ANNUAL REPORT 2007

# Era Information & Entertainment Limited
# 年 代 資 訊 影 視 有 限 公 司

(incorporated in the Cayman Islands with liability)

Stock Code: 8043

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

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

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

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

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# Corporate Information

## EXECUTIVE DIRECTOR

Lee Jong Dae *(Chairman)*
Lee Sung Min
Kim Beom Soo

## INDEPENDENT NON-EXECUTIVE DIRECTOR

Chan Sze Hon
Christopher John Parker
David Marc Boulanger

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1001-1002
10th Floor, Man Yee Building
68 Des Voeux Road
Central
Hong Kong

## COMPANY SECRETARY

Leung Ka Wo

## QUALIFIED ACCOUNTANT

Cheung Kwok Wai HKICPA

## COMPLIANCE OFFICER

Lee Sung Min

## AUDIT COMMITTEE

Chan Sze Hon *(Chairman)*
Christopher John Parker
David Marc Boulanger

## REMUNERATION COMMITTEE

Chan Sze Hon *(Chairman)*
Christopher John Parker
David Marc Boulanger

## AUTHORISED REPRESENTATIVES

Lee Jong Dae
Lee Sung Min

## AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

## LEGAL ADVISOR

Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP
39th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Hong Kong Registrars Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## STOCK CODE

8043

## WEBSITE

www.irasia.com/listco/hk/era/index.htm

## Summary Financial Information

The following is a summary of the published consolidated results and balance sheet of the Group prepared on the bases set out in note below:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Turnover** | **50,710** | 71,129 | 79,445 | 84,344 | 105,689 |
| **Operating loss** | **(17,094)** | (11,759) | (6,141) | (9,560) | (9,060) |
| Finance costs | **(1)** | (17) | (45) | (57) | (44) |
| Share of losses of associates | **–** | – | – | (156) | – |
| **Loss before tax** | **(17,095)** | (11,776) | (6,186) | (9,773) | (9,104) |
| Income tax (expense)/credit | **(327)** | (300) | (688) | – | 204 |
| **Loss for the year** | **(17,422)** | (12,076) | (6,874) | (9,773) | (8,900) |
| **Attributable to:** | | | | | |
| Equity holders of the Company | **(17,422)** | (12,076) | (6,874) | (8,637) | (8,900) |
| Minority interest | **–** | – | – | (1,136) | – |
| | **(17,422)** | (12,076) | (6,874) | (9,773) | (8,900) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **57,842** | 44,862 | 60,901 | 75,026 | 86,009 |
| Total liabilities | **(21,737)** | (17,051) | (21,003) | (28,265) | (30,616) |
| **Net Assets** | **36,105** | 27,811 | 39,898 | 46,761 | 55,393 |

*Note:* The above financial summary as of and for the years ended 31 December 2006 and 2007 have been extracted from the audited financial statements of the Group as set out on pages 28 to 76 of the annual report.

## Chairman's Statement

On behalf of the directors (the "Directors") of Era Information & Entertainment Limited and its subsidiaries (the "Company" and collectively the "Group"), I am pleased to present the annual results for the year ended 31 December 2007.

2007 was a difficult year for the Group. Facing the problems of illegal internet download, piracy and lack of major video titles during the year ended 31 December 2007, the Group's turnover in the home video business dropped when compared to the previous year.

In order to have more flexibility financially and to be able to respond quickly to possible investment opportunities, on 21 December 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK$25.5 million from the issue of 64,000,000 new shares in the Company. The resulting net proceeds have been retained as general working capital of the Group and will be available for any future possible acquisitions.

I would like to mention that following the change in ownership in June 2007, a new management team has been formed as of August 2007. It is expected that a number of promising businesses may be introduced in the near future, and the coming year will be full of competitive challenges as well as opportunities for the Group.

On behalf of the Board
**Lee Jong Dae**
*Chairman*

Hong Kong, 18 March 2008

# Management Discussion and Analysis

## FINANCIAL PERFORMANCE

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$50.7 million (2006: approximately HK$71.1 million). Loss attributable to shareholders amounted to approximately HK$17.4 million (2006: approximately HK$12.1 million).

Decrease in consolidated turnover is mainly due to a drop of approximately 24.6% and 41.8% in the home video products distribution and theatrical release arrangement and film rights sub-licensing, respectively, as compared to the same period prior year.

## BUSINESS REVIEW

Despite facing a weak home video market, the Group released a number of new titles during the year, including 'Casino Royale', 'Flushed Away', 'Open Season', 'Ghost Rider', 'Spider-Man 3', and 'Shrek the Third', etc. The Group has also started distributing Blu-ray discs in April 2007.

During the year under review, the Group's PRC subsidiary, 北京年恩長影文化傳播有限公司, has arranged theatrical release arrangement for two film titles while five film titles had been released in prior year. As a result, turnover has been decreased although the box office results are satisfactory for releasing the two film titles in current year.

## PROSPECTS

Since the Group has started distributing Blu-ray discs in April 2007 which contributed approximately 10% in the sales of home video products during 2007, this high-definition format is getting stronger and an increasing amount of turnover is expected to be generated from this sector. New home video titles recently released by the Group in 2008 included 'Heartbreak Kids' and '30 Days of Night', etc. while other new titles expected to be released by the Group in 2008 include 'Bee Movie' and 'Things We Lost in the Fire', etc. Regarding the theatrical release arrangement business, the Group is in the process of stepping up its efforts in identifying potential film titles for theatrical releases in the PRC.

Nevertheless, for the year ended 31 December 2007, the Group has been continuously facing the problem of illegal internet download, piracy, and fierce competition from competitors. These negative factors will impose challenges to the Group's business. In order to complement the highly competitive home video products, the board of directors of the Company (the "Board") consider the diversification of business into new areas of high-growth potential which will be in the best interest of the shareholders. As a result, the Board have been seeking opportunities in natural resource sector.

## Management Discussion and Analysis

On 21 December 2007, the Company entered into a memorandum of understanding (the "MOU") with Dean Management Limited ("Vendor"), a company incorporated in the British Virgin Islands, in relation to the possible acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited which was established in Mongolia (the "Target Company") from Vendor (the "Possible Acquisition") for a consideration of between USD 2.5 million to USD 5 million (subject to valuation, due diligence and negotiation). The Target Company owns concession rights to certain natural resources in Mongolia. The above mentioned transaction is subject to, among other things, the approval of the Company's shareholders in general meeting and information on this new proposed investment will be distributed to the Company's shareholders in due course.

The Board see the Group as heading on the right track with its operational mode of business diversification. As further complemented by the Group's proposed diversification, the Board are confident that the Group is geared for high growth momentum and expect a bright future for the Group.

### APPLICATION OF SHARE ISSUE PROCEEDS

On 21 December 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK$25.5 million from the issue of 64,000,000 new shares in the Company. The resulting net proceeds have been retained as general working capital of the Group and will be available for any future possible acquisition, including the proposed investment in natural resource business as highlighted in the above section on "Prospects".

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows.

As at 31 December 2007, the Group had net current assets of approximately HK$35.5 million (2006: HK$26.0 million). The Board are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

### FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars, Renminbi or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

## CAPITAL STRUCTURE

As at 31 December 2007, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK$36.1 million as at 31 December 2007, representing an increase of approximately 29.8% over last year.

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2007, the Group's time deposits of approximately HK$2.7 million were pledged to a bank in respect of banking facilities granted to the Group.

## MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not have any material acquisition, disposal and significant investments during the year under review.

## GEARING RATIO

As at 31 December 2007, the Group did not have any borrowings.

## CAPITAL COMMITMENTS

As at 31 December 2007, the Group had commitments of unpaid film rights of approximately HK$5.7 million due to licensors and commitments of unpaid purchase costs of approximately HK$1.8 million due to suppliers.

