# International Entertainment Corporation
# 國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8118

## Annual Report 2007/08

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# Contents

# Corporate Information

### EXECUTIVE DIRECTORS
Dr. CHENG Kar Shun *(Chairman)*
Mr. LO Lin Shing, Simon *(Deputy Chairman)*
Mr. TO Hin Tsun, Gerald
Mr. CHENG Kam Chiu, Stewart
Mr. CHENG Kam Biu, Wilson
Mr. CHENG Chi Kong
Mr. CHENG Chi Him

### NON-EXECUTIVE DIRECTOR
Mr. WU Wing Kin

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

### REGISTERED OFFICE
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Hutchins Drive
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Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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### COMPANY WEBSITE
http://www.ientcorp.com

### COMPANY SECRETARY
Mr. KWOK Chi Kin CPA, FCCA

### AUTHORISED REPRESENTATIVES
Mr. CHENG Kam Chiu, Stewart
Mr. KWOK Chi Kin

### COMPLIANCE OFFICER
Mr. TO Hin Tsun, Gerald

### QUALIFIED ACCOUNTANT
Mr. KWOK Chi Kin CPA, FCCA

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

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

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

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

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

# Corporate Information

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
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**AUDITOR**

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

# Chairman's Statement

**Dr. Cheng Kar Shun**
*Chairman*

Dear Fellow Shareholders,

I am delighted to report on the financial performance of International Entertainment Corporation (the "Company") and subsidiaries (together, the "Group") for the year ended 31 March 2008.

The Group's revenue for the year was approximately HK$332.0 million, representing an increase of approximately 141.8% compared with the previous year's revenue of approximately HK$137.3 million.

During the course of exploring opportunities throughout the TV, film and live entertainment industries, the IEC brand was strengthened during the year under review, thanks to the successful production and promotion of a number of high-profile music concerts in Hong Kong and mainland China.

The Group also made significant progress in expanding our entertainment business with the acquisition of hotel and entertainment operations involving a 51% equity stake in Hyatt Hotel and Casino Manila in the Philippines and 40% equity interest in the Arc of Triumph Development Company Limited, which owns prime land in Macau. Hotel and entertainment operations in the Philippines contributed more than 68% of the Group's total revenue this year.

Located in Metro Manila, the Hyatt Hotel and Casino Manila development covers a gross floor area of more than 90,000 square metres and comprises 360-plus deluxe rooms and suites, a casino and entertainment areas, while the project in Macau covers an area of approximately 7,128 square metres at Novos Aterros do Porto Exterior (新口岸外港填海區). When construction is complete, the Macau complex will include high-end residential units and a super-deluxe hotel with casino facilities, as well as commercial units and parking. Over 80% of the residential units had already been sold by 31 March 2008.

Our timing in investing in the Philippines appears to have been prudent, as the 2007 launch of our Hyatt Hotel and Casino Manila project took place during a breakthrough year for tourism, evidenced by visits from a record 3 million-plus foreigners.

## Chairman's Statement

Spending by incoming tourists last year reached about US$114 million and prompted the Department of Tourism to set a 2008 target of about US$180 million.

According to official government figures, the largest group of foreigners visiting the Philippines during 2007 was Koreans, with 653,310 arrivals representing about 21.1% of the total influx. This was followed by Americans with 578,983 arrivals, or 18.7% of the total, then Japanese with 395,012 or 12.8%, Chinese with 157,601 or 5.1% and Australians with 112,466 or 3.6%.

The government department's ultimate goal is to attract not only more tourists to the Philippines, but also higher-value visitors, such as delegates attending the growing number of international conferences and exhibitions staged in Manila.

Turning to Macau, residential property prices rocketed last year, as a result of a huge inflow of cash from gambling revenue and hotel room sales. Analysts say that sustained low interest rates of about 3%, a proposal to launch a first-time home-buyer's loan scheme and accelerating inflation, together with strong economic fundamentals, will help generate even stronger demand for residential property in Macau.

A total of 28 casinos up and running by the end of 2007 attracted some 27 million visitors, representing year-on-year growth of 22.8%. This helped to boost retail spending among residents by 33.2%, giving rise to 9.4% year-on-year growth in private consumption expenditure during the third quarter of 2007.

A milestone event for International Entertainment Corporation in fiscal year 2007/08 was a re-prioritization of the Group's core business interests, following acquisition of hotel and entertainment business operations in the Philippines and Macau and disposal of the entire interest in wholly-owned subsidiary Cyber On-Air Group Limited ("COAG").

After completion of the disposal of COAG in April 2008, the Group ceased conducting business in the provision of network solutions and project services. This followed earlier announcements that the Group would conduct a detailed review of the Group's financial structure and composition of assets and liabilities, with a view to re-engineering operations in the best interests of the company's future prosperity. The Group will now focus sharply on existing hotel and entertainment operations and explore markets for opportunities showing the greatest promise of long-term sustainable growth.

Looking ahead, the management team believes that decisions taken to re-prioritize the Group's core lines of business and set a new strategic direction for operations have positioned the Group well for the future. This serves to reinforce our commitment to long-term growth, enhanced and sustainable profitability and continuous improvement in return on investment for our shareholders.

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

**Dr. Cheng Kar Shun**
*Chairman*

Hong Kong, 25 June 2008

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group's revenue from continuing operations for the year ended 31 March 2008 was approximately HK$303.7 million, representing an increase of approximately 156.1%, as compared with approximately HK$118.6 million in the last year. The increase in revenue was mainly contributed by the lease of properties and hotel revenue from the business operations in the Philippines during the year. The Group reported a gross profit of approximately HK$154.1 million for the year under review, as compared with gross loss of approximately HK$73.2 million in the last year. The gross profit for the year was mainly due to the decrease in write-downs on the films costs and the contributions from the business operations in the Philippines during the year.

Other income from continuing operations for the year ended 31 March 2008 was approximately HK$50.9 million, representing an increase of approximately 203.1%, as compared with approximately HK$16.8 million in the last year. The increase was mainly due to the increase in interest income on bank deposits during the year.
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Selling and distribution costs, and general and administrative expenses from continuing operations increased by approximately 155.5% to approximately HK$125.8 million for the year ended 31 March 2008 from approximately HK$49.2 million in the last year. The increase was mainly due to the increase in marketing expenses for film promotion and distribution expenses for film distribution and the inclusion of the expenses incurred by the business operations in the Philippines after the completion of the acquisition in October 2007.

During the year ended 31 March 2008, the Group recorded a gain of approximately HK$64.8 million on change in fair value of conversion option derivative and shared a profit of approximately HK$3.0 million from an associated company of the Group.

Finance costs from continuing operations for the year ended 31 March 2008 was approximately HK$27.5 million, representing an increase of approximately 527.3%, as compared with approximately HK$4.4 million in last year. The increase was mainly due to the finance costs from the newly acquired subsidiaries in the Philippines and the recognition of the effective interest expense on convertible note.

The Group recorded a profit before taxation from continuing operations for the year ended 31 March 2008, amounted to approximately HK$119.5 million while it was a loss of approximately HK$110.0 million in the last year. The financial performance was improved mainly due to the increase in other income, the gain on change in fair value of conversion option derivative, the decrease in write-downs on the film costs and the contributions from the business operations in the Philippines during the year.

On 27 December 2007, the Company entered into a conditional sale and purchase agreement for the disposal of its entire interest in Cyber On-Air Group Limited ("COAG"). COAG and its subsidiaries are principally engaged in network solutions and project services. The disposal was completed in April 2008. Immediately after the completion of the disposal, the Group would cease to carry on the business of provision of network solutions and project services. Details of the disposal are set out in the announcements of the Company dated 2 January 2008 and 3 March 2008, and the circular of the Company dated 23 January 2008.

The profit for the year ended 31 March 2008 from the discontinued operations, including the provision of the network solutions and project services, was approximately HK$1.0 million, while it was approximately HK$0.2 million in the last year.

## Management Discussion and Analysis

### BUSINESS REVIEW

The principal activities of the Group for the year under review were hotel operations, leasing of properties for casino, ancillary leisure and entertainment operations, provision of network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres and investments in production of television series, music concerts and music records.

1. **Leasing of properties and hotel operations**

   The acquisition of the entire issued share capital of Fortune Gate Overseas Limited ("Fortune Gate") was completed on 11 October 2007. Fortune Gate and its subsidiaries are principally engaged in the hotel operations and leasing of properties for casino, ancillary leisure and entertainment operations.

   The acquisition of Fortune Gate enables the Group to take a further step in the leisure and entertainment markets through investing in the hotel and entertainment operations in the Philippines and Macau. Fortune Gate can also contribute to the business growth and broaden the revenue base of the Group. The objective of the acquisition is to strive for better return to the shareholders of the Company.

   Since the acquisition of Fortune Gate was completed on 11 October 2007, only the results of Fortune Gate during the period from the date of completion of the acquisition to 31 March 2008 were taken up in the consolidated results of the Group for the year ended 31 March 2008. The revenue derived from the leasing of properties and the hotel operations for the year ended 31 March 2008 were approximately HK$142.8 million and HK$85.3 million respectively.

2. **Entertainment business**

   The revenue derived from the entertainment business for the year ended 31 March 2008 was approximately HK$75.7 million, representing a decrease of approximately 36.2% as compared with approximately HK$118.6 million in the last year. The revenue comprised primarily from sales of the theatrical feature films, *Monster, Man About Town* and *Lovewrecked. Monster* is a critically acclaimed drama, for which Charlize Theron won the Academy Award for Best Actress. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn and *Lovewrecked* stars Amanda Bynes and Chris Carmack. The decrease in revenue was resulted from the decrease in the number of films produced during the year under review.

3. **Network solutions**

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

   During the year ended 31 March 2008, the revenue derived from the network solutions was approximately HK$12.3 million, compared to approximately HK$7.8 million in the last year. The increase in revenue was due to more projects completed during the year under review.

4. **Project services**

   For the year ended 31 March 2008, the revenue derived from the provision of project services was approximately HK$14.7 million, compared to approximately HK$9.5 million in the last year. The increase in revenue was due to the continuously improvement of general economic environment.

5. **Interest in an associated company**

   The Company held 40% equity interest in the Arc of Triumph Development Company Limited ("ATD"), a company incorporated in Macau. The principal activities of ATD are property development and investment. ATD owns a parcel of land with an area of approximately 7,128 square metres located at Novos Aterros do Porto Exterior (新口岸外港填海區), Macau. It is currently under construction. According to the proposed development plan, the land would be developed into a complex comprising the high-end residential units, a super-deluxe hotel with casino facilities, commercial units and parking. The Group's share of profit in the associated company for the year ended 31 March 2008 was approximately HK$3.0 million. As at 31 March 2008, over 80% of the residential units were sold.

