

Save as disclosed above, at 31 March 2007, none of the directors or chief executives of the Company or their associates 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 SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provision of the SFO); or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 32 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above and in note 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

During the year, private companies of which Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are directors and shareholders, advanced HK\$34,500,000 (2006: HK\$15,000,000) to the Group. The loans are unsecured, bear interest at commercial rates and are repayable within one year from the date of advance.

Save as disclosed above, no contracts of significance to which the Company or 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.

Directors' Report

COMPETING INTERESTS

At 31 March 2007, none of the directors, the substantial shareholders nor their respective associates had any interests in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2007, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in the ordinary shares of HK\$0.1 each of the Company

Name of shareholder	Capacity	Number of shares held	% of the Company's issued share
China Star Entertainment Limited	Interest of controlled corporation (<i>Note 1</i>)	75,757,575	71.33%
China Star Entertainment (BVI) Limited	Interest of controlled corporation (<i>Note 1</i>)	75,757,575	71.33%
Classical Statue Limited	Beneficial owner	75,757,575	71.33%
Right Opportune Limited	Beneficial owner (<i>Note 2</i>)	37,376,000	35.19%
Grand Sum Assets Limited	Beneficial owner	5,950,000	5.60%
Ms. Lee Po Yi, Shirley Anne	Interest of controlled corporation (<i>Note 3</i>)	5,950,000	5.60%

Notes:

- (1) Classical Statue Limited is a company wholly owned by China Star Entertainment (BVI) Limited which in turn is a wholly owned subsidiary of China Star Entertainment Limited.
- (2) Please refer to note disclosed above in respect of Directors and chief executive's interests or short positions in shares, underlying shares and debentures.
- (3) Grand Sum Assets Limited is a company wholly and beneficially owned by Ms. Lee Po Yi, Shirley Anne. Accordingly, Ms. Lee Po Yi, Shirley Anne is deemed to be interested in the 5,950,000 shares held by Grand Sum Assets Limited.

Directors' Report

Save as disclosed above, at 31 March 2007, the Company has not been notified of any persons (other than the Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 4(q)(ii) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

Major customers

The directors are of the view that the film industry in Hong Kong is largely dominated by a few major film companies. The Group's largest five customers accounted for 91% (2006: 94%) of the Group's turnover. The largest customer accounted for approximately 33% (2006: 42%) of the Group's turnover.

Major suppliers

The only raw material required by the Group's operations is film negatives supplied by a number of film manufacturers in Hong Kong.

Total purchases of the Group amounted to approximately HK\$1.6 million (2006: HK\$0.70 million) representing approximately 3.2% (2006: 5.2%) of the Group's cost of sale.

Purchases from the largest four suppliers accounted for 100% (2006: 100%) of the Group's purchases. Purchases from the largest supplier accounted for approximately 36% (2006: 66%) of the Group's purchases.

At no time during the year did the directors, 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 issued share capital) had an interest in the Group's five largest customers or four largest suppliers during the year.

Directors' Report

AUDIT COMMITTEE

The Company has established an audit committee on 2 August 2002 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises the three independent non-executive directors namely, Mr. Lung Hak Kau, Ms. Wai Lai Yung and Ms. Tsang Kei Ling. During the year, the audit committee held our meetings to review the Group's annual report, half-year report and quarterly reports.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises two independent non-executive directors, namely Mr. Lung Hak Kau and Ms. Wai Lai Yung and one executive director, Mr. Law Sau Yiu, Dennis being the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior managements, the determination of specific remuneration packages of all executive directors and senior managements, and review and approve performance-based remuneration.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less than exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with such code of conduct and the required standard of dealings regarding directors' securities throughout the year ended 31 March 2007.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company for the ensuing year will be prepared at the forthcoming annual general meeting.

On behalf of the Board

Law Sau Yiu, Dennis

Chairman

Hong Kong, 27 June 2007

Independent Auditor's Report

**CCIF****CCIF CPA LIMITED**20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
MILKYWAY IMAGE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Milkyway Image Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 71, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

Independent Auditor's Report

entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company 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.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which discloses that as at 31 March 2007, the Group had deficit in total equity of approximately HK\$18,144,000 and the Group incurred a loss attributable to equity holders of the Company of approximately HK\$16,154,000 for the year ended 31 March 2007. These conditions, along with other matters as disclosed in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cause significant doubt about the Group's ability to continue as a going concern.

CCIF CPA Limited

Certified Public Accountants

Yau Hok Hung

Practising Certificate Number P04911

Hong Kong, 27 June 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	7	62,288	17,258
Cost of sales		(49,004)	(13,438)
Gross profit		13,284	3,820
Other revenue	7	813	529
Other operating expenses		(24,430)	(21,854)
Provisions	28	(4,000)	–
Loss from operations	9	(14,333)	(17,505)
Finance costs	10	(1,821)	(680)
Loss before taxation		(16,154)	(18,185)
Income tax	13	–	–
Loss for the year attributable to equity holders of the Company		(16,154)	(18,185)
Loss per share	15		
– Basic		(HK18.9 cents)	(HK22.6 cents)
– Diluted		N/A	N/A

The notes on pages 32 to 71 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Film rights	16	–	277
Property, plant and equipment	17	9,952	11,698
		9,952	11,975
Current assets			
Film rights, current portion	16	2,397	4,982
Films in progress	16	9,110	6,483
Production in progress		25,522	12,364
Trade debtors	19	13,812	417
Deposits, prepayments and other debtors		6,116	4,944
Bank balances and cash		23,877	3,610
		80,834	32,800
Current liabilities			
Trade creditors	20	2,762	2,459
Other creditors and accruals		1,117	905
Receipt in advance		46,347	31,813
Amounts due to directors	21	2,484	1,242
Amounts due to related companies	31(b)	37,755	15,097
Provisions	28	4,000	–
Obligations under finance leases			
– due within one year	22	380	41
Bank loan	23	–	3,000
		94,845	54,557
Net current liabilities		(14,011)	(21,757)
Total assets less current liabilities		(4,059)	(9,782)
Capital and reserves			
Share capital	24	10,620	8,050
Reserves	25	(28,764)	(18,003)
Total equity		(18,144)	(9,953)
Non-current liabilities			
Convertible bonds	26	13,841	–
Obligations under finance leases			
– due after one year	22	244	171
		14,085	171
		(4,059)	(9,782)

Approved and authorised for issue by the board of directors on 27 June 2007.