## EMPLOYEE INFORMATION

As at 31 December 2007, the Group had a total of 30 employees. The total staff costs, including directors' emoluments, amounted to approximately HK$11.8 million for the year under review.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

The emoluments of the Directors and senior management of the Company are determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

# Directors and Senior Management

Following the change in ownership in June 2007, a new management team has been formed in August 2007. Details of the current management team are as follows:

## DIRECTORS

*Executive Directors*

Mr. Lee Jong Dae, aged 48, is the Chairman and Chief Executive Officer of the Company. He is an experienced international lawyer and investment banker. Mr. Lee holds a Juris Doctor degree from Georgetown University, Washington, D.C. He is an executive director of China HealthCare Holdings Limited, a company listed on the Main Board of Stock Exchange and a non-executive director of Asian Logic Limited, a company listed on Alternative Investment Market ("AIM") of the London Stock Exchange.

Mr. Lee Sung Min, aged 36, is the Compliance Officer of the Company. He is an Australian Korean who has 8 years' experience in legal practice. He has been a partner of DaeJi Law Firm in Korea since 2005. Prior to that, he worked for two renowned law firms in Korea. Mr. Lee was admitted as a legal practitioner of the Supreme Court of New South Wales in Australia in 1999. He also obtained a diploma in law granted by the Legal practice from The College of Law PTY Ltd. in Australia in 1999.

Mr. Kim Beom Soo, aged 39, is a director of Hunitech Co Limited which is principally engaged in telecommunication network construction in Korea since 2002. He is also a director of HtwoM Co. Limited, a company of which is engaged in the telecommunication equipment sales in Korea. Prior to that, he has years of experience in information and telecommunication industry.

**DIRECTORS** *(continued)*

*Independent non-executive Directors*

Mr. Chan Sze Hon, aged 34, is the Chairman of each of the audit committee and remuneration committee. He holds a Bachelor of Arts Degree in Accountancy from City University of Hong Kong and a Master Degree in Corporate Finance from The Hong Kong Polytechnic University. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Chan has over 12 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong for over 8 years. He is an executive director of Greater China Holdings Limited, a company listed on the Main Board of the Stock Exchange and the independent non-executive director of China Mining Resources Group Limited, a company listed on the Main Board of the Stock Exchange, and Blu Spa Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange ("GEM").

Mr. Christopher John Parker, aged 40, is the chief executive officer and director of Asian Logic Limited, a company listed on AIM of the London Stock Exchange, which engaged in the online gaming, online poker and multiplayer games, online sports betting, live video streaming, casino gaming etc. He was appointed as a director of The Tressider-Tuohy Group (Hong Kong) Limited, an independent financial services firm, in 2003. Mr. Parker has also served five years of military service with the Coldstream Guards.

Mr. David Marc Boulanger, aged 43, is the director of Northman Holdings Inc., a company that owns Supplierpipeline Inc., a company engaged in the distribution of both professional and do-it-yourself hardware products and accessories and Lite Products Inc., a company engaged in the manufacture of ladders and other climbing products under proprietary brand names including "LITE" "EAGLE", and "GRIFFIN". Mr. Boulanger holds an honours bachelor of science degree in chemical engineering from University of Waterloo.

**SENIOR MANAGEMENT**

Mr. Leung Ka Wo, aged 34, is the Finance Director and Company Secretary of the Company. He holds a Bachelor of Arts Degree in Accountancy from Seattle University. He is a member of the American Institute of Certified Public Accountants and Certified Public Accountants, California US. He has over 8 years of experience in auditing and accounting, and had worked for an international accounting firm before joining the Company.

# Directors' Report

The Directors have pleasure in presenting their report and the audited financial statements of the Group for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 34 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 and the state of the affairs of the Group at that date are set out in the financial statements on pages 28 to 76.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007.

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

## PROPERTY, PLANT AND EQUIPMENT

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

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 are set out in note 34 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movement in the Company's share capital and share options during the year are set out in notes 27 and 31 to the financial statements respectively.

## RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$32.3 million. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 54% of the total sales for the year and the sales attributable to the largest customer included therein amounted to approximately 17%.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 86% of the total purchases for the year and purchases attributable to the largest supplier included therein amounted to approximately 53%.

None of the Directors, any of their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

# Directors' Report

## DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

*Executive directors*

| | |
|---|---|
| Mr. Lee Jong Dae *(Chairman)* | (appointed on 27 July 2007) |
| Mr. Lee Sung Min | (appointed on 27 July 2007) |
| Mr. Kim Beom Soo | (appointed on 27 July 2007) |
| Mr. Leung Chung Chu, Andrew | (resigned on 17 August 2007) |
| Mr. Yau Kar Man | (resigned on 17 August 2007) |
| Mr. Ng Wai Lun | (resigned on 17 August 2007) |
| Mr. Keung Chi Wai | (resigned on 27 January 2007) |

*Independent non-executive directors*

| | |
|---|---|
| Mr. Chan Sze Hon | (appointed on 25 February 2008) |
| Mr. Christopher John Parker | (appointed on 17 August 2007) |
| Mr. David Marc Boulanger | (appointed on 17 August 2007) |
| Mr. Wong Man Hin, Raymond | (appointed on 17 August 2007 and resigned on 25 February 2008) |
| Mr. Chan Kin Wo | (resigned on 17 August 2007) |
| Mr. Yow Cecil | (resigned on 17 August 2007) |
| Mr. Yim Chun Leung | (resigned on 17 August 2007) |

On 27 July 2007, Mr. Lee Jong Dae, Mr. Lee Sung Min and Mr. Kim Beom Soo were appointed as executive Directors, and on 17 August 2007 Mr. Christopher John Parker and Mr. David Marc Boulanger were appointed as independent non-executive Directors. On 25 February 2008, the Board appointed Mr. Chan Sze Hon as independent non-executive Director to replace the resignation of Mr. Wong Man Hin, Raymond. In accordance with the Bye-Laws, all Directors will retire as Directors by rotation and, being eligible, offer themselves for re-election in accordance with article 87(1) of the articles of association of the Company at the AGM.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out on pages 8 and 9 of the annual report.

## DIRECTORS' EMOLUMENTS AND THE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and of the individuals with highest emoluments of the Group are set out in notes 12 and 13 to the financial statements respectively.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 14 to the financial statements.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lee Jong Dae, Mr. Lee Sung Min and Mr. Kim Beom Soo has entered into a service agreement with the Company for a term of one year commencing from 27 July 2007. All of the executive Directors' service contracts will automatically continue after their respective expiry terms until terminated by either party giving not less than three month's notice in writing.

Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger have been appointed for a term of one year commencing from 25 February 2008, 17 August 2007 and 17 August 2007 respectively and may be extended for such period and agreed by the concerned directors. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of the Securities on the GEM (the "GEM Listing Rules") and the Company considers the independent non-executive Directors to be independent.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company 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

As at 31 December 2007, the interests of the Directors and the chief executives of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and /or short positions of which they were taken or deemed to have taken under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which have been be notified to the Company and the Exchange pursuant to Rules 5.46 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

*Interests in shares of the Company*

| Name of Director | Capacity | Number and class of shares | Approximate percentage of issued share capital |
|---|---|---|---|
| Mr. Lee Sung Min | Corporate Interest *(Note)* | 205,012,000 ordinary shares (long position) | 53.39% |

*Note:* The 205,012,000 ordinary shares in the Company owned by Mr. Lee Sung Min are beneficially owned by and registered in the name of Vasky Inc.

Save as disclosed above, as at 31 December 2007, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party thereof during the year under review.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

| Name | Number and class of shares | Approximate percentage of issued share capital |
|---|---|---|
| Vasky Inc. *(Note)* | 205,012,000 ordinary shares (long position) | 53.39% |

*Note:* Vasky Inc. is wholly and benefically owned by Mr. Lee Sung Min, an executive Director.