## FUTURE OUTLOOK

After the completion of the acquisition of the hotel and entertainment operations in the Philippines and Macau in October 2007, the Group focuses on the hotel operations and the leasing of properties for casino ancillary leisure and entertainment operations as they become the new core activities of the Group.

The Group also engages in the investments in production of films, television series, music concerts and music records. The Group will continue to seek for investment opportunities in these areas in Asia region, especially in Hong Kong and the People's Republic of China (the "PRC").

The Group will continue to explore the leisure and entertainment markets for opportunities in those sectors that have potential growth in the long run. The objective is to strive for better return to the shareholders of the Company. The broadened revenue base will reinforce the growth strategy of the Company and diversify the geographical coverage of the Company's business interests.

In addition, the Directors will continue to conduct the review of its financial structure and the composition of its assets and liabilities periodically and may consider further re-engineering such structure and composition in an optimal way. The Directors may in the future scale down or adjust areas of operations where appropriate.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2008, the Group's net current assets amounted to approximately HK$258.9 million (as at 31 March 2007: approximately HK$176.2 million). Current assets amounted to approximately HK$1,173.8 million (as at 31 March 2007: approximately HK$309.4 million), of which approximately HK$913.3 million (as at 31 March 2007: approximately HK$194.4 million) was cash, bank deposits and pledged deposits, approximately HK$32.5 million (as at 31 March 2007: approximately HK$5.8 million) was trade receivables, approximately HK$12.7 million (as at 31 March 2007: approximately HK$13.8 million) was available-for-sale financial assets, approximately HK$43.3 million (as at 31 March 2007: approximately HK$34.8 million) was other receivables, deposits and prepayments, approximately HK$30.5 million (as at 31 March 2007: approximately HK$59.1 million) was film costs and approximately HK$9.1 million (as at 31 March 2007: nil) was assets classified as held for sale.

The Group had current liabilities amounted to approximately HK$914.9 million (as at 31 March 2007: approximately HK$133.2 million), of which approximately HK$74.3 million (as at 31 March 2007: approximately HK$92.9 million) was trade payables, approximately HK$51.5 million (as at 31 March 2007: approximately HK$24.9 million) was other payables and accrued charges, approximately HK$561.2 million (as at 31 March 2007: nil) was promissory notes, approximately HK$141.2 million (as at 31 March 2007: nil) was conversion option derivative, approximately HK$75.9 million (as at 31 March 2007: approximately HK$12.9 million) was bank borrowings due within one year, and approximately HK$7.1 million (as at 31 March 2007: nil) was liabilities associated with assets classified as held for sale.

As at 31 March 2008, the Group had bank borrowings amounted to approximately HK$195.8 million denominated in Philippine Peso (as at 31 March 2007: approximately HK$12.9 million denominated in United States dollars and bore interest at the announced base rate of interest of Bank of America Corporation plus 0.75% to 1.5% per annum), of which approximately HK$75.9 million bore interest at the Philippine Interbank Offered Rate plus 1.5% per annum and would be due within one year; and approximately HK$119.9 million bore interest at the Philippine Interbank Offered Rate plus 1.5% per annum and would be due over one year. The bank borrowings were secured under the guarantee of letters of credit issued by a bank in Hong Kong. The letters of credit are secured by pledged bank deposits of approximately US$44,862,000 (equivalent to approximately HK$349,924,000).

During the year, the Group issued non-interest bearing promissory notes of approximately HK$642.3 million which was unsecured and repayable on demand. During the year, the Group settled part of the promissory notes amounting to approximately HK$81.1 million.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 24.5% as at 31 March 2008, compared to approximately 4.1% as at 31 March 2007.

The Group financed its operations generally with internally generated cash flows, the present available credit facilities, the proceeds from the rights issue of shares and the issue of the convertible note.

On 28 August 2007, the Company completed a rights issue of 943,325,788 shares of HK$1.00 each in the capital of the Company at a subscription price of HK$1.50 per share. The gross proceeds from the rights issue was approximately HK$1,415 million, which was principally used to finance the acquisition of the hotel and entertainment operations in the Philippines and Macau (the "Acquisition").

On 11 October 2007, the Company issued a HK$400,000,000 convertible note due in three years, which bears interest at the rate of 1% per annum, convertible into ordinary shares of the Company at an initial conversion price of HK$2.00 per share, subject to customary adjustments for among other things, subdivision or consolidation of shares, bonus issues, rights issues and other events which have diluting effects on the issued share capital of the Company. The convertible note was issued by the Company as part of the consideration of the Acquisition. No conversion was made by the holder of the convertible note during the period from 11 October 2007 to 31 March 2008. The principal amount of the convertible note outstanding as at 31 March 2008 was HK$400,000,000.

## CHARGES ON GROUP ASSETS

As at 31 March 2008, the Group's bank deposits of approximately HK$349.9 million (as at 31 March 2007: approximately HK$13.9 million) have been pledged to banks to secure banking facilities granted to the Group.

In addition, a share with the nominal value of MOP72,000 in ATD, an associated company of the Company, representing 40% equity interest, has been pledged to certain financial institutions in Hong Kong and Macau for a syndicated loan facility of HK$1.5 billion obtained by ATD.

## MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and Chow Tai Fook Enterprises Limited ("CTF") entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entire issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands. As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau on 17 March 2005. On 11 October 2007, the acquisition of the hotel and entertainment operations in the Philippines and Macau was completed. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006, 22 December 2006, 27 June 2007, 9 July 2007, 13 July 2007, 1 August 2007 and 11 October 2007, and the circular of the Company dated 29 June 2007.

On 27 December 2007, the Company entered into a conditional sale and purchase agreement for the disposal of its entire interest in COAG. COAG and its subsidiaries are principally engaged in network solutions and project services. The disposal was completed in April 2008. Immediately after the completion of the disposal, the Group would cease to carry on the business of provision of network solutions and project services. Details of the disposal are set out in the announcements of the Company dated 2 January 2008 and 3 March 2008, and the circular of the Company dated 23 January 2008.

Save as disclosed above, there were no other material acquisitions or disposals of subsidiaries and affiliated companies, which would have been required to be disclosed under the GEM Listing Rules, for the year ended 31 March 2008.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

As at 31 March 2008, the Group's assets and liabilities were mainly denominated in Hong Kong dollars, United States dollars and Philippine Peso. The Group primarily earns its revenue in Hong Kong dollars, United States dollars and Philippine Peso while the Group primarily incurs costs and expenses in mainly Hong Kong dollars, United States dollars and Philippine Peso. In particular, the Group's business in the Philippines principally receives revenue in Philippine Peso and United States dollars while it settles its liabilities mainly in Philippine Peso. Save for the United States dollars cash deposited by the Group with the bank for the security of the bank borrowings denominated in Philippine Peso as a mean of hedging, the Group has not implemented any formal hedging policy.

## CONTINGENT LIABILITIES

As at 31 March 2008, the Group did not have any significant contingent liabilities.

As at 31 March 2007, the Group had the following contingent liabilities.

(a) On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/ MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs amounting to approximately US$553,000 (equivalent to approximately HK$4.3 million). The parties have settled the litigation during the year ended 31 March 2008.

(b) DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. and First Look Studios, Inc. (as plaintiffs) against Media 8 Entertainment and MDP Distribution Inc. (as defendants) on 20 September 2006 before the court in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution Inc. (as plaintiffs) against DEJ, Blockbuster, Inc. and First Look Studios, Inc. (as defendants) on 26 January 2006 before the court in Los Angeles which was subsequently transferred to Texas). The litigation was brought in respect of a breach of contract claim by Media 8 Entertainment and MDP Distribution Inc. regarding the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, as well as claims of breach of fiduciary duty, intentional interference with contracts, intentional interference with prospective business relations, and fraud. In July 2007, the courts granted a motion that DEJ, Blockbuster, Inc. and First Look Studios, Inc. were realigned as defendants, while Media 8 Entertainment and MDP Distribution Inc. were realigned as plaintiffs in the case. The parties have settled the litigation during the year ended 31 March 2008.

## EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group was 372 as at 31 March 2008 (as at 31 March 2007: 39). The staff costs for the year ended 31 March 2008 was approximately HK$45.7 million (for the year ended 31 March 2007: approximately HK$26.0 million). The remuneration of employees of the Group was based on the performance and experience of individuals and was determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to the salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

# Comparison of Business Objectives with Actual Business Progress

The following is the comparison of the actual business progress to the information provided under the section headed "Statement of Business Objective" in the circular of the Company dated 29 June 2007 in relation to the Acquisition (the "Circular"). The Company was treated as a deemed new listing applicant as a result of the acquisition, which was completed on 11 October 2007.

**For the period from 11 October 2007 to 31 March 2008**

| Business objectives stated in the Circular | Actual business progress |
|---|---|
| ***Game/service development*** | |
| Negotiate with other close by hotels to provide shuttle bus services to Makati | An independent shuttle service — "Hop-on, Hop-off" has been introduced which covers all hotels and major tourist attractions and destinations in Manila and Makati areas. |
| Cover the pool deck partially to develop outdoor events and maximize utilization of the outside area | For catering the growing of golf market, the Group eyes to develop Pool area into a golf putting area instead of covering it. |
| ***System improvement*** | |
| Complete installation and expansion of public area wireless internet access | Installation of public area wireless internet access has been completed. Wireless internet coverage now includes the Pool bar, Market Café, The Lounge Regency club, Business Centre, Le Salon, & remote connection for areas like bayview and exhibit hall. |
| Complete wireless application for micros handheld terminals at the poolbar | The use of handheld terminals has been temporarily discontinued. The Group is reviewing the new application from Global Hyatt concerning the use of wireless device. |
| Implement wireless applications for micros handheld terminals at the function rooms | The use of handheld terminals has been temporarily discontinued. The Group is reviewing the new application from Global Hyatt concerning the use of wireless device. |
| Improve network security | Set up of Linux proxy server has been completed to control internet access and limit web sites which the users can visit. |