On behalf of the board

Law Sau Yiu, Dennis
Director

Teng Chia Lin, Chialina
Director

The notes on pages 32 to 71 form part of these financial statements.

Balance Sheet

As at 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Interests in subsidiaries	18	468	516
		468	516
Current assets			
Deposits, prepayments and other debtors		300	112
Amounts due from subsidiaries	18	16,070	–
Bank balances and cash		17,813	22
		34,183	134
Current liabilities			
Other creditors and accruals		642	184
Amounts due to directors	21	2,484	1,242
Amounts due to related companies	31(b)	15,129	–
		18,255	1,426
Net current assets/(liabilities)		15,928	(1,292)
Total assets less current liabilities		16,396	(776)
Capital and reserves			
Share capital	24	10,620	8,050
Reserves	25	(8,065)	(8,826)
Total equity		2,555	(776)
Non-current liabilities			
Convertible bonds	26	13,841	–
		16,396	(776)

Approved and authorised for issue by the board of directors on 27 June 2007

On behalf of the board

Law Sau Yiu, Dennis
Director

Teng Chia Lin, Chialina
Director

The notes on pages 32 to 71 form part of these financial statements.

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	Contributed surplus HK\$'000	Share-based compensation reserves HK\$'000	Convertible bond reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005	8,050	15,050	10	–	–	(15,908)	7,202
Loss for the year	–	–	–	–	–	(18,185)	(18,185)
Share option scheme							
– value of employee services	–	–	–	1,030	–	–	1,030
At 31 March 2006 and 1 April 2006	8,050	15,050	10	1,030	–	(34,093)	(9,953)
Loss for the year	–	–	–	–	–	(16,154)	(16,154)
Issue of shares	1,610	1,932	–	–	–	–	3,542
Share issue expenses	–	(159)	–	–	–	–	(159)
Issue of convertible bonds	–	–	–	–	2,692	–	2,692
Conversion into shares from convertible bonds	960	1,251	–	–	(323)	–	1,888
At 31 March 2007	10,620	18,074	10	1,030	2,369	(50,247)	(18,144)

The notes on pages 32 to 71 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(16,154)	(18,185)
Adjustments for:		
Interest income	(183)	(29)
Gain on disposal of property, plant and equipment	–	(53)
Depreciation	3,941	3,752
Amortisation of film rights	30,058	7,172
Finance charges on finance leases	45	13
Impairment loss of films in progress	1,600	–
Interest expenses	1,776	667
Provisions	4,000	–
Share-based payment	–	1,030
Operating cash flows before movements in working capital	25,083	(5,633)
(Increase)/decrease in films in progress	(4,227)	3,121
Increase in production in progress	(13,158)	(10,288)
Increase in trade debtors	(13,395)	(358)
(Increase)/decrease in deposits, prepayments and other debtors	(1,172)	1,575
Increase in trade creditors	303	1,738
Increase in other creditors and accruals	212	131
Increase in receipt in advance	14,534	15,707
Increase/(decrease) in amounts due to directors	1,242	(1,096)
Cash generated from operations	9,422	4,897
Interest paid	(1,397)	(580)
NET CASH GENERATED FROM OPERATING ACTIVITIES	8,025	4,317
INVESTING ACTIVITIES		
Interest received	183	29
Additions of film rights	(27,196)	(12,431)
Purchase of property, plant and equipment	(1,365)	(117)
NET CASH USED IN INVESTING ACTIVITIES	(28,378)	(12,519)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 March 2007

	2007 HK\$'000	2006 HK\$'000
FINANCING ACTIVITIES		
Finance charges on finance leases paid	(45)	(13)
Repayment of bank loan	(3,000)	(2,000)
Loans from related companies	22,500	11,000
Proceeds from issue of shares	3,542	–
Proceeds from issue of convertible bonds	18,200	–
Repayment of obligations under finance leases	(418)	(28)
Share issue expenses	(159)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	40,620	8,959
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,267	757
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,610	2,853
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23,877	3,610
CASH AND CASH EQUIVALENTS ANALYSIS		
Bank balances and cash	23,877	3,610

The notes on pages 32 to 71 form part of these financial statements.

Notes to the Financial Statements

31 March 2007

1. GENERAL

The Company was incorporated in the Cayman Islands on 9 November 2001 under the Companies Law of Cayman Islands as an exempted company with limited liability and its shares are being listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The principal activities of the Group are the provision of film production services, production of television movies, investment in film productions and worldwide film distribution.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its deficit in equity of approximately HK\$18,144,000 as at 31 March 2007 (2006: approximately HK\$9,953,000) and the loss attributable to the equity holders of the Company of approximately HK\$16,154,000 for the year ended 31 March 2007 (2006: approximately HK\$18,185,000). The directors have taken the measures subsequent to the year ended 31 March 2007, which included (i) the placing of convertible bonds with a principal amount of HK\$25 million in May 2007; and (ii) the proposed disposal of two subsidiaries with a total consideration of HK\$26 million, as further detailed in the Note 33(a) and (b), to improve the liquidity position of the Group. In the opinion of the directors, the Group will be able to meet its liabilities in full as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

If these measures were not successful or insufficient, or if the going concern basis was not appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods either beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment is required.

Notes to the Financial Statements

31 March 2007

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The Group anticipates that the application of new standards, amendment and interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures (effective for annual periods beginning on or after 1 January 2007)
HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007)
HKFRS 8	Operating segments (effective for annual periods beginning on or after 1 January 2009)
HK(IFRIC) – Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HK(IFRIC) – Int 9	Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006)
HK(IFRIC) – Int 10	Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006)
HK(IFRIC) – Int 11	HKFRS 2: Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007)
HK(IFRIC) – Int 12	Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the 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. The consolidated financial statements are prepared under the historical cost convention except for financial instruments, which are stated at fair value. A summary of the significant accounting policies adopted by the Group is set out below.

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

All significant inter-company transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Revenue recognition

Income from the production of films and television movies is recognised when the production is completed, which is usually upon delivery of the film negatives to the customers.

Income from the distribution of films is recognised when the master materials have been delivered to customers.