Save as disclosed above, as at 31 December 2007, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

# Directors' Report

## SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 5 June 2001, certain Directors and participants have been granted options to subscribe for shares at a subscription price of HK$1 per share, details of which are set out as follows:

| | | | Number of shares options | | |
|---|---|---|---|---|---|
| **Name of grantee** | **Date of grant** | **Granted** | **Outstanding as at 1 January 2007** | **Lapsed during the year under review** | **Outstanding as at 31 December 2007** |
| Mr. Leung Chung Chu, Andrew *(Note 1)* | 5 June 2001 | 1,200,000 | 1,200,000 | 1,200,000 | – |
| Mr. Yau Kar Man *(Note 1)* | 5 June 2001 | 400,000 | 400,000 | 400,000 | – |
| Mr. Ng Wai Lun *(Note 1)* | 5 June 2001 | 300,000 | 300,000 | 300,000 | – |
| Mr. Chan Kin Wo *(Note 1)* | 5 June 2001 | 400,000 | 400,000 | 400,000 | – |
| Mr. Yow Cecil *(Note 1)* | 5 June 2001 | 400,000 | 400,000 | 400,000 | – |
| Mr. Keung Chi Wai *(Note 2)* | 5 June 2001 | 400,000 | 400,000 | 400,000 | – |
| Employees in aggregate *(Note 3)* | 5 June 2001 | 3,860,000 | 2,060,000 | 2,060,000 | – |
| Total | | | 5,160,000 | 5,160,000 | – |

*Notes:*

1. Mr. Leung Chung Chu, Andrew, Mr. Yau Kar Man, Mr. Ng Wai Lun, Mr. Chan Kin Wo, Mr. Yow Cecil have resigned as Directors with effect from 17 August 2007.

2. Mr. Keung Chi Wai has resigned as a Director with effect from 27 January 2007.

3. Employees are those working under employment contracts regarded as "continuous contracts" under the Employment Ordinance (Chapter 57 of the laws of Hong Kong).

In June 2007, Vasky Inc. entered into a sale and purchase agreement to acquire approximately 64.06% of the issued share capital of the Company. As a result of the acquisition, Vasky Inc. is required under the Hong Kong Codes on Takeover and Mergers to make an unconditional mandatory cash offer for all the issues shares in the Company as well as for cancellation of all the outstanding options granted under the Pre-IPO Share Option Scheme. At the closing of the unconditional mandatory cash offers, Vasky Inc. did not receive any valid acceptances for the outstanding option.

## SHARE OPTION SCHEMES *(continued)*

Pursuant to the terms of the Pre-IPO Share Option Scheme adopted by the Company on 5 June 2001, the Pre-IPO Share Options will lapse automatically on the expiry of one month after the date on which the offer becomes or is declared unconditional. As at 31 December 2007, all the Pre-IPO Share Options have lapsed and there is no outstanding options.

No share options under the share option scheme (the "Share Option Scheme") adopted by the Company on 5 June 2001 were granted during the year ended 31 December 2007.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 31 to the financial statements.

## RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2007 which do not constitute connected transactions under the GEM Listing Rules are set out in note 33 to the financial statements.

## COMPETING INTEREST

As at 31 December 2007, none of the Directors or their respective associates (as defined in the GEM Listing Rules) had any interests in any business that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

# Directors' Report

## AUDIT COMMITTEE

As required by the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors, Chan Sze Hon, Christopher John Parker and David Marc Boulanger. The Audit Committee met on a quarterly basis during the year under review. The Group's financial results for the year ended 31 December 2007 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 25 of this annual report.

## AUDITOR

RSM Nelson Wheeler will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditor of the Company is to be proposed at the forthcoming annual general meeting.

There is no change in auditor of the Company in the preceding three years.

On behalf of the Board

**Lee Jong Dae**
*Chairman and Executive Director*

Hong Kong, 18 March 2008

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has established a formal and transparent procedure to protect the interests of the shareholders of the Company. The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year under review, except that:–

– Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

  Mr. Lee Jong Dae is the Chairman and Chief Executive Officer of the Company. The Board consider that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believe that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board have full confidence in Mr. Lee and believe that his appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions 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. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealing and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2007.

# Corporate Governance Report

## BOARD OF DIRECTORS

**Directors** **Attendance**

The Directors held 11 meetings during the year. Details of the attendance are as follows:

*Executive Directors*

| | | |
|---|---|---|
| Mr. Lee Jong Dae | (appointed on 27 July 2007) | 5/5 |
| Mr. Lee Sung Min | (appointed on 27 July 2007) | 4/5 |
| Mr. Kim Beom Soo | (appointed on 27 July 2007) | 4/5 |
| Mr. Leung Chung Chu, Andrew | (resigned on 17 August 2007) | 6/6 |
| Mr. Yau Kar Man | (resigned on 17 August 2007) | 4/6 |
| Mr. Ng Wai Lun | (resigned on 17 August 2007) | 6/6 |
| Mr. Keung Chi Wai | (resigned on 27 January 2007) | Nil |

*Independent non-executive Directors*

| | | |
|---|---|---|
| Mr. Christopher John Parker | (appointed on 17 August 2007) | 1/3 |
| Mr. David Marc Boulanger | (appointed on 17 August 2007) | 2/3 |
| Mr. Wong Man Hin, Raymond | (appointed on 17 August 2007 and resigned on 25 February 2008) | 3/3 |
| Mr. Chan Kin Wo | (resigned on 17 August 2007) | 4/6 |
| Mr. Yow Cecil | (resigned on 17 August 2007) | 3/6 |
| Mr. Yim Chun Leung | (resigned on 17 August 2007) | 4/6 |
| Mr. Chan Sze Hon | (appointed on 25 February 2008) | Nil* |

* Mr. Chan Sze Hon was appointed on 25 February 2008, thus he did not attend any meeting during the year ended 31 December 2007.

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The board of Directors has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, Directors' appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

## BOARD OF DIRECTORS *(continued)*

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification pursuant to the GEM Listing Rules to carry out their duties so as to protect the interests of shareholders.

The board of Directors established audit committee and remuneration committee and their duties were discussed and approved in the board meeting.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer of the Company are not separated and are performed by the same individual, Mr. Lee Jong Dae. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

## NON-EXECUTIVE DIRECTORS

Each of Mr. Chan Sze Hon, Mr. Christopher John Parker and Mr. David Marc Boulanger has been appointed for a term of one year commencing from 25 February 2008, 17 August 2007 and 17 August 2007 respectively and may be extended for such period as agreed by the concerned directors and the Company. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

## Corporate Governance Report

### REMUNERATION OF DIRECTORS

A remuneration committee of the Company was established in December 2005. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, such as any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors.

Members of the remuneration committee included:

| | |
|---|---|
| Mr. Chan Sze Hon | (appointed on 25 February 2008) |
| Mr. Christopher John Parker | (appointed on 17 August 2007) |
| Mr. David Marc Boulanger | (appointed on 17 August 2007) |
| Mr. Wong Man Hin, Raymond | (appointed on 17 August 2007 and resigned on 25 February 2008) |
| Mr. Chan Kin Wo | (resigned on 17 August 2007) |
| Mr. Yow Cecil | (resigned on 17 August 2007) |
| Mr. Yim Chun Leung | (resigned on 17 August 2007) |
| Mr. Leung Chung Chu, Andrew | (resigned on 17 August 2007) |
| Mr. Ng Wai Lun | (resigned on 17 August 2007) |

The remuneration committee has held meeting on 18 March 2008. Details of the attendance of the remuneration committee meetings are as follows:–

| **Members** | **Attendance** |
|---|---|
| Mr. Chan Sze Hon | 1/1 |
| Mr. Christopher John Parker | 1/1 |
| Mr. David Marc Boulanger | 1/1 |

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors with reference to the factors including salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

## NOMINATION OF DIRECTORS

The board of Directors considers the past performance and qualification of the candidates for Directors, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

The board of Directors held a meeting for nomination of Directors on 18 March 2008. Details of the attendance of the meetings are as follows:–

| Directors | Attendance |
|---|---|
| *Executive Directors* | |
| Mr. Lee Jong Dae *(Chairman)* | 1/1 |
| Mr. Lee Sung Min | 1/1 |
| Mr. Kim Beom Soo | 1/1 |
| *Independent non-executive Directors* | |
| Mr. Chan Sze Hon | 1/1 |
| Mr. Christopher John Parker | 1/1 |
| Mr. David Marc Boulanger | 1/1 |

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company.