## Comparison of Business Objectives with Actual Business Progress

| Business objectives stated in the Circular | Actual business progress |
|---|---|
| Implement workflow applications using Lotus Notes as the platform as may be required by operations | Setup of new databases in Lotus Notes called BEO Log and Group Resumes have been completed. |
| Implement remote access to email and network services | VPN access is now available for most of the employees. |
| | Access is given to selected associates requiring a connection while on business trips. |
| Implement business intelligence tools like data warehousing and data mining | A nightly export routine in Opera has been setup to send the checked out guest data to the corporate office. This will be used to auto-populate the data mining cube. |
| ***New computer equipment acquisition*** | |
| Regular upgrade of business centre and public relation hardware and software to keep up with the latest technology | The computers in Business Centre have been replaced with the latest central processing unit. Network attached storage device and high-speed tape drive has been acquired for data storage. Hard disk with high capacity has been purchased for additional external storage. The public relation hardware and software has been upgrade to keep up with the latest in technology. |
| ***Marketing activities*** | |
| Estimated marketing budget will be approximately Peso 15 million | Marketing budget has been revised to Peso 19 million. |
| Set up fairs in Tokyo, Osaka, Nagoya and Fukuoka | Hyatt fairs have been setup in Tokyo, Osaka, Nagoya and Fukuoka. Trade show in Singapore for the ASEAN Tourism Forum has also been set up. The Group has also attended the World Travel Fair in Shanghai; and ASEAN Tourism Forum in Bangkok. |
| Set up travel and trade shows in Manila | The Group has participated in selected Wedding fairs around Metro Manila. |
| Explore local sales business in Batangas, Laguna, Cavite, Cebu and Davao | Visits to accounts in Batangas, Laguna, Cavite, Cebu and Davao have been made and business acquired and developed. |

## Comparison of Business Objectives with Actual Business Progress

| **Business objectives stated in the Circular** | **Actual business progress** |
|---|---|
| Form partnership with airline, credit card and telecommunication companies | Loyalty programmes with airline companies and partnership with credit card companies have been formed. |
| Set up roadshow with Philippines Department of Tourism and Philippine Amusement and Gaming Corporation ("PAGCOR") | The Group has participated in the Asia's Gem exhibition. |
| ***Macau operation*** | |
| Commence construction of the structure of podium floors | Construction of the property is in progress. |
| Start commence fitting out work of the casino | Fitting out work of the casino is in progress. |
| ***Media business*** | |
| Attend film festivals | Film festivals have been attended. |
| Continue to recruit staff to develop the business in Asia | Recruitment has been made. |
| Seek to form strategic alliances with media companies in major cities in the PRC and Asia | The Group has liaised with potential partners and cooperative discussion is in progress. |
| Produce music concerts in Hong Kong | The Group has produced two music concerts in Hong Kong. They were <Sam Hui • HK Stadium • Live> in December 2007 and <Priscilla Chan 活出生命 II Live 2008> in February 2008 and co-produced several music concerts in Hong Kong and major cities in the PRC.<br><br>The Group has also produced and released two music albums in Hong Kong. They were <Sam Hui • 人生多麼好> in October 2007 and <VEGA • THE VEGA> in February 2008. |

# Board of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Dr. Cheng Kar Shun**, aged 61, was appointed as an executive Director in July 2004 and became the chairman of the Company in November 2004. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited, chairman and executive director of NWS Holdings Limited and Taifook Securities Group Limited, the chairman and non-executive director of New World Department Store China Limited and an independent non-executive director of HKR International Limited and a non-executive director of Lifestyle International Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Cheng Yu Tung Family (Holdings) Limited, Centennial Success Limited, Chow Tai Fook Enterprises Limited and Mediastar International Limited, which is a substantial shareholder of the Company. He is also a director of Future Growth Limited, Mediamaster Limited, Fortune Gate Overseas Limited, Maxprofit International Limited, Flexi-Deliver Holding Ltd., Starcharm Limited and New Coast Hotel, Inc., which are the subsidiaries of the Company. Dr. Cheng is the chairman of the Advisory Council for the Better Hong Kong Foundation and a standing committee member of the Eleventh Chinese People's Political Consultative Conference of the People's Republic of China. In 2001, he was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region. Dr. Cheng is the cousin of Mr. Cheng Kam Chiu, Stewart and Mr. Cheng Kam Biu, Wilson, who are the executive Directors, and the father of Mr. Cheng Chi Kong, the executive Director, and the uncle of Mr. Cheng Chi Him, the executive Director.

**Mr. Lo Lin Shing, Simon**, aged 52, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. He was appointed as the deputy chairman of the Company in January 2008. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of CME and IMM since 1986. Mr. Lo is the chairman of Mongolia Energy Corporation Limited and New World Mobile Holdings Limited. He is also the deputy chairman of Taifook Securities Group Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Future Growth Limited, Mediamaster Limited, Lucky Genius Limited, IEC Production Limited and IEC Record Production Company Limited, which are the subsidiaries of the Company.

**Mr. To Hin Tsun, Gerald**, aged 59, was appointed as an executive Director in June 2006 and appointed as the compliance officer of the Company in January 2008. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. He is currently the senior and managing partner of Messrs. T. S. Tong & Co., Solicitors and Notaries, a law firm in Hong Kong. Mr. To is also a non-executive director of Taifook Securities Group Limited, Mongolia Energy Corporation Limited and NWS Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Fortune Gate Overseas Limited, Maxprofit International Limited, Flexi-Deliver Holding Ltd., Starcharm Limited, CTF Properties (Philippines), Inc., CTF Hotel and Entertainment, Inc., Marina Square Properties, Inc. and New Coast Hotel, Inc., which are the subsidiaries of the Company.

**Mr. Cheng Kam Chiu, Stewart**, aged 53, was appointed as an executive Director in January 2008. He is the managing director of Cheung Hung Development (Holdings) Limited, a director for the Hip Hing Contruction group of companies and Palm Island Resort Limited. Mr. Cheng is a Member of the Shunde District, Foshan City Committee of the Chinese People's Political Consultative Conference since November 2006.

Mr. Cheng holds a Bachelor's Degree in Civil and Environmental Engineering from the University of Wisconsin-Madison; a Master's Degree in Civil Engineering from the University of California, Berkeley, United States; and a degree in Master of Business Administration from the Chinese University of Hong Kong. He is a member of the Institution of Structural Engineers and the Hong Kong Institution of Engineers.

## EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Cheng is a professional engineer with many years of experience in property development and construction management. Since his return to Hong Kong from the United States in 1978, he took up posts in design and project management in an engineering consultant firm. In 1984, he joined Hip Hing Construction Company Limited as project manager and had subsequently become a director. From 1993 to 1997, Mr. Cheng was transferred to New World Development (China) Limited as director and assistant general manager overseeing the property development in the People's Republic of China (the "PRC"). Mr. Cheng was a director of NWS Service Management Limited (formerly known as New World Services Limited) from 1997 to 2006, and was mainly responsible for the construction and the E & M engineering businesses, and pursuing business opportunities in the PRC. Mr. Cheng is also the executive director of New Times Group Holdings Limited, whose issued shares are listed on the Stock Exchange.

Mr. Cheng is the cousin of Dr. Cheng Kar Shun, an executive Director, the brother of Mr. Cheng Kam Biu, Wilson, an executive Director, and the uncle of Mr. Cheng Chi Kong and Mr. Cheng Chi Him, who are the executive Directors.

**Mr. Cheng Kam Biu, Wilson**, aged 49, was appointed as an executive Director in January 2008. He graduated from the University of Hawaii, Honolulu with a Bachelor of Arts degree in Economics. He has 24 years of experience in administration and finance of jewellery retail business. He is also a director of Chow Tai Fook Enterprises Limited and Mediastar International Limited, which is a substantial shareholder of the Company.

Mr. Cheng is the cousin of Dr. Cheng Kar Shun, an executive Director, the brother of Mr. Cheng Kam Chiu, Stewart, an executive Director, and the uncle of Mr. Cheng Chi Kong and Mr. Cheng Chi Him, who are the executive Directors.

**Mr. Cheng Chi Kong**, aged 28, was appointed as an executive Director in January 2008. He is the executive director of New World Development Company Limited, New World China Land Limited and New World Department Store China Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Centennial Success Limited and Chow Tai Fook Enterprises Limited. Mr. Cheng has worked in major international bank prior to joining the New World group in September 2006 and has substantial experience in financial management. Mr. Cheng holds a Bachelor Degree from Harvard University.

Mr. Cheng is the son of Dr. Cheng Kar Shun, an executive Director, the nephew of Mr. Cheng Kam Biu, Wilson and Mr. Cheng Kam Chiu, Stewart, who are the executive Directors, and the cousin of Mr. Cheng Chi Him, an executive Director.

**Mr. Cheng Chi Him**, aged 29, was appointed as an executive Director in January 2008. He is a director of Arc of Triumph Development Limited, an associated company of the Company. Mr. Cheng is also the executive director of New Times Group Holdings Limited, whose issued shares are listed on the Stock Exchange.

Mr. Cheng is the nephew of Dr. Cheng Kar Shun, Mr. Cheng Kam Biu, Wilson and Mr. Cheng Kam Chiu, Stewart, who are the executive Directors, and the cousin of Mr. Cheng Chi Kong, an executive Director.

## NON-EXECUTIVE DIRECTOR

**Mr. Wu Wing Kin**, aged 52, was appointed as a non-executive Director in May 2001. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Wu is presently the general manager of Phillip Securities (HK) Ltd. and Phillip Commodities (HK) Ltd. Mr. Wu is also an ordinary member of the Hong Kong Securities Institute. Mr. Wu has more than 20 years of working experience in the financial, securities and futures industries.

## Board of Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Cheung Hon Kit**, aged 54, joined the Company as an independent non-executive Director in May 2001. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Cheung has over 29 years of experience in real estate development, property investment and corporate finance and has worked in key executive positions in various leading property development companies in Hong Kong. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. Mr. Cheung is the chairman of ITC Properties Group Limited, the managing director of Wing On Travel (Holdings) Limited, an executive director of ITC Corporation Limited and an independent non-executive director of Innovo Leisure Recreation Holdings Limited (to be renamed as Future Bright Holdings Limited), all of which are public companies whose issued shares are listed on the Stock Exchange.

**Mr. Kwee Chong Kok, Michael**, aged 61, was appointed as an independent non-executive Director in September 2004. He is also a member of the remuneration committee of the Company. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Gradate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States. Mr. Kwee is the chairman and chief executive officer of PAMA Group Inc. He is also an independent non-executive director of The Sun's Group Limited, the issued shares of which are listed on the Stock Exchange. He served as a member of the Hong Kong Advisory Committee on Legal Education and Hong Kong Financial Secretary's Economic Advisory Committee from 1995 and 2004.