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

c) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

d) Taxation

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

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

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

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any 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 values, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Furniture and fixtures	20%
Machinery and equipment	10%-20%
Motor vehicles	20%
Office equipment	20%

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.

Property, plant and equipment held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Subsidiaries

A subsidiary is a company controlled by the Company. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if necessary. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable during the year.

g) Film rights

Film rights represent film produced or acquired by the Group and are stated at cost less accumulated amortisation and any identified impairment losses.

The cost of film rights is amortised in the proportion of actual income earned during the year to the total estimated income after taking into account their estimated residual value. Where there is an impairment in value, the unamortised balance is written down to its estimated recoverable amount. The estimated residual value is recognised as a non-current asset.

The portion of film rights expect to be amortised within twelve months from the balance sheet date is reported as current asset. The portion of films rights expected not to amortise within twelve months from the balance sheet date is recognised as a non-current asset.

h) Production in progress

Production in progress represents films and television series under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress in the balance sheet and are transferred to film production costs in the income statement upon completion.

i) Films in progress

Films in progress represents films and television series under production and is stated at production costs incurred to date, less any identified impairment loss. Such production costs are transferred to film rights upon completion of production.

j) Leased assets

i) *Finance leases*

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Leased assets (Continued)

i) Finance leases (Continued)

Payments to the lessor are treated as consisting of capital and interest elements. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce an approximately periodic rate of charge on the remaining balance of the obligations for each accounting period.

ii) Operating leases

All other leases are classified as operating leases and the annual rentals are charged to income statement on a straight-line basis over the relevant lease terms.

k) Receipt in advance

Receipt in advance represents deposits received from film companies before the completion of production of films and television movies pursuant to the production agreements and will be recognised as income when the production has been completed.

l) 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 retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

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

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

n) Provision and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

p) Borrowing costs

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

All other borrowing costs are charged to the income statement in the year in which they are incurred.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Employee benefits

i) Bonuses

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

ii) Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. The Group's contributions to the scheme are expensed as incurred and vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

iii) Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity (Share-based compensation reserve).

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity (Share-based compensation reserve) in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction cost, are credited to share capital and share premium accounts when the share options are exercised. When the share options are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Borrowing costs

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

All other borrowing costs are charged to the income statement in the year in which they are incurred.

s) 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 instruments. 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 classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Financial instruments (Continued)

Financial assets at fair value through profit or loss (Continued)

- the financial asset form part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

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 and bills receivables, prepayments, deposits and other receivables) 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 assets' 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 year when an increase in the assets' 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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured 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 estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the 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.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories (set out above). 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 subsequent year. 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.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent year.

Financial liabilities and equity instruments

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the Financial Statements

31 March 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Financial instruments (Continued)

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. 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 received or receivable is recognised in profit or loss.

t) Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bond reserve).

In subsequent year, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond reserve until the conversion option is exercised (in which case the balance stated in convertible bond reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity, Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the year of the convertible bonds using the effective interest method.

Notes to the Financial Statements

31 March 2007

5. FINANCIAL INSTRUMENTS

a) Financial risk management objectives and policies

The Group's major financial instruments include debtors, bank balances and cash, creditors, amounts due to related parties, bank borrowings and convertible bonds. 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 in a timely and an effective manner.

i) *Credit risk*

The Group's credit risk is primarily attributable to trade or other receivables. The Group's sales are made to several major customers. To minimise the concentration of credit risk, it has policies in place to ensure that films are only licensed or distributed to reputable and creditworthy customers. Deposits are received in advance from most of the customers. The exposure to these credit risks are also monitored on an ongoing basis.

ii) *Liquidity risk*

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions and related companies to meet the Group's liquidity requirements in the short and long term.

iii) *Interest rate risk*

The Group's exposure to changes in interest rate relates primarily to the Group's cash and cash equivalents, bank deposits, the borrowings from banks and related companies and convertible bonds. The Group does not use financial derivatives to hedge against the interest rate risk. The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

iv) *Foreign exchange risk*

The Group mainly operates in Hong Kong with most of the transactions settled in Hong Kong dollars or United States dollars. The Group did not have significant exposure to foreign exchange risk.

Notes to the Financial Statements

31 March 2007

5. FINANCIAL INSTRUMENTS (Continued)

b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Except as indicated in the financial statements, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Impairment of film rights

The Group performs annual tests on whether there has been impairment of film rights in accordance with the accounting policy stated in note 4(g). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates and other assumptions underlying the value-in-use calculations.

Notes to the Financial Statements

31 March 2007

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

b) Trade debtors

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the Group's results of operations.

c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

d) Impairment of films in progress

The management of the Group reviews an ageing analysis at each balance sheet date, and identify the slow-moving films in progress that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods of the films in progress based on value-in-use calculations. In addition, the Group carries out review on each film at each balance sheet date and makes allowance for any films in progress that production no longer proceed.

7. TURNOVER AND OTHER REVENUE

	2007 HK\$'000	2006 HK\$'000
Turnover		
Film production	22,030	7,930
Film distribution	40,258	9,328
	62,288	17,258
Other revenue		
Gain on disposal of property, plant and equipment	–	53
Bank interest income	183	29
Sundry income	630	447
	813	529
Total income	63,101	17,787

Notes to the Financial Statements

31 March 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

a) Business segments

For management purposes, the Group is currently organised into three operating divisions, namely, film production, film distribution and television movies production. These divisions are the basis on which the Group reports its primary segment information.