## AUDITOR'S REMUNERATION

The Company's external auditor is RSM Nelson Wheeler. The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group. During the year under review, the Group has paid an aggregate of approximately HK$350,000 to the external auditor for their non-audit services including taxation and other advisory services.

# Corporate Governance Report

## AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems.

Members of the audit committee included:

| | |
|---|---|
| Mr. Chan Sze Hon | (appointed on 25 February 2008) |
| Mr. Christopher John Parker | (appointed on 17 August 2007) |
| Mr. David Marc Boulanger | (appointed on 17 August 2007) |
| Mr. Wong Man Hin, Raymond | (appointed on 17 August 2007 and resigned on 25 February 2008) |
| Mr. Chan Kin Wo | (resigned on 17 August 2007) |
| Mr. Yow Cecil | (resigned on 17 August 2007) |
| Mr. Yim Chun Leung | (resigned on 17 August 2007) |

The audit committee held four meetings during the year. In addition, a meeting was held on 18 March 2008 to review the audited results for the year ended 31 December 2007. Details of the attendance of the audit committee meetings are as follows:–

| **Members** | **Attendance** |
|---|---|
| Mr. Chan Sze Hon | 1/1 |
| Mr. Christopher John Parker | 2/2 |
| Mr. David Marc Boulanger | 2/2 |
| Mr. Wong Man Hin, Raymond | 1/1 |
| Mr. Chan Kin Wo | 3/3 |
| Mr. Yow Cecil | 3/3 |
| Mr. Yim Chun Leung | 3/3 |

The Group's audited results for the year ended 31 December 2007 and the unaudited results for the financial statements published during the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

The audit committee of the Company considered that the existing the proposed terms in relation to the appointment of the Group's external auditor are fair and reasonable.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on pages 26 and 27 of this annual report.

## INTERNAL CONTROL

The board of Directors have overall responsibilities for maintaining and reviewing the effectiveness of the system of internal control of the Group. The internal control system is to safeguard the assets of the Group and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirements of the GEM Listing Rules. During the year ended 31 December 2007, the board of Directors had reviewed the effectiveness of the system of internal control of the Group. The review had covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group.

## Independent Auditor's Report

**RSM! Nelson Wheeler**
**羅 申 美 會 計 師 行**
Certified Public Accountants

TO THE SHAREHOLDERS OF
**ERA INFORMATION & ENTERTAINMENT LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Era Information & Entertainment Limited (the "Company") set out on pages 28 to 76, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and 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 (the "HKICPA") 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 and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. 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.

## AUDITOR'S RESPONSIBILITY *(continued)*

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

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

## OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's results 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.

*Certified Public Accountants*
Hong Kong

18 March 2008

# Consolidated Income Statement

Year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | **50,710** | 71,129 |
| Cost of goods sold | | **(40,678)** | (53,899) |
| **Gross profit** | | **10,032** | 17,230 |
| Other income | 7 | **558** | 291 |
| Selling and distribution costs | | **(8,576)** | (6,564) |
| Administrative expenses | | **(18,238)** | (17,468) |
| Other operating expenses | | **(870)** | (5,248) |
| **Operating loss** | | **(17,094)** | (11,759) |
| Finance costs | 9 | **(1)** | (17) |
| **Loss before tax** | | **(17,095)** | (11,776) |
| Income tax expense | 10 | **(327)** | (300) |
| **Loss for the year attributable to equity holders of the Company** | 11 | **(17,422)** | (12,076) |
| | | **HK Cents** | HK Cents |
| **Loss per share** | 16 | | |
| – Basic | | **(5.41)** | (3.77) |

# Consolidated Balance Sheet

31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **598** | 837 |
| Club membership | 19 | **–** | 650 |
| Deferred tax assets | 20 | **–** | 327 |
| | | **598** | 1,814 |
| **Current assets** | | | |
| Inventories | 21 | **2,342** | 3,273 |
| Film rights | 22 | **1,718** | 5,256 |
| Trade and other receivables | 23 | **14,815** | 19,024 |
| Prepayments and deposits | 24 | **22,262** | 2,278 |
| Pledged bank deposits | 25 | **2,741** | 2,128 |
| Bank and cash balances | 25 | **13,366** | 11,089 |
| | | **57,244** | 43,048 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **21,737** | 17,051 |
| **Net current assets** | | **35,507** | 25,997 |
| **NET ASSETS** | | **36,105** | 27,811 |
| **Capital and reserves** | | | |
| Share capital | 27 | **3,840** | 3,200 |
| Share premium | | **91,066** | 65,991 |
| Exchange reserve | | **6** | 5 |
| Accumulated losses | | **(58,807)** | (41,385) |
| **TOTAL EQUITY** | | **36,105** | 27,811 |

The financial statements on pages 28 to 76 were approved and authorised for issue by the Board of Directors on 18 March 2008 and signed on its behalf by :

**Lee Jong Dae**
*Chairman and Executive Director*

**Lee Sung Min**
*Executive Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
| At 1 January 2006 | 3,200 | 65,991 | 16 | (29,309) | 39,898 |
| Exchange difference | – | – | (11) | – | (11) |
| Loss for the year | – | – | – | (12,076) | (12,076) |
| At 31 December 2006 | 3,200 | 65,991 | 5 | (41,385) | 27,811 |
| Exchange difference | – | – | 1 | – | 1 |
| Share issue expenses | – | (525) | – | – | (525) |
| Net expense recognised directly in equity | – | (525) | 1 | – | (524) |
| Loss for the year | – | – | – | (17,422) | (17,422) |
| Total recognised income and expense for the year | – | (525) | 1 | (17,422) | (17,946) |
| Issue of shares on placement | 640 | 25,600 | – | – | 26,240 |
| At 31 December 2007 | 3,840 | 91,066 | 6 | (58,807) | 36,105 |

# Consolidated Cash Flow Statement

Year ended 31 December 2007

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Operating loss | **(17,094)** | (11,759) |
| Adjustments for: | | |
| Interest income | **(173)** | (221) |
| Allowance for doubtful debts | **871** | 5,386 |
| Allowance for inventories | **344** | – |
| Amortisation of film rights | **22,978** | 31,384 |
| Bad debts written off | **515** | 112 |
| Depreciation | **327** | 239 |
| Film rights written off | **174** | 425 |
| Loss on disposal of a subsidiary | **305** | – |
| Inventories written off | **1,523** | – |
| Impairment losses on film rights | **1,523** | 191 |
| Property, plant and equipment written off | **155** | – |
| Reversal of allowance for doubtful debts | **(440)** | (138) |
| Reversal of allowance for inventories | **(819)** | (276) |
| Reversal of impairment losses on film rights | **(127)** | (90) |
| Operating profit before working capital changes | **10,062** | 25,253 |
| (Increase)/decrease in inventories | **(117)** | 1,727 |
| Decrease/(increase) in trade and other receivables | **3,259** | (1,238) |
| (Increase)/decrease in prepayments and deposits | **(480)** | 1,362 |
| Increase/(decrease) in trade and other payables | **4,686** | (3,952) |
| Cash generated from operations | **17,410** | 23,152 |
| Interest expenses | **(1)** | (17) |
| Net cash generated from operating activities | **17,409** | 23,135 |

## Consolidated Cash Flow Statement

Year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Disposal of a subsidiary | 30 | **345** | – |
| Purchases of property, plant and equipment | | **(209)** | (371) |
| Purchases of film rights | | **(21,196)** | (29,050) |
| Refund of film rights | | **186** | – |
| Deposit paid for acquisition of an investment | | **(19,500)** | – |
| Increase in pledged bank deposits | | **(613)** | (69) |
| Interest income | | **173** | 221 |
| Net cash used in investing activities | | **(40,814)** | (29,269) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | **26,240** | – |
| Share issue expenses paid | | **(525)** | – |
| Net cash generated from financing activities | | **25,715** | – |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **2,310** | (6,134) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **11,089** | 17,310 |
| Effect of foreign exchange rate change | | **(33)** | (87) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **13,366** | 11,089 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | | **13,366** | 11,089 |

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law (Revised) of the Cayman Islands. The address of registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report. The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 34 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2007, Vasky Inc., a company incorporated in the British Virgin Islands, is the ultimate parent and Mr. Lee Sung Min is the ultimate controlling party of the Company.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## Notes to the Financial Statements
Year ended 31 December 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

#### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange reserve.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Consolidation *(continued)*

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

#### (b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

# Notes to the Financial Statements

Year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Associates *(continued)*

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Foreign currency translation *(continued)*

*(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

– All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

### (d) Property, plant and equipment

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

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

## Notes to the Financial Statements

Year ended 31 December 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (d) Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful life is four years.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

#### (e) Operating leases

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

#### (f) Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

#### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (h) Film rights

Film rights represent license fees prepaid and/or payable by instalments under license agreements for the reproduction and distribution of video products, films in theatre and television, and sub-licensing of film titles in specified geographical areas and time periods.