**Mr. Wong Chi Keung**, aged 53, was appointed as an independent non-executive Director in September 2004. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Wong holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a responsible officer for advising on securities, corporate finance and asset management activities for Legend Capital Partners, Inc. under the SFO. He is the president of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Nickel Resources Holdings Company Limited, China Ting Group Holdings Limited, First Natural Foods Holdings Limited, Fu Ji Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies whose shares are listed on the Stock Exchange.

### SENIOR MANAGEMENT

**Mr. Tse Cho Tseung**, aged 54, joined the Group as Chief Operating Officer in November 2005. Mr. Tse is responsible for overall general operation of the Group. He holds a Diploma in Accounting from The Hong Kong Baptist University and has over 26 years of experience in accounting and finance, construction, property development and investment, and trading business.

**Mr. Kwok Chi Kin**, aged 31, joined the Group as Chief Financial Officer and was appointed as Qualified Accountant and Company Secretary in May 2004. He is responsible for the financial and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has about 9 years of auditing experience and accounting experience in listed companies in Hong Kong.

# Report of the Directors

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 March 2008.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 46 and 20 to the consolidated financial statements respectively.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 43% and 54% respectively of the Group's total revenue for the year.

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

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

## RESULTS

The results of the Group for the year ended 31 March 2008 are set out in the consolidated income statement on page 33.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 99.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 17 and 18 to the consolidated financial statements respectively.

## PRINCIPAL PROPERTIES OWNED BY THE GROUP OR THE ASSOCIATE

Details of the principal properties of the Group or the associate are set out on page 100.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 36 to the consolidated financial statements.

## CONVERTIBLE NOTE

Details of the convertible note of the Company are set out in note 33 to the consolidated financial statements.

## RESERVES AND DISTRIBUTABLE RESERVES

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

The reserves of the Company available for distribution comprise share premium, merger reserve and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of a company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the Directors, the reserves of the Company available for distribution to shareholders at 31 March 2008 were approximately HK$468,375,000 (2007: nil).

## DIRECTORS

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

**Executive directors**

| | |
|---|---|
| Dr. Cheng Kar Shun | |
| Mr. Lo Lin Shing, Simon | |
| Mr. To Hin Tsun, Gerald | |
| Mr. Cheng Kam Chiu, Stewart | *(appointed on 29 January 2008)* |
| Mr. Cheng Kam Biu, Wilson | *(appointed on 29 January 2008)* |
| Mr. Cheng Chi Kong | *(appointed on 29 January 2008)* |
| Mr. Cheng Chi Him | *(appointed on 29 January 2008)* |
| Mr. Choi Wing Kin | *(resigned on 29 January 2008)* |
| Mr. So Kam Wing | *(resigned on 29 January 2008)* |

**Non-executive director**

Mr. Wu Wing Kin

**Independent non-executive directors**

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

In accordance with article 87A of the Company's articles of association, Mr. Lo Lin Shing, Simon, Mr. Cheung Hon Kit and Mr. Wong Chi Keung shall retire at the forthcoming annual general meeting of the Company (the "AGM") by rotation. All retiring directors, being eligible, offer themselves for re-election at the AGM except for Mr. Wong Chi Keung, will not offer himself for re-election at the AGM.

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

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

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

Save as disclosed below, as at 31 March 2008, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

**Long positions in the ordinary shares of the Company**

| Name of director | Number of ordinary shares of HK$1.00 each in the share capital of the Company: Personal interest | Corporate interest | Total | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Mr. Lo Lin Shing, Simon | – | 364,800 *(Note)* | 364,800 | 0.03% |

*Note: These shares are held by Wellington Equities Inc., which is wholly owned by Mr. Lo Lin Shing, Simon, an executive Director of the Company.*

**Long positions in the ordinary shares of Maxprofit International Limited ("Maxprofit"), a subsidiary of the Company**

| Name of director | Number of ordinary shares of US$1.00 each in the share capital of Maxprofit: Personal interest | Corporate interest | Total | Approximate percentage of sharing |
|---|---|---|---|---|
| Mr. To Hin Tsun, Gerald | – | 11 *(Note)* | 11 | 11% |

*Note: Ten shares are held by Up-Market Franchise Ltd., and one share is held by Pure Plum Ltd.. Up-Market Franchise Ltd. and Pure Plum Ltd. are wholly owned by Mr. To Hin Tsun, Gerald, an executive Director of the Company.*

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

Save as disclosed below, as at 31 March 2008, so far as is known to the directors or chief executives of the Company, the Company has not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

**Long positions in the ordinary shares of the Company**

| Name of shareholder | Capacity | Number of ordinary shares of HK$1.00 each in the share capital of the Company | Number of underlying shares | Aggregate interest | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Mediastar International Limited ("Mediastar") | Beneficial owner | 881,773,550 | – | 881,773,550 | 74.78% |
| Cross-Growth Co., Ltd. ("Cross-Growth") | Beneficial owner | – | 200,000,000 *(Note 2)* | 200,000,000 | 16.96% |
| Chow Tai Fook Enterprises Limited ("CTF") | Interest of a controlled corporation | 881,773,550 *(Note 1)* | 200,000,000 *(Note 2)* | 1,081,773,550 | 91.74% |
| Centennial Success Limited | Interest of a controlled corporation | 881,773,550 *(Notes 1, 3)* | 200,000,000 *(Notes 2, 3)* | 1,081,773,550 | 91.74% |
| Cheng Yu Tung Family (Holdings) Limited | Interest of a controlled corporation | 881,773,550 *(Notes 1, 4)* | 200,000,000 *(Notes 2, 4)* | 1,081,773,550 | 91.74% |

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

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

*Notes:*

*(1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 881,773,550 shares of the Company held by Mediastar under the SFO.*

*(2) These underlying shares of the Company represent the new shares to be issued upon full conversion at the initial conversion price of HK$2 per share of the convertible note issued by the Company on 11 October 2007 pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth, the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau.*

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

*(3) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 881,773,550 shares of the Company held by Mediastar, 200,000,000 underlying shares of the Company held by Cross-Growth under the SFO.*

*(4) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 881,773,550 shares of the Company held by Mediastar, 200,000,000 underlying shares of the Company held by Cross-Growth under the SFO.*

## SHARE OPTIONS

Particulars of the share option schemes of the Company and its subsidiaries are set out in note 37 to the consolidated financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 45 to the consolidated financial statements and the section headed "Connected Transactions" below, no contracts of significance, to which the Company, its ultimate holding company, any subsidiaries of its ultimate holding company or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

Other than as disclosed in note 45 to the consolidated financial statements and the section headed "Connected Transactions" below, no contracts of significance were entered into between the Company, or any of its subsidiaries, and a controlling shareholder, or any of its subsidiaries.

## COMPLIANCE ADVISER'S INTEREST

As updated and notified by the compliance adviser of the Company, Hantec Capital Limited (the "Compliance Adviser"), as at 31 March 2008, except for the agreement entered into between the Company and the Compliance Adviser dated 11 October 2007, neither the Compliance Adviser nor any of its respective directors, employees or associates (as referred to in note 3 to the Rule 6A.31 of the GEM Listing Rules) had any interests in relation to the Group.

## COMPETING BUSINESS

**Directors' interests in competing business**

The following Directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the GEM Listing Rules as set out below:

| Name of Director | Name of entity which business is considered to compete or likely to compete with the business of the Group | Description of business of the entity which is considered to compete or likely to compete with the business of the Group | Nature of interest of the Director in the entity |
|---|---|---|---|
| Cheung Hon Kit | Wing On Travel (Holdings) Limited and its subsidiaries | Investment in hotel property with casino facilities in Macau | director and optionholder |
| Cheung Hon Kit | ITC Properties Group Limited | Investment in hotel and residential property in Macau | director, optionholder and shareholder |
| Cheng Kar Shun | Many Town Company Limited | A minority investor of Sociedade de Jogos de Macau which is principally engaged in casino business in Macau | director and beneficial owner |
| Cheng Kar Shun | New World Development Company Limited and its subsidiaries | Investment in hotel property in Makati, Manila, Philippines | director, optionholder and shareholder |
| Cheng Chi Kong | New World Development Company Limited and its subsidiaries | Investment in hotel property in Makati, Manila, Philippines | director and optionholder |

## COMPETING BUSINESS *(Continued)*

**Potential competition**

Fortune Holiday Limited ("Fortune"), which is indirectly owned as to 73% by CTF, 11% by Mr. To Hin Tsun, Gerald and not a member of the Group, has entered into agreements with Philippine Amusement and Gaming Corporation ("PAGCOR") in June 2002 pursuant to which Fortune, subject to fulfillment of certain conditions precedent, is entitled to acquire a site of approximately 10.5 hectares ("Fortune Land") within a 60 hectares site at the Manila Bay Reclamation Area in the Philippines proposed to be called "Theme Park Manila". Under those agreements, Fortune is entitled to build a hotel, residential and entertainment complex including three PAGCOR casino facilities at the Fortune Land. The initial term of the lease of the Fortune Land under the said agreements is 50 years and Fortune has also been given, inter alia, the option to renew the lease for another 25 years.

Fortune has also been given the right, inter alia, under a separate agreement entered into in June 2002 to require PAGCOR to lease and operate a casino at no more than two sites at any one time acquired by Fortune in Metro Manila (but outside the Theme Park Manila). Dr. Cheng Kar Shun was also a director of Fortune.

Same as disclosed above, none of the Directors, the controlling shareholder, management shareholder and substantial shareholder (as respectively defined in the GEM Listing Rules) of the Company and their respective associates has an interest in a business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group pursuant to Rule 11.04 of the GEM Listing Rules.

## CONNECTED TRANSACTIONS

**Connected Transactions**

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

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

    On 26 June 2007, the Company, Cross-Growth and CTF entered into a supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") pursuant to which Foreign Holiday Philippines Inc. shall be excluded from the Hotel Group. The Purchase Price would be adjusted to HK$1,198.2 million (subject to adjustments). The Rights Issue would be increased to approximately HK$1,415 million.

## CONNECTED TRANSACTIONS *(Continued)*

**Connected Transactions** *(Continued)*

(1) *(Continued)*

Details of the Acquisition and the purchase of 40% equity interest in ATD are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005 and 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006, 22 December 2006, 27 June 2007, 9 July 2007, 13 July 2007, 1 August 2007 and 11 October 2007, and the circular of the Company dated 29 June 2007. Details of the Rights Issue are set out in the circular of the Company dated 2 August 2007.

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

The Rights Issue was completed on 28 August 2007. The Acquisition and the purchase of 40% equity interest in ATD was completed on 11 October 2007.