Income statement

	Film production		Film distribution		Television movies production		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	22,030	7,930	40,258	9,328	-	-	62,288	17,258
Segment profit/(loss)	4,684	1,664	4,654	(320)	-	-	9,338	1,344
Unallocated corporate income							813	529
Unallocated corporate expenses							(24,484)	(19,378)
Loss from operations							(14,333)	(17,505)
Finance costs							(1,821)	(680)
Loss before taxation							(16,154)	(18,185)
Income tax							-	-
Loss for the year attributable to equity holders of the Company							(16,154)	(18,185)

Notes to the Financial Statements

31 March 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

a) Business segments (Continued)

Balance sheet

	Film production		Film distribution		Television movies production		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment assets	29,547	16,297	25,239	11,849	500	500	55,286	28,646
Unallocated corporate assets							35,500	16,129
Consolidated total assets							90,786	44,775
Segment liabilities	(43,028)	(28,466)	(6,081)	(5,806)	-	-	(49,109)	(34,272)
Unallocated corporate liabilities							(59,821)	(20,456)
Consolidated total liabilities							(108,930)	(54,728)

Notes to the Financial Statements

31 March 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

a) Business segments (Continued)

Other information

	Film production		Film distribution		Television movies production		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	-	-	-	-	-	-	2,195	585	2,195	585
Depreciation	-	-	-	-	-	-	3,941	3,752	3,941	3,752
Additions of film rights	-	-	27,196	12,431	-	-	-	-	27,196	12,431
Amortisation of film rights	-	-	30,058	7,172	-	-	-	-	30,058	7,172
Impairment loss of films in progress	-	-	1,600	-	-	-	-	-	1,600	-
Gain on disposal of property, plant and equipment	-	-	-	-	-	-	-	53	-	53

b) Geographical segments

The Group's revenue are derived from Hong Kong and overseas distribution. The following table provides an analysis of the group's sales revenue by geographical market:

	2007 HK\$'000	2006 HK\$'000
Hong Kong	36,656	14,283
Overseas	25,632	2,975
	62,288	17,258

All of the Group's assets are located in Hong Kong during the year.

Notes to the Financial Statements

31 March 2007

9. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	2007 HK\$'000	2006 HK\$'000
Auditors' remuneration	220	220
Contributions to retirement benefits scheme (included in staff costs)	167	175
Amortisation of film rights (included in cost of sales)	30,058	7,172
Impairment loss of films in progress (included in cost of sales)	1,600	–
Production costs (included in cost of sales)	17,346	6,266
Depreciation of property, plant and equipment	3,941	3,752
Operating lease rental in respect of land and buildings	1,866	1,800
Share-based payment	–	1,030
Staff costs including directors' emoluments	10,654	10,058
Bank interest income	(183)	(29)
Gain on disposal of property, plant and equipment	–	(53)

10. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interests on:		
Bank loans wholly repayable within five years	10	202
Amounts due to related companies (Note 31(b))	1,545	465
Interest on convertible bonds wholly repayable within five years (Note 26)	221	–
Finance charges on finance leases	45	13
	1,821	680

Notes to the Financial Statements

31 March 2007

11. DIRECTORS' EMOLUMENTS

The remuneration of every director of the Company for the year is analysed as follows:

For the year ended 31 March 2007

	Directors' fee	Salaries and other allowances	Share-based payment	Retirement benefits scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors					
Mr. Law Sau Yiu, Dennis	–	1,800	–	12	1,812
Ms. Teng Chia Lin, Chialina	–	456	–	12	468
Ms. Chan Dao Ho	–	757	–	12	769
Independent non-executive directors					
Mr. Lung Hak Kau	96	–	–	–	96
Ms. Wai Lai Yung	96	–	–	–	96
Ms. Tsang Kei Ling	60	–	–	–	60
	252	3,013	–	36	3,301

For the year ended 31 March 2006

	Directors' fee	Salaries and other allowances	Share-based payment	Retirement benefits scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors					
Mr. Law Sau Yiu, Dennis	–	1,800	–	12	1,812
Ms. Teng Chia Lin, Chialina	–	456	–	12	468
Ms. Chan Dao Ho (Note i)	–	450	–	7	457
Mr. To Kei Fung (Note ii)	–	1,040	–	4	1,044
Independent non-executive directors					
Mr. Lung Hak Kau	96	–	–	–	96
Ms. Wai Lai Yung	96	–	–	–	96
Ms. Tsang Kei Ling	60	–	–	–	60
	252	3,746	–	35	4,033

Notes to the Financial Statements

31 March 2007

11. DIRECTORS' EMOLUMENTS (Continued)

Notes:

- i) Ms. Chan Dao Ho was appointed on 16 August 2005.
- ii) Mr. To Kei Fung resigned the executive director on 1 August 2005 and remained as the chief executive officer of the Company.

During the years ended 31 March 2007 and 2006, no emoluments or incentive payments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the years ended 31 March 2007 and 2006.

All the executive directors, except Ms. Chan Dao Ho, entered into a service contract shall continue thereafter until terminated by giving to the other party not less than six months' notice in writing.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group for the year include:

	2007	2006
Number of directors	3	2
Number of other individuals	2	3
	5	5

The emoluments of the directors of the Group are disclosed in note 11. Details of the emoluments of the remaining individuals are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other allowances	4,500	3,350
Retirement benefits scheme contributions	24	25
Share-based payment	–	1,030
	4,524	4,405

Notes to the Financial Statements

31 March 2007

12. EMPLOYEES' EMOLUMENTS (Continued)

The emoluments of the remaining individuals fell within the following bands:

	Number of individuals	
	2007	2006
Emoluments bands		
Nil – HK\$1,000,000	1	2
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
	2	3

During the years ended 31 March 2007 and 2006, no emoluments or incentive payments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the years ended 31 March 2007 and 2006.

Income tax for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2007 HK\$'000	2006 HK\$'000
Loss before taxation	(16,154)	(18,185)
Tax at the Hong Kong profits tax rate of 17.5% (2006: 17.5%)	(2,827)	(3,182)
Tax effect of unrecognised tax losses	1,955	3,151
Tax effect of non-taxable incomes	(32)	(15)
Tax effect of non-deductible expenses	739	46
Tax effect of tax losses utilised	(238)	–
Tax effect of unrecognised temporary differences	403	–
Income tax for the year	–	–

Notes to the Financial Statements

31 March 2007

14. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of approximately HK\$4,632,000 for the year ended 31 March 2007 (2006: approximately HK\$9,006,000).

15. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Net loss attributable to equity holders of the Company	(16,154)	(18,185)
Weighted average number of shares for basic loss per share (thousand)	85,600	(Restated) (note (i)) 80,500
Loss per share		(Restated)
– Basic	(HK18.9 cents)	(HK22.6 cents)
– Diluted	N/A	N/A

Notes:

- (i) The weighted average number of ordinary shares for the year ended 31 March 2006 for the purposes of basic loss per share has been adjusted for the share consolidation completed during the year.
- (ii) No diluted loss per share has been presented for the years ended 31 March 2007 and 2006 as the conversion of all potential ordinary shares arising from share options granted by the Company and convertible bonds would have an anti-dilutive effect on the loss per share for the years ended 31 March 2007 and 2006.