Film rights are stated at cost less accumulated amortisation and impairment losses, if any.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Film rights *(continued)*

The portion of film rights expected to be recouped within 12 months of the balance sheet date is reported as a current asset. The portion of film rights expected to be recouped in more than 12 months from the balance sheet date is reported as a non-current asset.

The costs of film rights are amortised on a systematic basis over the underlying license periods with reference to projected revenue, ranging from 1 year to 12 years, according to the following:

– video products : upon sales of video products;
– theatrical release : when films are released in theatre;
– television release : when film materials are delivered; and
– film rights sub-licensing : when film materials are delivered.

### (i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

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

## Notes to the Financial Statements
Year ended 31 December 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' 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 receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### (k) Cash and cash equivalents

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

#### (l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(l) **Financial liabilities and equity instruments** *(continued)*

*(i) Trade and other payables*

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*(ii) Equity instruments*

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

(m) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of home video products, personal computer ("PC") games and online games are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the home video products, PC games and online games are delivered and the title has been passed to the customers.

Theatrical income is recognised when the film is released.

Revenue from the distribution of film in television is recognised when the film materials are delivered.

Film rights sub-licensing income is recognised on the transfer of risks and rewards of ownership, which is generally in accordance with the terms of the underlying license agreements.

Advertising income is recognised over the period in which the advertisements are displayed.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from the provision of services is recognised when the services are rendered.

## Notes to the Financial Statements
Year ended 31 December 2007

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**(n) Employee benefits**

*(i) Employee leave entitlements*

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

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

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(o) Borrowing costs**

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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 that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Notes to the Financial Statements
Year ended 31 December 2007

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**(q) Related parties**

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

**(r) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Segment reporting *(continued)*

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

### (s) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except inventories, receivables and deferred tax assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Impairment of assets *(continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, 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 or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### (i) Allowance for doubtful debts of receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables and prepayments and deposits, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables, prepayments and deposits and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### (ii) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### (iii) Impairment loss of film rights

The Group's management evaluates whether film rights have suffered any impairment loss whenever events or changes in circumstances indicate that the carrying amount of the film rights may not be recoverable. The recoverable amounts of film rights have been determined based on value in use calculations and in accordance with the relevant accounting policy set out above. The value in use calculations require the Group to estimate the cash flows expected to arise from the film rights.

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2007, if the Hong Kong dollar had weakened 1 per cent or strengthened 1 per cent against the USD with all other variables held constant, there is no significant change to the consolidated loss for the year.

### Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors for the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

## 5. FINANCIAL RISK MANAGEMENT *(continued)*

**Credit risk** *(continued)*

The Group has no significant concentration of credit risk on the trade and other receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The Group has significant concentration of credit risk on prepayments and deposits, with exposure spread over a few number of counterparties. If the relationship with these parties is terminated, it could materially and adversely affect the Group's result.

The credit risk on bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

**Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

**Interest rate risk**

The Group's bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest rate risk arises from its bank balances. These bank balances bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2007, if interest rate at that date has been 10 basis point lower or higher with all other variable held constant, there is no significant change to the consolidated loss for the year.

**Fair values**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

# Notes to the Financial Statements

Year ended 31 December 2007

## 6. TURNOVER

The Group is principally engaged in home video products distribution, theatrical release arrangement, film rights sub-licensing and games distribution. An analysis of the Group's turnover is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Home video products distribution | **45,257** | 60,467 |
| Theatrical release arrangement and film rights sub-licensing | **5,405** | 9,293 |
| Games distribution *(note)* | **48** | 1,369 |
| | **50,710** | 71,129 |

*Note:* Games distribution includes sales of PC games and online games of approximately HK$Nil (2006: HK$1,309,000) and online advertising income of approximately HK$48,000 (2006: HK$60,000) for the year.

## 7. OTHER INCOME

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Bank interest income | **173** | 221 |
| Distribution income | **20** | 37 |
| Facilities charges income | **215** | 33 |
| Management fee income | **150** | – |
| | **558** | 291 |

## 8. SEGMENT INFORMATION

### (a) Primary reporting format – business segments

The Group is organised into three main business segments:

| | | |
|---|---|---|
| Home video products distribution | – | sale of home video products |
| Theatrical release arrangement and film rights sub-licensing | – | arrange distribution of motion pictures and sub-licensing film rights |
| Games distribution | – | sale of PC games and online games products and provision for advertising services |

### (b) Secondary reporting format - geographical segments

The Group's principal markets are located in three main geographical areas:

| | | |
|---|---|---|
| Hong Kong | – | sale of home video products |
| | – | sub-licensing film rights |
| | – | sale of PC games and online games products and provision for advertising services |
| The People's Republic of China (The "PRC") | – | arrange distribution of motion pictures and sub-licensing film rights |
| Others | – | sale of home video products |

## Notes to the Financial Statements

Year ended 31 December 2007

## 8. SEGMENT INFORMATION *(continued)*

**Primary reporting format – business segments**

| | Home video products distribution | | Theatrical release arrangement and film rights sub-licensing | | Games distribution | | Eliminations | | 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 |
| **REVENUE** | | | | | | | | | | |
| External turnover | **45,257** | 60,467 | **5,405** | 9,293 | **48** | 1,369 | **–** | – | **50,710** | 71,129 |
| External other income | **385** | 70 | **–** | – | **–** | – | **–** | – | **385** | 70 |
| Inter-segment revenue | **–** | – | **–** | – | **623** | 1,146 | **(623)** | (1,146) | **–** | – |
| Total revenue | **45,642** | 60,537 | **5,405** | 9,293 | **671** | 2,515 | **(623)** | (1,146) | **51,095** | 71,199 |
| **RESULT** | | | | | | | | | | |
| Segment result | **(5,142)** | 2,291 | **(3,955)** | (1,407) | **(669)** | (7,209) | **–** | – | **(9,766)** | (6,325) |
| Unallocated corporate expenses | | | | | | | | | **(7,501)** | (5,655) |
| Operating loss excluding interest income | | | | | | | | | **(17,267)** | (11,980) |
| Interest expenses | | | | | | | | | **(1)** | (17) |
| Interest income | | | | | | | | | **173** | 221 |
| Loss before tax | | | | | | | | | **(17,095)** | (11,776) |
| Income tax expense | | | | | | | | | **(327)** | (300) |
| Loss for the year | | | | | | | | | **(17,422)** | (12,076) |