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

(3) On 27 November 2007, COAA entered into another project service agreement (the "Second Project Service Agreement") with New World Telecommunications Limited for the provision of installation service of indoor cellular stations in a property in Hong Kong. The total service fee payable under the Second Project Service Agreement is approximately HK$1,260,000.

(4) On 27 December 2007, the Company entered into a conditional sale and purchase agreement for the disposal of its entire interest in Cyber On-Air Group Limited ("COAG") to New World Mobile Holdings Limited for a cash consideration of HK$2,000,000. COAG and its subsidiaries are principally engaged in network solutions and project services. The disposal was completed in April 2008. Details of the disposal are set out in the announcement of the Company dated 2 January 2008 and 3 March 2008, and the circular of the Company dated 23 January 2008.

Save as disclosed above, other related party transactions entered by the Group during the year are disclosed in note 45 to the consolidated financial statements.

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

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

## EMOLUMENT POLICY

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

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2008.

## PRE-EMPTIVE RIGHTS

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

## DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2008 (2007: nil).

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 47 to the consolidated financial statements.

## AUDITOR

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

On behalf of the Board

**Dr. Cheng Kar Shun**
*Chairman*
Hong Kong, 25 June 2008

# Corporate Governance Report

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

## BOARD OF DIRECTORS

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

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

As at 31 March 2008, the Board comprised eleven Directors, of whom seven are executive Directors, one is non-executive Director and three are independent non-executive Directors. Biographical details of the Directors are set out on pages 15 to 17 of this Annual Report.

The Board held 16 meetings during the year ended 31 March 2008. The attendance records of individual Directors are set out below:

| **Directors** | **Attendance** |
|---|---|
| **Executive directors** | |
| Dr. Cheng Kar Shun *(Chairman)* | 6/16 |
| Mr. Lo Lin Shing, Simon *(Deputy Chairman)* | 14/16 |
| Mr. To Hin Tsun, Gerald | 16/16 |
| Mr. Choi Wing Kin *(Note 1)* | 8/13 |
| Mr. So Kam Wing *(Note 1)* | 12/13 |
| Mr. Cheng Kam Chiu, Stewart *(Note 2)* | 3/3 |
| Mr. Cheng Kam Biu, Wilson *(Note 2)* | 3/3 |
| Mr. Cheng Chi Kong *(Note 2)* | 1/3 |
| Mr. Cheng Chi Him *(Note 2)* | 3/3 |
| **Non-executive director** | |
| Mr. Wu Wing Kin | 16/16 |
| **Independent non-executive directors** | |
| Mr. Cheung Hon Kit | 14/16 |
| Mr. Kwee Chong Kok, Michael | 15/16 |
| Mr. Wong Chi Keung | 16/16 |

*Notes:*

*(1) Mr. Choi Wing Kin and Mr. So Kam Wing resigned as the executive Directors with effect from 29 January 2008.*

*(2) Mr. Cheng Kam Chiu, Stewart, Mr. Cheng Kam Biu, Wilson, Mr. Cheng Chi Kong and Mr. Cheng Chi Him were appointed as the executive Directors on 29 January 2008.*

## BOARD OF DIRECTORS *(Continued)*

The Directors (including the non-executive Directors) are subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company and the GEM Listing Rules. This means a Director's term of appointment cannot exceed three years and the retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

## CORPORATE GOVERNANCE

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

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

The chairman of the Board had not attended the annual general meeting of the Company held on 17 September 2007 as he was having his business commitment at the time of such meeting. One of the executive directors was elected as the chairman of the annual general meeting and responded to the questions of the shareholders. The management considers that the Board endeavor to maintain an on-going dialogue with shareholders.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 March 2008.

## REMUNERATION OF DIRECTORS

The Board has established a remuneration committee (the "Remuneration Committee") which has four members, comprising three independent non-executive directors and a non-executive director, Mr. Wong Chi Keung, Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wu Wing Kin. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of directors and senior management is based on the performance and experience of individuals and is determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions. The Remuneration Committee held three meetings during the year ended 31 March 2008. The attendance records of the members of Remuneration Committee are set out below:

| **Committee members** | **Attendance** |
|---|---|
| Mr. Wong Chi Keung *(Chairman)* | 3/3 |
| Mr. Kwee Chong Kok, Michael | 3/3 |
| Mr. Wu Wing Kin | 3/3 |
| Mr. Cheung Hon Kit *(Note)* | 1/1 |

*Note: Mr. Cheung Hon Kit was appointed as a member of Remuneration Committee on 29 January 2008.*

## NOMINATION OF DIRECTORS

The Board has the power under the Articles of Association of the Company to appoint any person as a director either to fill a casual vacancy on the Board, or as an additional member to the Board. Mr. Cheng Kam Chiu, Stewart, Mr. Cheng Kam Biu, Wilson, Mr. Cheng Chi Kong and Mr. Cheng Chi Him were appointed as the executive Directors on 29 January 2008.

## AUDITORS' REMUNERATION

For the year ended 31 March 2008, approximately HK$3,663,000 (2007: HK$2,679,000) was charged to the Group's income statement for the audit service provided by the auditors of the Group. During the year, the auditors of the Group have performed the following non-audit services.

| **Description of service performed** | **Fees paid**<br>HK$'000 |
|---|---|
| Preparation of the accountants' reports for the acquisition of hotel and entertainment business, review of sufficiency of working capital, pro-forma statement of assets and liabilities and statement of indebtedness | 3,439 |
| Hong Kong Profits Tax return filing services | 32 |

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

## AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met four times with the executive Directors and the management to review the financial reporting process, internal controls of the Group, the Company's reports and accounts including the annual report for the year ended 31 March 2008, and provided advice and recommendations to the board of directors. The Audit Committee also met with external auditors once to discuss the financial reporting process and internal controls of the Group during the year.

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

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

## FINANCIAL REPORTING

The Board acknowledges their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 March 2008. The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The auditor of the Company also set out their reporting responsibilities on the Independent Auditor's Report on page 31 of this Annual Report.

# Independent Auditor's Report

**Deloitte.**
**德勤**

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

We have audited the consolidated financial statements of International Entertainment Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 98, which comprise the consolidated balance sheet as at 31 March 2008, 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 CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

25 June 2008

# Consolidated Income Statement

For the Year Ended 31 March 2008

| | Notes | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7 | **303,732** | 118,617 |
| Cost of sales | | **(149,596)** | (191,812) |
| Gross profit (loss) | | **154,136** | (73,195) |
| Other income | 9 | **50,937** | 16,806 |
| Change in fair value of conversion option derivative | | **64,800** | – |
| Selling and distribution costs | | **(17,800)** | (12,786) |
| General and administrative expenses | | **(108,029)** | (36,462) |
| Share of profit of an associate | | **2,963** | – |
| Finance costs | 10 | **(27,540)** | (4,390) |
| Profit (loss) before taxation | 11 | **119,467** | (110,027) |
| Taxation | 14 | **(12,641)** | (1,000) |
| Profit (loss) for the year from continuing operations | | **106,826** | (111,027) |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 15 | **966** | 214 |
| Profit (loss) for the year | | **107,792** | (110,813) |
| Attributable to: | | | |
| Equity holders of the Company | | **76,455** | (110,813) |
| Minority interests | | **31,337** | – |
| | | **107,792** | (110,813) |
| Earnings (loss) per share | 16 | | |
| **From continuing and discontinued operations** | | | |
| Basic | | **HK$0.08** | HK$(0.16) |
| Diluted | | **HK$0.03** | HK$(0.16) |
| **From continuing operations** | | | |
| Basic | | **HK$0.08** | HK$(0.16) |
| Diluted | | **HK$0.03** | HK$(0.16) |

# Consolidated Balance Sheet

At 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *17* | **730,298** | 1,473 |
| Investment properties | *18* | **1,480,482** | – |
| Goodwill | *19* | **–** | – |
| Investment in an associate | *20* | **570,379** | – |
| Other assets | *21* | **9,502** | – |
| Pledged bank deposits | *22* | **349,924** | – |
| | | **3,140,585** | 1,473 |
| Current assets | | | |
| Inventories | *23* | **4,553** | 1,581 |
| Film costs | *24* | **30,453** | 59,089 |
| Available-for-sale financial assets | *25* | **12,672** | 13,786 |
| Trade receivables | *26* | **32,486** | 5,759 |
| Other receivables, deposits and prepayments | *26* | **43,271** | 34,761 |
| Amounts due from related companies | *27* | **13** | 41 |
| Amount due from an associate | *28* | **127,992** | – |
| Pledged bank deposits | *22* | **–** | 13,853 |
| Bank balances and cash | *22* | **913,262** | 180,538 |
| | | **1,164,702** | 309,408 |
| Assets classified as held for sale | *29* | **9,092** | – |
| | | **1,173,794** | 309,408 |
| Current liabilities | | | |
| Trade payables | *30* | **74,335** | 92,859 |
| Other payables and accrued charges | *30* | **51,538** | 24,892 |
| Tax liabilities | | **1,000** | 1,260 |
| Amounts due to related companies | *31* | **2,591** | 1,330 |
| Promissory notes | *32* | **561,235** | – |
| Conversion option derivative | *33* | **141,200** | – |
| Bank borrowings | *34* | **75,875** | 12,853 |
| | | **907,774** | 133,194 |
| Liabilities associated with assets classified as held for sale | *29* | **7,112** | – |
| | | **914,886** | 133,194 |
| Net current assets | | **258,908** | 176,214 |
| Total assets less current liabilities | | **3,399,493** | 177,687 |

## Consolidated Balance Sheet

At 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Bank borrowings | *34* | **119,920** | – |
| Convertible note | *33* | **302,002** | – |
| Deferred tax liabilities | *35* | **468,852** | – |
| Other liabilities | | **678** | – |
| | | **891,452** | – |
| | | **2,508,041** | 177,687 |
| Capital and reserves | | | |
| Share capital | *36* | **1,179,157** | 235,831 |
| Share premium and reserves | | **756,014** | (58,144) |
| Equity attributable to equity holders of the Company | | **1,935,171** | 177,687 |
| Minority interests | | **572,870** | – |
| Total equity | | **2,508,041** | 177,687 |

The consolidated financial statements on pages 33 to 98 were approved and authorised for issue by the Board of Directors on 25 June 2008 and are signed on its behalf by:

**Dr. Cheng Kar Shun**
*DIRECTOR*

**Mr. Lo Lin Shing, Simon**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2008

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 *(Note)* | Investment revaluation reserve HK$'000 | Other reserve HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 April 2006 | 235,831 | 263,832 | 53,022 | – | – | (2,162) | (263,031) | 287,492 | – | 287,492 |
| Fair value change in available-for-sale financial assets | – | – | – | 188 | – | – | – | 188 | – | 188 |
| Exchange differences on translation to presentation currency | – | – | – | – | – | 820 | – | 820 | – | 820 |
| Net income recognised directly in equity | – | – | – | 188 | – | 820 | – | 1,008 | – | 1,008 |
| Loss for the year | – | – | – | – | – | – | (110,813) | (110,813) | – | (110,813) |
| Total recognised income and expense for the year | – | – | – | 188 | – | 820 | (110,813) | (109,805) | – | (109,805) |
| At 1 April 2007 | 235,831 | 263,832 | 53,022 | 188 | – | (1,342) | (373,844) | 177,687 | – | 177,687 |
| Fair value change in available-for-sale financial assets | – | – | – | (1,114) | – | – | – | (1,114) | – | (1,114) |
| Exchange differences on translation to presentation currency | – | – | – | – | – | 60,121 | – | 60,121 | 55,766 | 115,887 |
| Net income and expenses recognised directly in equity | – | – | – | (1,114) | – | 60,121 | – | 59,007 | 55,766 | 114,773 |
| Profit for the year | – | – | – | – | – | – | 76,455 | 76,455 | 31,337 | 107,792 |
| Total recognised income and expense for the year | – | – | – | (1,114) | – | 60,121 | 76,455 | 135,462 | 87,103 | 222,565 |
| Acquisition of subsidiaries *(note 39)* | – | – | – | – | 222,120 | – | – | 222,120 | 485,767 | 707,887 |
| Issue of shares | 943,326 | 471,663 | – | – | – | – | – | 1,414,989 | – | 1,414,989 |
| Transaction costs attributable to issue of shares | – | (15,087) | – | – | – | – | – | (15,087) | – | (15,087) |
| At 31 March 2008 | 1,179,157 | 720,408 | 53,022 | (926) | 222,120 | 58,779 | (297,389) | 1,935,171 | 572,870 | 2,508,041 |

Note: *Merger reserve of the Group represents the difference between the share capital and share premium of Cyber On-Air Multimedia Limited (formerly known as HKcyber Limited) whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation. Cyber On-Air Multimedia Limited was disposed of during the year. The details are set out in note 40.*

# Consolidated Cash Flow Statement

For the Year Ended 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit (loss) for the year | | **107,792** | (110,813) |
| Taxation charge for continuing operations | *14* | **12,641** | 1,000 |
| Taxation charge for discontinued operations | *14* | **230** | 260 |
| Profit (loss) before taxation | | **120,663** | (109,553) |
| Adjustments for: | | | |
| Interest income | | **(37,297)** | (10,036) |
| Interest expense | | **27,540** | 4,828 |
| Allowance for bad and doubtful debts | | **679** | 1,085 |
| Allowance for obsolete inventories | | **444** | 45 |
| Loss on disposal of property, plant and equipment | | **1** | 152 |
| Impairment loss recognised in respect of film costs | | **26,681** | 102,815 |
| Change in fair value of conversion option derivative | | **(64,800)** | – |
| Depreciation of property, plant and equipment | | **56,844** | 1,417 |
| Depreciation of investment properties | | **34,276** | – |
| Gain on disposal of available-for-sale financial assets | | **–** | (5,434) |
| Gain on disposal of subsidiaries | *40* | **(1,796)** | – |
| Amortisation of film costs | | **24,304** | 88,862 |
| Share of profit of an associate | | **(2,963)** | – |
| Dividend income | | **(712)** | (300) |
| Imputed interest income on amount due from an associate | | **(3,104)** | – |
| Interest income on amount due from an associate | | **(85)** | – |
| Operating cash flows before movements in working capital | | **180,675** | 73,881 |
| Decrease in other assets | | **6,403** | – |
| Increase in film costs | | **(22,298)** | (44,839) |
| Increase in inventories | | **(1,527)** | (971) |
| Decrease in trade receivables | | **8,734** | 18,157 |
| Increase in other receivables, deposits and prepayments | | **(750)** | (11,731) |
| (Increase) decrease in amounts due from related companies | | **(925)** | 417 |
| (Decrease) increase in trade payables | | **(25,822)** | 31,581 |
| Increase (decrease) in other payables and accrued charges | | **3,725** | (22,225) |
| Decrease in amounts due to related companies | | **(1,307)** | (1,124) |
| Increase in other liabilities | | **219** | – |
| Cash generated from operations | | **147,127** | 43,146 |
| Hong Kong Profits Tax (paid) refunded | | **(325)** | 15 |
| NET CASH FROM OPERATING ACTIVITIES | | **146,802** | 43,161 |

## Consolidated Cash Flow Statement

For the Year Ended 31 March 2008

| | *Notes* | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | **37,382** | 10,301 |
| Dividend income | | **712** | 300 |
| Acquisition of subsidiaries | *39* | **(858,385)** | – |
| Disposal of subsidiaries | *40* | **(22)** | – |
| Purchase of property, plant and equipment | | **(6,434)** | (1,067) |
| Proceeds on disposal of property, plant and equipment | | **42** | 13 |
| Decrease in pledged bank deposits | | **168,385** | 46,327 |
| Purchase of available-for-sale financial assets | | **–** | (27,164) |
| Proceeds of disposal of available-for-sale financial assets | | **–** | 19,000 |
| Advance to an associate | | **(40,000)** | – |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | **(698,320)** | 47,710 |
| FINANCING ACTIVITIES | | | |
| Interest paid | | **(9,538)** | (8,276) |
| Repayment of loans from related companies | | **–** | (12,582) |
| Repayment of bank borrowings | | **(23,240)** | (116,454) |
| Repayment of promissory notes | | **(81,059)** | – |
| Repayment of other borrowings | | **–** | (3,374) |
| Repayment of loans from directors | | **–** | (3,044) |
| Proceeds from issue of shares | | **1,414,989** | – |
| Expenses on issue of shares | | **(15,087)** | – |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | **1,286,065** | (143,730) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | **734,547** | (52,859) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **180,538** | 233,123 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **180** | 274 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **915,265** | 180,538 |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | **913,262** | 180,538 |
| Bank balances and cash included in assets classified as held for sale | *29* | **2,003** | – |
| | | **915,265** | 180,538 |

# Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2008

## 1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars as the directors consider that it is an appropriate presentation for a company listed in Hong Kong and for the convenience of the shareholders of the Company. On 11 October 2007, the Group acquired the entire equity interest of Fortune Gate Overseas Limited and its subsidiaries (see note 39), which operations are mainly located in the Philippines and the currency of the primary economic environment in which they operate is Philippine Peso ("Peso"). The acquisition constitutes a very substantial acquisition for the Group. In the opinion of the directors, the functional currency of the Group changed from the United States dollars ("USD" or "US$") to Peso in the current year.

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 46 to the consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial instruments: Disclosures |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives |
| HK(IFRIC) – INT 10 | Interim financial reporting and impairment |
| HK(IFRIC) – INT 11 | HKFRS 2: Group and treasury share transactions |

The adoption of these New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirement of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements [1] |
| HKAS 23 (Revised) | Borrowing costs [1] |
| HKAS 27 (Revised) | Consolidated and separate financial statements [2] |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation[1] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations [1] |
| HKFRS 3 (Revised) | Business combinations [2] |
| HKFRS 8 | Operating segments [1] |
| HK(IFRIC) – INT 12 | Service concession arranagements [3] |
| HK(IFRIC) – INT 13 | Customer loyalty programmes [4] |
| HK(IFRIC) – INT 14 | HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3] |

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 July 2009.
[3] Effective for accounting periods beginning on or after 1 January 2008.
[4] Effective for accounting periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

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

**Business combinations**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

**Investment in an associate**

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

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

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

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

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

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

**Financial instruments**

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

*Financial assets*

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets with the time frame established by regulation or convention in the market price. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposits, amounts due from related companies, amount due from an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

**Financial instruments** *(Continued)*

*Impairment of financial assets (Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

*Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

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

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

**Financial instruments** *(Continued)*

*Financial liabilities and equity (Continued)*

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to related companies, promissory notes and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible note

Convertible note issued by the Group that contains both liability and conversion option components is classified separately into respective items on initial recognition.

Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible note is allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

Equity instruments

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

*Derecognition*

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

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

**Equity-settled share-based payment transactions**

*Share options granted to employees of the Group after 7 November 2002 and vested on or after 1 January 2005*

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

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

**Equity-settled share-based payment transactions** *(Continued)*

*Share options granted to employees of the Group after 7 November 2002 and vested on or after 1 January 2005 (Continued)*

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

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

Other service income is recognised when the services are rendered.

Income from the licensing of the distribution rights over films is recognised when the film production is complete, the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the distributors and the collectibility of proceeds is reasonably assured.

Hotel revenue from room rentals, food and beverage sale and other ancillary service is recognised when service is rendered.

Rental income from properties let to Philippine Amusement and Gaming Corporation ("PAGCOR") under operating leases, less franchise tax, is recognised at a certain percentage of net gaming revenue of the casino or a fixed rental amount, whichever is higher. Rental income is recognised in the consolidated income statement in the periods in which they are earned.

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

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

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the supply of goods or services, or for administrative purposes are stated at cost less accumulated depreciation and accumulated impairment losses.

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

**Property, plant and equipment** *(Continued)*

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

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

**Investment properties**

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight line method.

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

**Impairment losses of tangible assets**

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

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

**Inventories**

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

**Film costs**

Film costs represent film right and films and animation series produced by the Group or acquired by the Group.