Notes to the Financial Statements

31 March 2007

16. FILM RIGHTS AND FILMS IN PROGRESS

The Group	Film rights HK\$'000	Films in progress HK\$'000	Total HK\$'000
Cost			
At 1 April 2005	–	9,604	9,604
Additions	–	9,310	9,310
Transfers	12,431	(12,431)	–
At 31 March 2006	12,431	6,483	18,914
At 1 April 2006	12,431	6,483	18,914
Additions	–	31,423	31,423
Transfers	27,196	(27,196)	–
At 31 March 2007	39,627	10,710	50,337
Accumulated amortisation and impairment			
At 1 April 2005	–	–	–
Amortisation for the year	7,172	–	7,172
At 31 March 2006	7,172	–	7,172
At 1 April 2006	7,172	–	7,172
Amortisation for the year	30,058	–	30,058
Impairment loss recognised	–	1,600	1,600
At 31 March 2007	37,230	1,600	38,830
Net book value			
At 31 March 2007	2,397	9,110	11,507
At 31 March 2006	5,259	6,483	11,742
Analysed as			
As at 31 March 2007			
Non-current portion	–	–	–
Current portion	2,397	9,110	11,507
	2,397	9,110	11,507
As at 31 March 2006			
Non-current portion	277	–	277
Current portion	4,982	6,483	11,465
	5,259	6,483	11,742

Notes to the Financial Statements

31 March 2007

16. FILM RIGHTS AND FILMS IN PROGRESS (Continued)

During the year, the Group assessed the recoverable amounts of film rights and films in progress and determined that the films in progress associated with the Group's film distribution operations was impaired by HK\$1,600,000 (2006: HK\$Nil). The recoverable amounts of film rights and films in progress were assessed by the directors of the Company with reference to the value-in-use calculations of film rights and films in progress as at the balance sheet date.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
Cost						
At 1 April 2005	4,023	716	16,645	459	1,710	23,553
Additions	–	9	21	468	87	585
Disposal	–	–	–	(459)	(4)	(463)
At 31 March 2006	4,023	725	16,666	468	1,793	23,675
At 1 April 2006	4,023	725	16,666	468	1,793	23,675
Additions	222	53	1,067	308	545	2,195
At 31 March 2007	4,245	778	17,733	776	2,338	25,870
Accumulated depreciation						
At 1 April 2005	1,670	319	5,375	253	886	8,503
Charge for the year	805	143	2,418	78	308	3,752
Eliminated on disposal	–	–	–	(275)	(3)	(278)
At 31 March 2006	2,475	462	7,793	56	1,191	11,977
At 1 April 2006	2,475	462	7,793	56	1,191	11,977
Charge for the year	815	149	2,523	114	340	3,941
At 31 March 2007	3,290	611	10,316	170	1,531	15,918
Net book value						
At 31 March 2007	955	167	7,417	606	807	9,952
At 31 March 2006	1,548	263	8,873	412	602	11,698

At 31 March 2007, the net book value of certain motor vehicles and office equipment of the Group of approximately HK\$1,068,000 (2006: HK\$412,000) were held under finance leases.

Notes to the Financial Statements

31 March 2007

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	78	78
Non-current portion		
Amounts due from subsidiaries (<i>Notes (i) and (iii)</i>)	5,990	22,638
Allowance for amounts due from subsidiaries	(5,600)	(22,200)
	390	438
	468	516
Current portion		
Amount due from subsidiaries (<i>Notes (ii) and (iii)</i>)	37,170	–
Allowance for amounts due from subsidiaries	(21,100)	–
	16,070	–

Notes:

- i) The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the Company directors, the amount will not be repayable in the next twelve months after the balance sheet date.

The Company has undertaken to provide necessary financial resources to support the future operations of the subsidiaries.

- ii) The amounts due from subsidiaries are unsecured and non-interest bearing, except for an amount of HK\$15,000,000 (2006: HK\$Nil) which bear interest at the rate of three-month HIBOR plus 0.85%. Included in amounts due from subsidiaries of approximately HK\$37,170,000 are the amounts due from two subsidiaries, Milkyway Image (Hong Kong) Limited and Luminous Star Limited (the "Disposal Subsidiaries"), of approximately HK\$35,345,000 (2006: HK\$13,765,000 included in non-current portion) and HK\$1,825,000 (2006: HK\$216,000 included in non-current portion), in the opinion of the Company's directors, the amounts due from the Disposal Subsidiaries will be reassigned to the Purchaser after the completion of the sale of the Disposal Subsidiaries, as further detailed in Note 33(b). Therefore, the amounts due from the Disposal Subsidiaries as at 31 March 2007 are classified as current asset.

- iii) The Company's directors consider that in light of the recurring operating losses of certain subsidiaries, the recoverable amounts of these subsidiaries have been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, the impairment losses of amounts due from subsidiaries of approximately HK\$5,600,000 included in non-current portion (2006: approximately HK\$22,200,000) and HK\$21,100,000 included in current portion (2006: HK\$Nil) were recognised in the Company's financial statements for the year ended 31 March 2007.

The impairment losses associated with the Group's film production and film distribution operations were approximately HK\$25,611,000 for the year ended 31 March 2007 (2006: approximately HK\$21,111,000), while the remaining amounts are associated with the unallocated corporate unit.

The Company's directors consider that the carrying amounts of amounts due from subsidiaries approximate their fair value.

Notes to the Financial Statements

31 March 2007

18. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

iv) The details of the subsidiaries of the Company as at 31 March 2007 are as follows:

Name of subsidiary	Country/ place of incorporation	Issued and fully paid share capital	Interest held	Principal activities
Galaxy Image (BVI) Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Inspire Film Distribution Limited	Hong Kong	HK\$2	100%	Provision of film distribution
Luminous Star Limited	Hong Kong	HK\$2	100%	Assets holding and provision of film production facilities
Point of View Movie Production Company Limited	Hong Kong	HK\$2	100%	Provision of film production and film distribution
Milkyway Image (Hong Kong) Limited ("MIHK")	Hong Kong	HK\$10,000	100%	Provision of film production, film distribution and television movies production
Milkyway Image Limited	Hong Kong	HK\$2	100%	Holding of film rights

Galaxy Image (BVI) Limited is directly held by the Company. All the other subsidiaries are indirectly held by the Company.