## 8. SEGMENT INFORMATION *(continued)*

**Primary reporting format – business segments** *(continued)*

| | Home video products distribution | | Theatrical release arrangement and film rights sub-licensing | | Games distribution | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **ASSETS** | | | | | | | | |
| Segment assets | **27,593** | 36,912 | **1,780** | 4,219 | **57** | 286 | **29,430** | 41,417 |
| Unallocated corporate assets | | | | | | | **28,412** | 3,445 |
| Consolidated total assets | | | | | | | **57,842** | 44,862 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | **18,191** | 13,641 | **1,797** | 1,990 | **161** | 431 | **20,149** | 16,062 |
| Unallocated corporate liabilities | | | | | | | **1,588** | 989 |
| Consolidated total liabilities | | | | | | | **21,737** | 17,051 |
| **OTHER INFORMATION** | | | | | | | | |
| Capital expenditure | **20,219** | 29,272 | **1,183** | 145 | **3** | 4 | **21,405** | 29,421 |
| Depreciation and amortisation | **23,160** | 31,268 | **138** | 331 | **7** | 24 | **23,305** | 31,623 |
| Impairment losses | **550** | – | **973** | 191 | **–** | – | **1,523** | 191 |
| Reversal of impairment losses | **–** | (168) | **(127)** | – | **–** | (198) | **(127)** | (366) |
| Non-cash expenses/(income) other than depreciation, amortisation and impairment losses | **1,873** | (68) | **401** | 657 | **49** | 5,196 | **2,323** | 5,785 |

## 8. SEGMENT INFORMATION *(continued)*

**Secondary reporting format – geographical segments**

| | Revenue | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **45,029** | 61,386 | **56,062** | 40,902 | **21,392** | 29,388 |
| The PRC | **5,405** | 8,767 | **1,780** | 3,960 | **13** | 33 |
| Others | **661** | 1,046 | **–** | – | **–** | – |
| | **51,095** | 71,199 | **57,842** | 44,862 | **21,405** | 29,421 |

## 9. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on loan from a minority equity holder of a subsidiary | **–** | 15 |
| Bank overdraft interest | **1** | 2 |
| | **1** | 17 |

## 10. INCOME TAX EXPENSE

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax *(note 20)* | **327** | 300 |

No provision for Hong Kong Profits Tax and overseas profits tax has been made as the Group has no assessable profit for the year (2006: Nil).

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5%.

## 10. INCOME TAX EXPENSE *(continued)*

The reconciliation between the income tax expense and the product of loss before tax multipled by the Hong Kong Profits Tax rate is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before tax | **(17,095)** | (11,776) |
| Tax at the domestic income tax rate of 17.5% (2006: 17.5%) | **(2,992)** | (2,061) |
| Tax effect of expenses that are not deductible | **368** | 64 |
| Tax effect of income that is not taxable | **(119)** | (203) |
| Tax effect of tax losses previously recognised and reversed | **327** | 300 |
| Tax effect of net deferred tax assets not recognised | **3,566** | 2,292 |
| Tax effect of utilisation of tax losses not recognised previously | **(823)** | (92) |
| Income tax expense | **327** | 300 |

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements is not material.

## Notes to the Financial Statements

Year ended 31 December 2007

### 11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's loss for the year attributable to equity holders of the Company is stated after charging/(crediting):

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Allowance for doubtful debts | | |
| – trade and other receivables | **871** | 240 |
| – prepayments and deposits | **–** | 5,146 |
| Allowance for inventories (included in cost of goods sold) | **344** | – |
| Amortisation of film rights (included in cost of goods sold) | **22,978** | 31,384 |
| Auditor's remuneration | **470** | 452 |
| Bad debts written off | **515** | 112 |
| Cost of inventories sold *(note (i))* | **8,956** | 12,056 |
| Depreciation | **327** | 239 |
| Film rights written off | **174** | 425 |
| Impairment losses on film rights (included in cost of goods sold) *(note (ii))* | **1,523** | 191 |
| Inventories written off | **1,523** | – |
| Loss on disposal of a subsidiary | **305** | – |
| Property, plant and equipment written off | **155** | – |
| Operating lease rentals in respect of land and buildings | **1,698** | 1,560 |
| Reversal of allowance for doubtful debts | | |
| – trade and other receivables | **(436)** | (138) |
| – prepayments and deposits | **(4)** | – |
| Reversal of allowance for inventories (included in cost of goods sold) | **(819)** | (276) |
| Reversal of impairment losses on film rights (included in cost of goods sold) | **(127)** | (90) |
| Staff costs including directors' emoluments | | |
| Salaries and other costs | **11,211** | 14,076 |
| Retirement benefit scheme contributions | **568** | 559 |
| | **11,779** | 14,635 |

## 11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(continued)*

*Notes:*

(i) Cost of inventories sold includes inventories written off of approximately HK$1,523,000 (2006: Nil), allowance for inventories of approximately HK$344,000 (2006: Nil) and reversal of allowance for inventories of approximately HK$819,000 (2006: HK$276,000) which are included in the amounts disclosed separately.

(ii) The Group carried out reviews of the recoverable amount of film rights in 2007, having regard to the market conditions. The review led to the recognition of impairment losses of approximately HK$1,523,000 for film rights that have been recognised in the consolidated income statement. The recoverable amount of film rights have been determined on the basis of their value in use.

## 12. DIRECTORS' EMOLUMENTS

The emoluments of each director were as follows:

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement benefit scheme contributions | 2007 Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Executive directors | | | | | |
| Leung Chung Chu, Andrew *(note i)* | – | 1,208 | – | 8 | 1,216 |
| Yau Kar Man *(note i)* | – | 344 | – | 8 | 352 |
| Ng Wai Lun *(note i)* | – | 650 | – | 8 | 658 |
| Keung Chi Wai *(note ii)* | – | 39 | – | 1 | 40 |
| Independent non-executive directors | | | | | |
| Chan Kin Wo *(note i)* | 40 | – | – | – | 40 |
| Yow Cecil *(note i)* | 40 | – | – | – | 40 |
| Yim Chun Leung *(note i)* | 70 | – | – | – | 70 |
| Wong Man Hin, Raymond *(note iii)* | 45 | – | – | – | 45 |
| | 195 | 2,241 | – | 25 | 2,461 |

# Notes to the Financial Statements
Year ended 31 December 2007

## 12. DIRECTORS' EMOLUMENTS *(continued)*

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement benefit scheme contributions | 2006 Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Executive directors | | | | | |
| Leung Chung Chu, Andrew *(note i)* | – | 1,950 | – | 12 | 1,962 |
| Yau Kar Man *(note i)* | – | 556 | – | 12 | 568 |
| Ng Wai Lun *(note i)* | – | 1,050 | – | 12 | 1,062 |
| Keung Chi Wai *(note ii)* | – | 611 | 12 | 12 | 635 |
| Independent non-executive directors | | | | | |
| Chan Kin Wo *(note i)* | 80 | – | – | – | 80 |
| Yow Cecil *(note i)* | 80 | – | – | – | 80 |
| Yim Chun Leung *(note i)* | 112 | – | – | – | 112 |
| | 272 | 4,167 | 12 | 48 | 4,499 |

*Notes:*

(i) Resigned on 17 August 2007.

(ii) Resigned on 27 January 2007.

(iii) Appointed on 17 August 2007 and resigned on 25 February 2008.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year. In addition, no emoluments were paid by the Group to the Directors as an inducement to join the Group or as compensation for loss of office.

At 31 December 2007 the amounts payable to the Directors and other key management personnel of the Group was approximately HK$Nil (2006: HK$338,000).

## 13. EMPLOYEE EMOLUMENTS

The five (2006: six) highest paid individuals in the Group during the year included three (2006: four) directors whose emoluments are disclosed in note 12 to the financial statements. The emoluments of the remaining two (2006: two) individuals are set out below.

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | **1,079** | 692 |
| Discretionary bonuses | **–** | – |
| Retirement benefit scheme contributions | **17** | 24 |
| | **1,096** | 716 |

The emoluments of the two (2006: two) individuals with the highest emoluments are within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2007** | 2006 |
| Nil to HK$1,000,000 | **2** | 2 |

During the year, no emoluments were paid by the Group to any of the individuals with highest emoluments as an inducement to join the Group or as compensation for loss of office.

## 14. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

## 14. RETIREMENT BENEFIT SCHEMES *(continued)*

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations.

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

## 15. DIVIDEND

No dividends have been paid or declared by the Company during the year (2006: Nil).