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

**Leasing**

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

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

**Leasing** *(Continued)*

*The Group as lessor*

Rental income from operating leases to PAGCOR is recognised at a certain percentage of net gaming revenue of the casino or fixed rental amount, whichever is higher. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

*The Group as lessee*

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

**Taxation**

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

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

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

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

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

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

**Borrowing costs**

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

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

**Borrowing costs** *(Continued)*

All other borrowings costs are recognised in as and included in finance costs in the consolidated income statement in the period in which they are incurred.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

**Retirement benefits costs**

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

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

**Allowance for bad and doubtful debts**

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

**Estimated impairment and amortisation of film costs**

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

**Deferred income tax assets**

At the balance sheet date, the Group has unused tax losses not recognised amounted to approximately HK$762,466,000 (see note 35 for details). The unused tax losses not recognised may be crystallised if the actual future profits generated are more than expected. No deferred tax assets has been recognised and offset against deferred tax liabilities due to the unpredictability of future profit streams.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the promissory notes, convertible note and bank borrowings which were disclosed in notes 32, 33 and 34 respectively and equity attributable to equity holders of the Company, comprising issued share capital, accumulated losses and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **1,444,934** | 208,432 |
| Available-for-sale financial assets | **12,672** | 13,786 |
| **Financial liabilities** | | |
| Financial liabilities designated as at FVTPL | **141,200** | – |
| Amortised cost | **1,150,683** | 108,608 |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, available-for-sale financial assets, pledged bank deposits, bank balances, trade payables, other payables, amount due from an associate, amounts due from and to related companies, convertible note, promissory notes and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

Currency risk

Currency risk exists with respect to the bank balances, pledged bank deposits, amount due from an associate, promissory notes, conversion option derivative and convertibe note denominated in currencies other than the functional currency of respective group entities as disclosed in notes 22, 28, 32 and 33 respectively. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the balance sheet date are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 | **2008** **HK$'000** | 2007 HK$'000 |
| USD | **551,411** | 84 | **–** | – |
| HKD | **516,260** | 141,206 | **1,004,437** | – |

The Group currently does not have foreign currency hedging policy. However, the management monitor foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

For the year ended 31 March 2008, the currency risk is mainly arising from exchange rate of Peso against USD and HKD.

For the year ended 31 March 2007, since the exchange rate of Hong Kong dollars was pegged with USD, the currency risk was insignificant.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

*Market risk (Continued)*

Currency risk *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in Peso against USD and HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where the foreign currencies strengthen 5% against Peso for net asset position, and vice versa. For a 5% weakening of the foreign currencies against Peso, there would be an equal and opposite impact on the profit for the year.

| | **HKD Impact** | | **USD Impact** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| (Decrease) increase in profit for the year | **(24,409)** | – | **27,571** | – |

This is mainly attributable to the exposure outstanding on bank balances, pledged bank deposits, amount due from an associate, promissory notes, conversion option derivative, and convertible note denominated in USD and HKD at year end.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*Interest rate risk*

The Group's interest rate risk arises from pledged bank deposits, bank borrowings and liability component of convertible note (see note 33 for details). The Group is exposed to the fair value interest rate risk in relation to the fixed-rate pledged bank deposits and liability component of convertible note issued at fixed-rate. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 34 for details). The Group does not have interest rate hedging policy. However, the management monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2008 would decrease/increase by approximately HK$979,000 (2007: decrease/increase by HK$64,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

*Other price risk*

The Group is exposed to equity price risk through its available-for-sale financial assets in respect of equity securities listed in Hong Kong. The management manages this exposure by maintaining a portfolio of investments with different risks.

In addition, the Group is required to estimate the fair value of the conversion option embedded in the convertible note at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible note is outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk arising from available-for-sale financial assets at the balance sheet date. If the prices of the respective equity instruments had been 5% higher/lower, investment valuation reserve would increase/decrease by approximately HK$634,000 (2007: HK$689,000) for the Group as a result of the changes in fair value of available-for-sale financial assets.

The sensitivity analyses below have been determined based on the exposure to equity price risk arising from conversion option derivative at the balance sheet date only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option derivative.

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of conversion option derivative) would decrease/increase by HK$11,200,000 (2007: nil).

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Apart from trade receivables from PAGCOR of approximately HK$19,847,000 as at 31 March 2008, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as one of the significant sources of liquidity. As at 31 March 2008, the Group has available unutilised borrowing facilities with floating rate amounting to approximately HK$138,280,000 (2007: HK$1,000,000).

**6. FINANCIAL INSTRUMENTS** *(Continued)*

**(b) Financial risk management objectives and policies** *(Continued)*

*Liquidity risk (Continued)*

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows (including interest payments computed based on prevailing market rates at the balance sheet date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**Liquidity and interest risk tables**

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.3.2008 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 69,543 | 6,623 | 2,221 | – | 78,387 | 78,387 |
| Other payables | – | 227 | 9,189 | – | – | 9,416 | 9,416 |
| Amounts due to related companies | – | 3,848 | – | – | – | 3,848 | 3,848 |
| Promissory notes | – | 561,235 | – | – | – | 561,235 | 561,235 |
| Convertible note | | | | | | | |
| – fixed rate | 1.00 | – | – | 4,000 | 408,000 | 412,000 | 302,002 |
| Bank borrowings | | | | | | | |
| – variable rate | 7.86 | – | 34,384 | 54,265 | 126,417 | 215,066 | 195,795 |
| | | 634,853 | 50,196 | 60,486 | 534,417 | 1,279,952 | 1,150,683 |

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.3.2007 HK$'000 |
|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 87,522 | 1,271 | 4,066 | – | 92,859 | 92,859 |
| Other payables | – | 1,566 | – | – | – | 1,566 | 1,566 |
| Amounts due to related companies | – | 1,330 | – | – | – | 1,330 | 1,330 |
| Bank borrowings | | | | | | | |
| – variable rate | 8.87 | – | 13,717 | – | – | 13,717 | 12,853 |
| | | 90,418 | 14,988 | 4,066 | – | 109,472 | 108,608 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

*Fair value*

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

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

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

## 7. REVENUE

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| The Group's revenue comprises: | | |
| **Continuing operations** | | |
| Entertainment business | | |
| Film and television programme production and distribution licensing | **67,591** | 118,617 |
| Music concerts and sale of music records | **8,059** | – |
| | **75,650** | 118,617 |
| Hotel | | |
| Room revenue | **48,623** | – |
| Food and beverages | **32,035** | – |
| Other hotel service income | **4,618** | – |
| | **85,276** | – |
| Leasing of properties | **142,806** | – |
| | **303,732** | 118,617 |
| **Discontinued operations** | | |
| Sales of goods | **12,282** | 7,824 |
| Service income | **15,966** | 10,869 |
| | **28,248** | 18,693 |
| | **331,980** | 137,310 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

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

Principal activities are as follows:

| | | |
|---|---|---|
| Hotel | – | Operation of hotel business |
| Leasing | – | Leasing of properties |
| Entertainment business | – | Production and licensing of theatrical motion pictures in a variety of genres and investments in production of television series, music concerts and sales of music records |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

The Group was also engaged in the businesses of (i) network solutions segment – provision of total system solution including data networking solution, synchronisation solution, timing solution, wireless local area network solution and network access control solution and (ii) project services and (iii) others segment – provision of infrastructure installation services for customers which include cellular base station and antenna system installation service, structural cabling installation service and microwave installation service. These operations were discontinued during the year ended 31 March 2008 or to be discontinued within twelve months since the balance sheet date. The corresponding business segments were classified as discontinued operations accordingly. Details are disclosed in notes 15 and 29.

Segment information about these businesses is presented below.

*Consolidated income statement for the year ended 31 March 2008*

| | Continuing operations | | | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hotel<br>HK$'000 | Leasing<br>HK$'000 | Entertainment business<br>HK$'000 | Elimination<br>HK$'000 | Total<br>HK$'000 | Network solutions<br>HK$'000 | Project services<br>HK$'000 | Others<br>HK$'000 | Total<br>HK$'000 | Consolidated<br>HK$'000 |
| REVENUE | | | | | | | | | | |
| External sales | 85,276 | 142,806 | 75,650 | – | 303,732 | 12,282 | 14,690 | 1,276 | 28,248 | 331,980 |
| Inter-segment sales | – | 355 | – | (355) | – | – | – | – | – | – |
| Total | 85,276 | 143,161 | 75,650 | (355) | 303,732 | 12,282 | 14,690 | 1,276 | 28,248 | 331,980 |
| RESULTS | | | | | | | | | | |
| Segment results | (12,807) | 75,325 | (10,233) | (355) | 51,930 | 2,769 | 2,887 | 963 | 6,619 | 58,549 |
| Other income | | | | | 50,937 | | | | 540 | 51,477 |
| Change in fair value of conversion option derivative | | | | | 64,800 | | | | – | 64,800 |
| Unallocated corporate expenses | | | | | (23,623) | | | | (5,963) | (29,586) |
| Share of profit of an associate | | | | | 2,963 | | | | – | 2,963 |
| Finance costs | | | | | (27,540) | | | | – | (27,540) |
| Profit before taxation | | | | | 119,467 | | | | 1,196 | 120,663 |
| Taxation | | | | | (12,641) | | | | (230) | (12,871) |
| Profit for the year | | | | | 106,826 | | | | 966 | 107,792 |

*Note: Inter-segment sales are charged at prevailing market rates.*

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

*Consolidated balance sheet at 31 March 2008*

| | Hotel HK$'000 | Leasing HK$'000 | Entertainment business HK$'000 | Network solutions HK$'000 | Project services HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Segment assets | 682,983 | 1,589,461 | 56,037 | 1,563 | 3,062 | 25 | 2,333,131 |
| Investment in an associate | | | | | | | 570,379 |
| Unallocated corporate assets | | | | | | | 1,410,869 |
| Consolidated total assets | | | | | | | 4,314,379 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 27,197 | 4,912 | 88,277 | 1,506 | 3,179 | 534 | 125,605 |
| Unallocated corporate liabilities | | | | | | | 1,680,733 |
| Consolidated total liabilities | | | | | | | 1,806,338 |

*Other information for the year ended 31 March 2008*

| | Continuing operations | | | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hotel HK$'000 | Leasing HK$'000 | Entertainment business HK$'000 | Others HK$'000 | Total HK$'000 | Network solutions HK$'000 | Project services HK$'000 | Others HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Additions to property, plant and equipment, investment properties and film costs | 2,623 | 2,249 | 23,280 | 53 | 28,205 | 46 | 5 | 476 | 527 | 28,732 |
| Additions of property, plant and equipment and investment properties arising from acquisition of subsidiaries *(note 39)* | 648,863 | 1,505,649 | – | – | 2,154,512 | – | – | – | – | 2,154,512 |
| Depreciation and amortisation | 36,990 | 52,906 | 24,878 | 309 | 115,083 | 102 | 1 | 238 | 341 | 115,424 |
| Loss on disposal of property, plant and equipment | – | – | – | – | – | – | – | 1 | 1 | 1 |
| Impairment loss recognised in respect of film costs | – | – | 26,681 | – | 26,681 | – | – | – | – | 26,681 |
| Allowance for obsolete inventories | – | – | 444 | – | 444 | – | – | – | – | 444 |
| Allowance for bad and doubtful debts | 28 | – | 651 | – | 679 | – | – | – | – | 679 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