The principal place of operation of all the subsidiaries is in Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the years ended 31 March 2007 and 2006.

Notes to the Financial Statements

31 March 2007

19. TRADE DEBTORS

Credit periods given to customers or dealers ranged from 30 to 180 days. The aged analysis of the trade debtors is as follows:

	The Group	
	2007 HK\$'000	2006 HK\$'000
Within 30 days	3,506	125
31–90 days	91	182
91–180 days	7,280	1
181–365 days	2,902	109
Over 365 days	33	–
	13,812	417

The Company's directors consider that the carrying amount of trade debtors approximates their fair value.

20. TRADE CREDITORS

The aged analysis of the trade creditors is as follows:

	The Group	
	2007 HK\$'000	2006 HK\$'000
Within 6 months	2,693	2,459
Over 1 year	69	–
	2,762	2,459

The Company's directors consider that the carrying amount of trade creditors approximates their fair value.

21. AMOUNTS DUE TO DIRECTORS

The Group and the Company

The amounts represent accrued salaries to directors during the years ended 31 March 2007 and 2006, which are unsecured, non-interest bearing and have no fixed repayment terms.

Notes to the Financial Statements

31 March 2007

22. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the Group had obligations under finance leases repayable as follows:

	The Group			
	Minimum leases payments		Present value of minimum leases payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amounts payable under finance leases:				
Within one year	414	59	380	41
More than one year but within two years	175	56	244	44
More than two years but within five years	85	140	–	127
	674	255	624	212
Less: Future finance charges	(50)	(43)		
Present value of lease obligations	624	212		
Less: Amounts due for payment within one year			(380)	(41)
			244	171

The lease term ranges from four to five years and the average effective borrowing rate is 8.3% during the years ended 31 March 2007 and 2006. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Company directors consider that the fair value of the Group's lease obligations approximates their carrying amount at each balance sheet date.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Notes to the Financial Statements

31 March 2007

23. BANK LOAN

	The Group	
	2007 HK\$'000	2006 HK\$'000
Bank loan repayable within one year	–	3,000

The bank loan of approximately HK\$3,000,000 as at 31 March 2006 was charged at the interest rate of three-month HIBOR plus 0.85%. The bank loan was secured by the listed securities and personal guarantee given by a director of the Company (Note 31(a)).

24. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1 April 2005 and 31 March 2006, ordinary shares of HK\$0.01 each	10,000,000,000	100,000
Consolidation of shares (Note (ii))	(9,000,000,000)	–
At 31 March 2007, ordinary shares of HK\$0.1 each	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2005 and 31 March 2006 ordinary shares of HK\$0.01 each	805,000,000	8,050
Issue of shares (Note (i))	161,000,000	1,610
Consolidation of shares (Note (ii))	966,000,000 (869,400,000)	9,660 –
Ordinary shares of HK\$0.1 each	96,600,000	9,660
Conversion into shares from convertible bonds	9,600,000	960
At 31 March 2007, ordinary shares of HK\$0.1 each	<u>106,200,000</u>	<u>10,620</u>

Notes:

- i) On 28 November 2006, the Company entered into a placing agreement with Kingston Securities Limited, an independent third party, for placing of 161,000,000 ordinary shares of the Company of HK\$0.01 at HK\$0.022 per each to independent investors. On 14 December 2006, the Company issued and allotted 161,000,000 shares with the gross proceeds of approximately HK\$3,542,000 before expenses. The details of the share placing are set out in the Company's announcement dated 28 November 2006.
- ii) By an ordinary resolution passed by the shareholders of the Company on 10 January 2007, every 10 of the ordinary shares of the Company (both issued and unissued) of HK\$0.01 each were consolidated into one new share ("New Share") of HK\$0.1 each (the "Share Consolidation"). The Share Consolidation became effective on 11 January 2007. The details of the Share Consolidation are set out in the Company's announcement dated 10 January 2007.

Notes to the Financial Statements

31 March 2007

25. RESERVES

	Attributable to equity holders of the Company					Total HK\$'000
	Share Premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserves HK\$'000	Convertible bond reserves HK\$'000	Accumulated losses HK\$'000	
The Group						
At 1 April 2005	15,050	10	–	–	(15,908)	(848)
Net loss for the year	–	–	–	–	(18,185)	(18,185)
Share option scheme – value of employee services	–	–	1,030	–	–	1,030
At 31 March 2006 and 1 April 2006	15,050	10	1,030	–	(34,093)	(18,003)
Net loss for the year	–	–	–	–	(16,154)	(16,154)
Issue of shares	1,932	–	–	–	–	1,932
Share issue expenses	(159)	–	–	–	–	(159)
Issue of convertible bonds (Note 26)	–	–	–	2,692	–	2,692
Conversion into shares from convertible bonds	1,251	–	–	(323)	–	928
At 31 March 2007	18,074	10	1,030	2,369	(50,247)	(28,764)
The Company						
At 1 April 2005	15,050	78	–	–	(15,978)	(850)
Net loss for the year	–	–	–	–	(9,006)	(9,006)
Share option scheme – value of employee services	–	–	1,030	–	–	1,030
At 31 March 2006 and 1 April 2006	15,050	78	1,030	–	(24,984)	(8,826)
Net loss for the year	–	–	–	–	(4,632)	(4,632)
Issue of shares	1,932	–	–	–	–	1,932
Share issue expenses	(159)	–	–	–	–	(159)
Issue of convertible bonds (Note 26)	–	–	–	2,692	–	2,692
Conversion into shares from convertible bonds	1,251	–	–	(323)	–	928
At 31 March 2007	18,074	78	1,030	2,369	(29,616)	(8,065)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares of the Company issued for the acquisition at the time of the reorganisation of the Group.

In accordance with the laws of the Cayman Islands, the Company's share premium and contributed surplus are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Notes to the Financial Statements

31 March 2007

26. CONVERTIBLE BONDS

On 30 January 2007, the Company issued two tranches of convertible bonds (the "Bonds") with total nominal value of HK\$20,000,000 at the price of HK\$18,200,000. The Bonds are non-interest bearing and will be redeemed within three years ("Conversion Period") from the date of issue at the Bonds' nominal value.