## 16. LOSS PER SHARE

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$17,422,000 (2006: HK$12,076,000) and the weighted average number of ordinary shares of 321,928,767 (2006: 320,000,000) in issue during the year.

No diluted loss per share figures are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2007 and 2006.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Computers HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2006 | 3,737 | 3,432 | 3,159 | 644 | 10,972 |
| Additions | 255 | 87 | 29 | – | 371 |
| Disposals | – | (53) | – | – | (53) |
| Exchange difference | – | 5 | 23 | – | 28 |
| At 31 December 2006 | 3,992 | 3,471 | 3,211 | 644 | 11,318 |
| Additions | – | 205 | 4 | – | 209 |
| Written off | – | – | (375) | – | (375) |
| Exchange difference | – | 10 | 48 | – | 58 |
| At 31 December 2007 | 3,992 | 3,686 | 2,888 | 644 | 11,210 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2006 | 3,734 | 3,073 | 2,632 | 644 | 10,083 |
| Charge for the year | 12 | 66 | 161 | – | 239 |
| Disposals | – | (28) | – | – | (28) |
| Exchange difference | – | 1 | 11 | – | 12 |
| At 31 December 2006 | 3,746 | 3,112 | 2,804 | 644 | 10,306 |
| Charge for the year | 65 | 109 | 153 | – | 327 |
| Written off | – | – | (220) | – | (220) |
| Exchange difference | – | 4 | 20 | – | 24 |
| At 31 December 2007 | 3,811 | 3,225 | 2,757 | 644 | 10,437 |
| **Impairment losses** | | | | | |
| At 1 January 2006 | – | 200 | – | – | 200 |
| Disposals | – | (25) | – | – | (25) |
| At 31 December 2006 and 31 December 2007 | – | 175 | – | – | 175 |
| **Carrying amount** | | | | | |
| At 31 December 2007 | 181 | 286 | 131 | – | 598 |
| At 31 December 2006 | 246 | 184 | 407 | – | 837 |

## Notes to the Financial Statements
Year ended 31 December 2007

### 18. INTEREST IN AN ASSOCIATE

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Share of net assets | – | – |

Particulars of the associate are as follows:

| Name | Place of incorporation and operation | Class of shares | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Winning Scope Sdn. Bhd. | Malaysia | Ordinary | 22.73% | Investment holding |

### 19. CLUB MEMBERSHIP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Club membership, at cost | – | 1,150 |
| Impairment loss | – | (500) |
| | – | 650 |

Club membership in 2006 represented the corporate membership for Chung Shan Hot Spring Golf Club in the PRC and it was disposed during the year *(note 30)*.

## 20. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior years.

| | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2006 | (8) | 635 | 627 |
| Charged to the income statement for the year *(note 10)* | – | (300) | (300) |
| At 31 December 2006 and at 1 January 2007 | (8) | 335 | 327 |
| Credited/(charged) to the income statement for the year *(note 10)* | 8 | (335) | (327) |
| At 31 December 2007 | – | – | – |

The principal components of the Group's deferred tax asset position not recognised in the financial statements are as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Decelerated depreciation allowances | **180** | 246 |
| Tax losses | **14,643** | 12,250 |
| | **14,823** | 12,496 |

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. Included in unrecognised tax losses are losses of approximately HK$11,532,000 (2006: HK$8,620,000) that will expire within five years. The remaining unrecognised tax losses may be carried forward indefinitely.

## 21. INVENTORIES

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Finished goods | **2,342** | 3,273 |

# Notes to the Financial Statements

Year ended 31 December 2007

## 22. FILM RIGHTS

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2006 | 72,642 |
| Additions | 29,050 |
| Written off | (24,966) |
| Exchange difference | 75 |
| At 31 December 2006 and at 1 January 2007 | 76,801 |
| Additions | 21,196 |
| Written off / disposals | (36,361) |
| At 31 December 2007 | 61,636 |
| **Accumulated amortisation** | |
| At 1 January 2006 | 62,025 |
| Charge for the year | 31,384 |
| Written off | (23,774) |
| Exchange difference | 15 |
| At 31 December 2006 and at 1 January 2007 | 69,650 |
| Charge for the year | 22,978 |
| Written off | (36,001) |
| At 31 December 2007 | 56,627 |
| **Impairment losses** | |
| At 1 January 2006 | 2,561 |
| Recognise for the year | 191 |
| Reversal/written off | (857) |
| At 31 December 2006 and at 1 January 2007 | 1,895 |
| Recognise for the year | 1,523 |
| Written off | (127) |
| At 31 December 2007 | 3,291 |
| **Carrying amount** | |
| At 31 December 2007 | 1,718 |
| At 31 December 2006 | 5,256 |

## 23. TRADE AND OTHER RECEIVABLES

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Trade receivables | **17,044** | 20,618 |
| Allowance for doubtful debts | | |
| At 1 January | **1,996** | 1,891 |
| Charge for the year | **871** | 237 |
| Written back | **(301)** | (138) |
| Exchange difference | **26** | 6 |
| At 31 December | **2,592** | 1,996 |
| Trade receivables, net | **14,452** | 18,622 |
| Other receivables | **363** | 402 |
| | **14,815** | 19,024 |

General credit terms of the Group range from 30 days to 90 days. The ageing analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Current - 30 days | **2,327** | 4,370 |
| 31 – 60 days | **3,474** | 5,894 |
| 61 – 90 days | **1,534** | 3,179 |
| 91 – 180 days | **3,020** | 1,969 |
| 181 - 365 days | **2,511** | 2,840 |
| Over 1 year | **1,586** | 370 |
| | **14,452** | 18,622 |

## 23. TRADE AND OTHER RECEIVABLES *(continued)*

As of 31 December 2007, trade receivables of approximately HK$6,793,000 (2006: HK$6,069,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Up to 3 months | **2,891** | 5,932 |
| 3 to 6 months | **1,648** | 137 |
| Over 6 months | **2,254** | – |
| | **6,793** | 6,069 |

## 24. PREPAYMENTS AND DEPOSITS

(a) Included in prepayments and deposits approximately HK$19,500,000 (originally denominated in USD of USD2,500,000) was deposit paid for a possible acquisition. On 21 December 2007, the Group entered into a memorandum of understanding in relation to possible acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited which was established in Mongolia (the "Target Company") for a cash consideration of between USD2,500,000 to USD5,000,000 (subject to valuation, due diligence and negotiation). The Target Company owns concession rights to certain natural resources.

This deposit is refundable subject to the transaction being cancellable or expired on the closing date of 30 April 2008. As the acquisition is not yet completed, it is impracticable at this moment to disclose further information about the acquisition.

(b) As at 31 December 2007, an allowance was made for estimated irrecoverable trade deposits in relating to games distribution of approximately HK$5,142,000 (2006: HK$5,146,000).

## 25. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The amounts represent time deposits pledged to a bank in respect of banking facilities granted to the Group.

The deposits are at fixed interest rate of 3.39% per annum (2006: 3.39% per annum) and therefore are subject to fair value interest rate risk.

Included in the bank and cash balances of the Group is an amount of approximately HK$1.2 million as at 31 December 2007 (2006: HK$1.6 million) denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 26. TRADE AND OTHER PAYABLES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables | **7,512** | 5,373 |
| Film right payables | **3,730** | 3,876 |
| Other payables | **10,495** | 7,756 |
| Due to related parties | **–** | 46 |
| | **21,737** | 17,051 |

The ageing analysis of trade payables is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current - 30 days | **1,888** | 1,010 |
| 31 – 60 days | **1,147** | 1,368 |
| 61 – 90 days | **1,044** | 1,148 |
| 91 – 180 days | **1,389** | 710 |
| 181 – 365 days | **855** | 119 |
| Over 1 year | **1,189** | 1,018 |
| | **7,512** | 5,373 |

The ageing analysis of film right payables is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – 30 days | **2,295** | 1,621 |
| 181 – 365 days | **–** | 329 |
| Over 1 year | **1,435** | 1,926 |
| | **3,730** | 3,876 |

## 26. TRADE AND OTHER PAYABLES *(continued)*

The carrying amounts of trade payables and film right payables are denominated in either Hong Kong dollars, USD or RMB.