The Bonds can be converted into ordinary shares of the Company of HK\$0.1 each at any time during the Conversion Period at fixed conversion price being HK\$0.25. The Company may redeem any bond during the Conversion Period at the price of 105% of the Bonds' nominal value.

The fair values of the liability component and the equity conversion component were determined at issuance of the Bonds. The fair value of the liability component, included in long-term borrowings, was calculated at effective interest rate of 8.51% per annum. The residual amount, representing the value of the equity conversion component, is included in equity.

During the year ended 31 March 2007, the Bonds with the nominal value HK\$2,400,000 were converted into 9,600,000 New Shares of the Company of HK\$0.1 each at a conversion price of HK\$0.25 per share.

The convertible bonds recognised in the balance sheet are calculated as follows:

	The Group and the Company	
	2007	2006
	HK\$'000	HK\$'000
Proceeds from convertible bonds issued on 30 January 2007	18,200	–
Equity component (<i>Note 25</i>)	(2,692)	–
Liability component on initial recognition at 30 January 2007	15,508	–
Accrued interest capitalised (<i>Note 10</i>)	221	–
Conversion into shares	(1,888)	–
Liability component at 31 March 2007	13,841	–

Notes to the Financial Statements

31 March 2007

27. DEFERRED TAXATION

The Group

The followings are the deferred tax liabilities and assets recognised by the Group and movements thereon:

	Accelerated tax depreciation HK\$'000	Estimated tax losses HK\$'000	Total HK\$'000
At 1 April 2005	2,059	(2,059)	–
Charge/(credit) to income statement	(420)	420	–
At 31 March 2006 and 1 April 2006	1,639	(1,639)	–
Charge/(credit) to income statement	(575)	575	–
At 31 March 2007	1,064	(1,064)	–

At 31 March 2007, the Group did not recognise deferred tax assets in respect of the tax losses of approximately HK\$44,559,000 (2006: HK\$24,105,000). As it is not probable that taxable profits will be available against which the unused tax losses of the Group can be utilised, deferred tax assets have not been recognised in respect of the unused tax losses. Tax losses are available indefinitely for offsetting future taxable profits of the companies in which the losses arose.

28. PROVISIONS

	The Group	
	2007 HK\$'000	2006 HK\$'000
Provision for litigation	4,000	–

During the year, an individual engaged by the Company's subsidiary MIHK in 2003, lodged a statement of claim in the High Court in Hong Kong against MIHK in respect of a personal injury purported to have been suffered during his engagement with MIHK in 2003. If MIHK is found to be liable, the total expected monetary compensation may amount to approximately HK\$4,000,000. The provision for litigation of HK\$4,000,000 is made in the consolidated financial statements for the year ended 31 March 2007.

Notes to the Financial Statements

31 March 2007

29. COMMITMENTS

a) Operating lease commitments

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

	The Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	1,124	1,800
In the second to fifth year inclusive	249	750
	1,373	2,550

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for a term ranging from 2 years to 3 years and rentals were fixed for the year.

The Company had no significant lease commitments at the balance sheet date.

b) Other commitments

	The Group	
	2007 HK\$'000	2006 HK\$'000
Contracted but not provided for in the financial statements in respect of: – film production costs	14,011	18,480

The Company had no other commitments at the balance sheet date.

30. CONTINGENT LIABILITIES

The Group and the Company have no contingent liabilities at the balance sheet date.

Notes to the Financial Statements

31 March 2007

31. RELATED PARTY TRANSACTIONS

- a) During the year ended 31 March 2006, the Company director Mr. Law Sau Yiu, Dennis ("Mr. Law") provided personal guarantee to a bank to secure facilities granted to the Group. The banking facilities were secured by listed securities, other than that of the Company, owned by Mr. Law having discounted market value not less than the amount of banking facility utilised by the Group from time to time. No fee in respect of the provision of personal guarantee was paid to him by the Group. The Group obtained bank loans of approximately HK\$3,000,000 for the year ended 31 March 2006. The Group repaid all bank loans in April 2006 and has not obtained any further facilities provided by Mr. Law.
- b) During the years ended 31 March 2007 and 2006, certain related companies provided the loan facilities to the Group as follows:
- (i) Hang Hing Limited, Suki Investment Limited and Tosco Limited, which were incorporated in Hong Kong and controlled by the Company's directors, Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina, granted certain loan facilities to the Group totalling approximately HK\$49,000,000 for the year ended 31 March 2007 (2006: approximately HK\$15,000,000). The Group drew the loan approximately HK\$40,500,000 during the year (2006: approximately HK\$15,000,000). The loans are unsecured, interest charged at the rate of three-month HIBOR plus 0.85% and repayable within one year.
 - (ii) Keep Beat Enterprises Limited, which was incorporated in British Virgin Islands and controlled by the Chief Executive Officer of the Company, Mr. To Kei Fung, granted a loan to the Group of approximately HK\$3,000,000 (2006: HK\$Nil). The Group drew the loan approximately HK\$3,000,000 (2006: HK\$Nil) during the year. The loan is unsecured, interest charged at the rate of three-month HIBOR plus 0.85% and repayable on 28 July 2007.

The details of the interest expenses charged during the year are disclosed in Note 10.

Notes to the Financial Statements

31 March 2007

31. RELATED PARTY TRANSACTIONS (Continued)

b) (Continued)

(iii) The balances due to the related companies at balance sheet date are as follows:

	2007 HK\$'000	2006 HK\$'000
The Group		
<i>Balances at balance sheet date</i>		
Hang Hing Limited	12,000	10,000
Suki Investment Limited	20,500	5,000
Keep Beat Enterprises Limited	3,000	–
Tosco Limited	2,000	–
Outstanding interest	255	97
Total per consolidated balance sheet	37,755	15,097
The Company		
<i>Balances at balance sheet date</i>		
Hang Hing Limited	12,000	–
Suki Investment Limited	3,000	–
Outstanding interest	129	–
Total per balance sheet	15,129	–

c) Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Notes 11 and 12 is as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other short-term benefits	7,345	6,988
Retirement benefits scheme contribution	48	48
Share-based payment	–	1,030
	7,393	8,066

Notes to the Financial Statements

31 March 2007

32. SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 2 August 2002, a share option scheme ("Share Option Scheme") was approved and adopted.

Share Option Scheme

The major terms of the Share Option Scheme are summarised as follows:

- a) The purpose of the Share Option Scheme is to enable the Group to grant share options to selected participants as incentives or rewards for their contribution to the Group.
- b) The participants include:
 - i)
 - (1) any employee or proposed employee of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
 - (2) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
 - (3) any supplier of goods or services to any member of the Group or any Invested Entity;
 - (4) any customer of the Group or any Invested Entity;
 - (5) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
 - (6) any shareholder of any member of the Group or any Invested Entity or any holder or any securities issued by any member of the Group or any Invested Entity; and
 - (7) any joint venture partner or counter-party to business transactions of the Group.
 - ii) any company wholly owned by one or more persons belonging to any of the above classes of participants.
- c) The exercise price of a share option shall be a price determined by the directors and shall at least be the higher of:
 - i) the closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and
 - ii) the average closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

Notes to the Financial Statements

31 March 2007

32. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

- d) Maximum number of shares:
- i) The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time; and
 - ii) The total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the shares in issue at any time of the Share Option Scheme (the "Limit") provided that share options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Limit.
- e) The total number of shares issued and to be issued upon the exercise of share options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the shares in issue.
- f) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of grant of the share option.

Details of share options outstanding under the Company's Share Option Scheme and movements during the year were as follows:

	2007	2006
At beginning of the year	64,400,000	–
Issued during the year	–	64,400,000
Adjustments during the year (Note a)	(57,960,000)	–
At the end of year	6,440,000	64,400,000
Options vested during the year	–	64,400,000

Chief executive officer	Date of grant	Outstanding at 01/04/2005	Granted during year	Outstanding at 31/03/2006	Adjustments during the year (Note a)	Outstanding at 31/03/2007	Exercisable at 31/03/2007	Vesting period	Exercise period	Exercise price (Note a)
Mr. To Kei Fung	16/09/2005	–	64,400,000	64,400,000	(57,960,000)	6,440,000 (note b)	6,440,000	N/A	20/09/2005 to 19/09/2015	HK\$0.4

Notes to the Financial Statements

31 March 2007

32. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

Notes:

- a) The exercise prices and numbers of options which remained outstanding during the year have been adjusted due to the completion of share consolidation during the year.
- b) At 31 March 2007, the 6,440,000 outstanding shares (2006: 64,400,000 outstanding shares) represented approximately 6% (2006: approximately 8%) of the total issued share capital of the Company.
- c) The exercise price represented the higher of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on 16 September 2005, date of proposed grant (i.e., HK\$0.4, after adjusting the share consolidation of the Company) and a price being the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding 16 September 2005.

The options outstanding at the end of the year have a remaining contractual life of 8.5 years (2006: 9.5 years).

During the year ended 31 March 2006, 64,000,000 options were issued and their estimate fair value were calculated using The Black-Scholes pricing model. Exceptions of early exercise are incorporated into the model. The inputs into the model were as follows:

	2006
Share price	HK\$0.04
Exercise price	HK\$0.04
Expected volatility	17%
Expected life	10 years
Risk free rate (based on Exchange Fund Notes)	4.4%
Expected dividend yield	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The Group recognised total expenses related to equity-settled share-based payment transactions during the year ended 31 March 2006 of approximately HK\$1,030,000.

Notes to the Financial Statements

31 March 2007

33. POST BALANCE SHEET EVENTS

- a) On 12 March 2007, the Company entered into a subscription agreement with a wholly owned subsidiary of China Star Entertainment Limited (the "Subscriber"), a company listed on the Stock Exchange and not connected with the Group, pursuant to which the Subscriber has agreed to subscribe for the convertible bonds (the "Convertible Bonds") in a principal amount of HK\$25 million to be issued by the Company at the price of HK\$22.5 million. The Convertible Bonds bear no interest and will be due in 2012. The holders of the Convertible Bonds shall have the right at any time after the date of issue of the Convertible Bonds to convert any outstanding amounts of the Convertible Bonds into the Company's New Share of HK\$0.1 each at the conversion price which is initially HK\$0.33 per New Share, subject to adjustments for, among other matters, subdivision or consolidation of the Company's shares, rights issue, extraordinary stock or cash distribution, and other dilutive events. The placing of the Convertible Bonds was approved by the Company's shareholders at the extraordinary general meeting on 18 April 2007, and the transaction was completed on 25 May 2007. The above transaction is detailed in the Company's circular on 2 April 2007.
- b) On 23 April 2007, the Group through its wholly owned subsidiary, Galaxy Image (BVI) Limited (the "Vendor"), entered into an agreement with Keep Beat Enterprises Limited (the "Purchaser"), a company was incorporated in British Virgin Islands and wholly owned by the chief executive officer of the Company, Mr. To Kei Fung, pursuant to which the Vendor will dispose of its entire interest in the Disposal Subsidiaries to the Purchaser for a total consideration of HK\$26 million (the "Disposal"). The Disposal was approved by the Company's shareholders at the extraordinary general meeting on 21 June 2007, but the Disposal has not completed at the date of this report. The above transaction is detailed in the Company's announcement on 23 May 2007.

Summary of Financial Information

For the year ended 31 March 2007

RESULTS

	Year ended 31 March				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
Turnover	55,743	22,696	36,836	17,258	62,288
Profit (loss) from operations	3,343	(11,567)	(8,329)	(17,505)	(14,333)
Finance costs	(22)	(10)	(36)	(680)	(1,821)
Profit (loss) before taxation	3,321	(11,577)	(8,365)	(18,185)	(16,154)
Taxation (charge) credit	(790)	789	–	–	–
Profit (loss) attributable to shareholders	2,531	(10,788)	(8,365)	(18,185)	(16,154)

ASSETS AND LIABILITIES

	As at 31 March				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
Non-current assets	17,472	18,760	15,050	11,975	9,952
Current assets	40,655	29,241	21,085	32,800	80,834
Current liabilities	36,267	37,668	28,931	54,557	94,845
Non-current liabilities	946	39	2	171	14,085