The amounts due to related parties were unsecured, interest-free and fully settled during the year.

## 27. SHARE CAPITAL

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK$0.01 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 384,000,000 (2006: 320,000,000) ordinary shares of HK$0.01 each | **3,840** | 3,200 |

On 20 November 2007, the Company and Baron Capital Limited, a placing agent, entered into a placing agreement in respect of the placement of 64,000,000 ordinary shares of HK$0.01 each to independent investors at a price of HK$0.41 per share. The placement was completed on 21 December 2007 and the premium on the issue of shares, amounting to approximately HK$25 million, net of share issue expenses, was credited to the Company's share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimization of the debt and equity balance.

The Group reviews the capital structures frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit through the year. As at 31 December 2007, 46.6% (2006: 35.8%) of the shares were in public hands.

## 28. BALANCE SHEET OF THE COMPANY

| | 2007 | 2006 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Investments in subsidiaries | 9,263 | 26,306 |
| Prepayments and deposits and other receivables | 21,254 | 143 |
| Pledged bank deposits | – | 2,128 |
| Bank and cash balances | 7,155 | 195 |
| Other payables | (1,567) | (961) |
| NET ASSETS | 36,105 | 27,811 |
| Share capital | 3,840 | 3,200 |
| Reserves | 32,265 | 24,611 |
| TOTAL EQUITY | 36,105 | 27,811 |

## 29. RESERVES

**(a)** The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

**(b) Company**

| | Share premium | Accumulated losses | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2006 | 84,553 | (47,855) | 36,698 |
| Loss for the year | – | (12,087) | (12,087) |
| At 31 December 2006 and at 1 January 2007 | 84,553 | (59,942) | 24,611 |
| Issue of shares on placement | 25,600 | – | 25,600 |
| Share issue expenses | (525) | – | (525) |
| Loss for the year | – | (17,421) | (17,421) |
| At 31 December 2007 | 109,628 | (77,363) | 32,265 |

## 29. RESERVES *(continued)*

### (c) Nature and purpose of reserves

*(i) Share premium account*

The share premium account of the Group includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation scheme completed in 2001, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

*(ii) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

## 30. DISPOSAL OF A SUBSIDIARY

Net asset at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Club membership | 650 |
| Loss on disposal of a subsidiary | (305) |
| Total consideration – satisfied by cash | 345 |
| Net cash inflow arising on disposal: | |
| Cash consideration received | 480 |
| Cash paid for direct cost | (135) |
| | 345 |

## 31. SHARE OPTION SCHEME

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, two share option schemes, namely Pre-IPO Share Option Scheme and Share Option Scheme were adopted by the Company with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of the Company's shares on GEM on 28 June 2001.

**Pre-IPO Share Option Scheme**

The shareholders adopted the Pre-IPO Share Option Scheme on 5 June 2001. Pursuant to the terms of the Pre-IPO Share Option Scheme, 8,260,000 options to subscribe for shares of the Company were granted to five Directors and certain employees of the Group on 5 June 2001 at an exercise price of HK$1 per share. Each of the grantees is entitled to exercise (i) 50% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the date of the grant of the options, and (ii) the remaining 50% of the options granted to him/her (rounded down to the nearest whole number) at any time after 24 months from the date of the grant of the options, and in each case, not later than 10 years from the date of the grant of the options.

## Notes to the Financial Statements
Year ended 31 December 2007

### 31. SHARE OPTION SCHEME *(continued)*

**Pre-IPO Share Option Scheme** *(continued)*

Movements in share options are as follows:

| | Number of share options | |
|---|---|---|
| | **2007** | 2006 |
| At 1 January | **5,160,000** | 5,270,000 |
| Lapsed | **(5,160,000)** | (110,000) |
| At 31 December | **–** | 5,160,000 |

In June 2007, Vasky Inc. entered into a sale and purchase agreement to acquire approximately 64.06% of the issued share capital of the Company. As a result of the acquisition, Vasky Inc. is required under the Hong Kong Codes of Takeover and Mergers to make an unconditional mandatory cash offer for all the issued shares in the Company as well as for cancellation of all the outstanding options granted under the Pre-IPO Share Option Scheme. At the closing of the unconditional mandatory cash offers, Vasky Inc. did not receive any valid acceptances for the outstanding option.

Pursuant to the terms of the Pre-IPO Share Option Scheme adopted by the Company on 5 June 2001, the Pre-IPO Share Options will lapse automatically on the expiry of one month after the date on which the offer becomes or is declared unconditional. At 31 December 2007, all the Pre-IPO Share Options have lapsed and there is no outstanding options.

**31. SHARE OPTION SCHEME** *(continued)*

**Share Option Scheme**

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of the Stock Exchange of Hong Kong Limited (the "Exchange") on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price of the shares of the Company as stated in the Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant of the options. Subject to certain conditions, the maximum number of shares in respect of which options may be granted under the Scheme, together with other schemes, shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. HK$1 is payable as consideration for each offer of share option granted. No option may be granted to any person which if exercised in full will result in such person's maximum entitlement exceeding 25% of the aggregate shares of the Company for the time being issued or issuable under the Share Option Scheme and any other share option scheme. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee. The Share Option Scheme became effective for a period of 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

No share options under the Share Option Scheme were granted up to 31 December 2007.

# Notes to the Financial Statements

Year ended 31 December 2007

## 32. COMMITMENTS

As at 31 December 2007 and 2006 the Group had the following commitments:

### (a) Operating lease commitments

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total future minimum lease payments under non-cancellable operating leases in respect of office premises are as follows: | | |
| Within one year | **34** | 368 |

### (b) Capital commitments

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unpaid purchase costs due to suppliers | **1,764** | 1,764 |
| Film rights due to licensors | | |
| Contracted but not provided for | **5,710** | 11,617 |
| Property, plant and equipment | | |
| Authorised but not contracted for | **199** | – |

## 33. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

Pursuant to an intellectual property rights agreement entered into between Era Communications Co., Ltd. ("ERA Taiwan") and the Group, ERA Taiwan granted to the Group an exclusive license to use "Era" trademark in Hong Kong and the PRC commencing on 15 May 1998 for a period of 10 years and is subject to a renewal for a further 10 years. The Group is required to pay to ERA Taiwan an annual license fee of HK$1.

## 33. RELATED PARTY TRANSACTIONS *(continued)*

On 29 June 2007, the former immediate parent, 5D Technology Holdings Ltd., a wholly-owned subsidiary of ERA Taiwan, disposed of its entire equity interests of the Company and ERA Taiwan ceased to be a related party of the Company.

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business.

## 34. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries as at 31 December 2007 are as follows:

| Name | Place of incorporation/ registration and operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Era Information & Entertainment (BVI) Limited | British Virgin Islands | 26,200 ordinary shares of US$0.1 each | 100% | – | Investment holding |
| Era Home Entertainment Limited | Hong Kong | 24,000,000 ordinary shares of HK$1 each | – | 100% | Distribution of home video products |
| Era Films (HK) Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 100% | Distribution of films in various formats and sub-licensing of film rights |
| Era Digital Media Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | – | 100% | Games distribution and operation of entertainment related portals |
| Red River Agents Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 100% | Advertising agent |

## 34. PARTICULARS OF SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ registration and operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Company Direct | Attributable equity interest held by the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Vasky Energy Ltd. | British Virgin Islands | 1 ordinary share of US$1 each | 100% | – | Investment holding |
| *北京年恩長影文化傳播有限公司 ("年恩") | PRC | Registered capital of RMB5,000,000 | – | 75.92% | Film rights agent |

* 年恩is a sino-foreign equity joint venture enterprise with an operating period of 20 years commencing from 2 April 2004. The statutory financial statements of 年恩, prepared in accordance with generally accepted accounting principles in the PRC, were audited by Shu Lun Pan Certified Public Accountants Co., Ltd. for tax filing purpose.

## 35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2008.