*Consolidated income statement for the year ended 31 March 2007*

| | Continuing operations | Discontinued operations | | | | |
|---|---|---|---|---|---|---|
| | Entertainment business HK$'000 | Network solutions HK$'000 | Project services HK$'000 | Others HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| REVENUE | | | | | | |
| External sales | 118,617 | 7,824 | 9,469 | 1,400 | 18,693 | 137,310 |
| RESULTS | | | | | | |
| Segment results | (111,634) | 2,268 | 2,640 | 988 | 5,896 | (105,738) |
| Other income | 16,806 | | | | 66 | 16,872 |
| Unallocated corporate expenses | (10,809) | | | | (5,050) | (15,859) |
| Finance costs | (4,390) | | | | (438) | (4,828) |
| (Loss) profit before taxation | (110,027) | | | | 474 | (109,553) |
| Taxation | (1,000) | | | | (260) | (1,260) |
| (Loss) profit for the year | (111,027) | | | | 214 | (110,813) |

*Consolidated balance sheet at 31 March 2007*

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

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

*Other information for the year ended 31 March 2007*

| | Continuing operations | Discontinued operations | | | | |
|---|---|---|---|---|---|---|
| | Entertainment business HK$'000 | Network solutions HK$'000 | Project services HK$'000 | Others HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| Additions to property, plant and equipment and film costs | 48,547 | – | – | 807 | 807 | 49,354 |
| Depreciation and amortisation | 89,115 | 116 | – | 1,048 | 1,164 | 90,279 |
| Loss on disposal of property, plant and equipment | 141 | – | – | 11 | 11 | 152 |
| Impairment loss recognised in respect of film costs | 102,815 | – | – | – | – | 102,815 |
| Allowance for obsolete inventories | – | 7 | 38 | – | 45 | 45 |
| Allowance for bad and doubtful debts | 1,053 | 32 | – | – | 32 | 1,085 |

**Geographical segments**

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

The Group's hotel and leasing business are mainly carried out in the Philippines. Entertainment business, network solutions and project services are derived from geographical locations other than the Philippines.

The following table provides an analysis of the Group's revenue by geographical location of the Group's customers:

| | Revenue by geographical market | |
|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 |
| Hong Kong | **35,958** | 20,321 |
| Elsewhere in the PRC | **350** | 1,022 |
| USA | **44,005** | 46,301 |
| Europe | **22,310** | 65,358 |
| The Philippines | **228,082** | – |
| Asia other than Hong Kong, the PRC and the Philippines | **1,275** | 4,308 |
| | **331,980** | 137,310 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Geographical segments** *(Continued)*

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

| | Carrying amount of segment assets | | Additions to property, plant and equipment, investment properties and film costs | | Additions to property, plant and equipment and investment properties arising from acquisition of subsidiaries (note 39) | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **20,518** | 15,100 | **5,045** | 1,417 | **–** | – |
| Elsewhere in the PRC | **950** | 943 | **3** | 55 | **–** | – |
| The Philippines | **2,272,444** | – | **4,872** | – | **2,154,512** | – |
| USA | **39,219** | 71,792 | **18,812** | 47,882 | **–** | – |
| | **2,333,131** | 87,835 | **28,732** | 49,354 | **2,154,512** | – |

## 9. OTHER INCOME

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Gain on disposal of available-for-sale financial assets | **–** | 5,434 |
| Gain on disposal of subsidiaries | **1,796** | – |
| Interest income on bank deposits | **37,219** | 9,972 |
| Imputed interest income on amount due from an associate | **3,104** | – |
| Interest income on amount due from an associate | **85** | – |
| Sundry income | **1,144** | 1,100 |
| Dividend income from listed securities | **712** | 300 |
| Net foreign exchange gain | **6,877** | – |
| | **50,937** | 16,806 |
| **Discontinued operations** | | |
| Interest income on bank deposits | **78** | 64 |
| Sundry income | **462** | 2 |
| | **540** | 66 |
| | **51,477** | 16,872 |

## 10. FINANCE COSTS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank borrowings – repayable within five years | **9,538** | 7,838 |
| Effective interest expense on convertible note *(note 33)* | **18,002** | – |
| | **27,540** | 7,838 |
| Less: Amount capitalised in film costs | **–** | (3,448) |
| | **27,540** | 4,390 |
| **Discontinued operations** | | |
| Interest on loans from related companies | **–** | 308 |
| Interest on loans from directors | **–** | 65 |
| Interest on other borrowings – repayable within five years | **–** | 65 |
| | **–** | 438 |
| | **27,540** | 4,828 |

## 11. PROFIT (LOSS) BEFORE TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit (loss) before taxation has been arrived at after charging (crediting): | | | | | | |
| Allowance for bad and doubtful debts | **679** | 1,053 | **–** | 32 | **679** | 1,085 |
| Allowance for obsolete inventories (included in cost of sales) | **444** | – | **–** | 45 | **444** | 45 |
| Amortisation of film costs (included in cost of sales) | **24,304** | 88,862 | **–** | – | **24,304** | 88,862 |
| Auditor's remuneration | **3,593** | 2,647 | **70** | 32 | **3,663** | 2,679 |
| Cost of inventories recognised as an expense | **10,755** | – | **20,859** | 12,097 | **31,614** | 12,097 |
| Depreciation of property, plant and equipment | **56,503** | 253 | **341** | 1,164 | **56,844** | 1,417 |
| Depreciation of investment properties | **34,276** | – | **–** | – | **34,276** | – |
| Impairment loss recognised in respect of film costs (included in cost of sales) *(note 24)* | **26,681** | 102,815 | **–** | – | **26,681** | 102,815 |
| Loss on disposal of property, plant and equipment | **–** | 141 | **1** | 11 | **1** | 152 |
| Net foreign exchange (gain) loss | **(6,877)** | 222 | **11** | (2) | **(6,866)** | 220 |
| Rental expenses under operating leases on | | | | | | |
| – premises | **6,442** | 3,848 | **512** | 150 | **6,954** | 3,998 |
| – equipment | **195** | 203 | **28** | 80 | **223** | 283 |
| | **6,637** | 4,051 | **540** | 230 | **7,177** | 4,281 |
| Gross rental income from leased properties and entertainment equipment | **(142,806)** | – | **–** | – | **(142,806)** | – |
| Less: Direct operating expenses from leased properties and entertainment equipment that generated rental income | **67,836** | – | **–** | – | **67,836** | – |
| | **(74,970)** | – | **–** | – | **(74,970)** | – |
| Staff costs, including directors' emoluments | | | | | | |
| – salaries and allowances | **40,580** | 21,871 | **4,486** | 3,607 | **45,066** | 25,478 |
| – retirement benefits schemes contributions *(note 38)* | **401** | 317 | **193** | 192 | **594** | 509 |
| | **40,981** | 22,188 | **4,679** | 3,799 | **45,660** | 25,987 |

## 12. DIRECTORS' EMOLUMENTS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Directors' fees | **2,204** | 2,037 |
| Other emoluments: | | |
| Salaries and other benefits | **397** | 500 |
| Contributions to retirement benefits scheme | **10** | 12 |
| | **407** | 512 |
| | **2,611** | 2,549 |

The emoluments paid or payable to each of the thirteen (2007: nine) directors were as follows:

| | Cheng Kar Shun HK$'000 | Lo Lin Shing, Simon HK$'000 | To Hin Tsun, Gerald HK$'000 | Choi Wing Kin HK$'000 *(Note i)* | So Kam Wing HK$'000 *(Note i)* | Cheng Kam Chiu, Stewart HK$'000 *(Note ii)* | Cheng Kam Biu, Wilson HK$'000 *(Note ii)* | Cheng Chi Kong HK$'000 *(Note ii)* | Cheng Chi Him HK$'000 *(Note ii)* | Wu Wing Kin HK$'000 | Cheung Hon Kit HK$'000 | Kwee Chong Kok, Michael HK$'000 | Wong Chi Keung HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | | | | | | | |
| Fees: | | | | | | | | | | | | | | |
| Executive directors | 500 | 500 | 500 | 83 | 83 | 17 | 17 | 17 | 17 | – | – | – | – | 1,734 |
| Non-executive directors | – | – | – | – | – | – | – | – | – | 120 | 120 | 110 | 120 | 470 |
| Other emoluments: | | | | | | | | | | | | | | |
| Salaries and other benefits | – | – | – | – | 397 | – | – | – | – | – | – | – | – | 397 |
| Contributions to retirement benefits scheme | – | – | – | – | 10 | – | – | – | – | – | – | – | – | 10 |
| Total emoluments | 500 | 500 | 500 | 83 | 490 | 17 | 17 | 17 | 17 | 120 | 120 | 110 | 120 | 2,611 |

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

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

*Notes:*

(i) *Mr. Choi Wing Kin and Mr. So Kam Wing resigned as the Company's executive directors on 29 January 2008.*

(ii) *Mr. Cheng Kam Chiu, Stewart, Mr. Cheng Kam Biu, Wilson, Mr. Cheng Chi Kong and Mr. Cheng Chi Him were appointed as the Company's executive directors on 29 January 2008.*

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

## 13. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group did not include any director of the Company for both years. The emoluments of the five (2007: five) individuals were as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries and other benefits | **7,941** | 8,576 |
| Contributions to retirement benefits scheme | **62** | 97 |
| | **8,003** | 8,673 |

## 13. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

| | **2008 No. of employees** | 2007 No. of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **3** | 2 |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **2** | 2 |
| | **5** | 5 |

## 14. TAXATION

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax – Hong Kong | **–** | 1,000 |
| Deferred taxation *(note 35)* | **12,641** | – |
| | **12,641** | 1,000 |
| **Discontinued operations** | | |
| Current tax – Hong Kong | **235** | 260 |
| Overprovision in prior year – Hong Kong | **(5)** | – |
| | **230** | 260 |
| Taxation | **12,871** | 1,260 |

The taxation for both years are mainly arising from operations in Hong Kong. No provision for taxation in other jurisdictions was made in the consolidated financial statements for both years as the Group's operations outside Hong Kong either had no assessable profits or were exempted from profits tax.

A subsidiary operating in the Philippines had entered into a lease agreement with PAGCOR, a company solely owned by the Philippines government and the rental income received or receivable from PAGCOR is exempted from Philippines profits tax.

The income tax rate of the Company's subsidiaries operating in Hong Kong is 17.5% for both years.

The income tax rate of the Company's subsidiaries operating in the USA is 36.8% for both years.

The income tax rate of the Company's newly acquired subsidiaries operating in the Philippines is 35%.

## 14. TAXATION *(Continued)*

The taxation charge for the year can be reconciled to the profit (loss) per the consolidated income statement as follows:

| | Philippines | | USA | | Hong Kong | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit (loss) before taxation | | | | | | | | |
| – Continuing operations | **76,593** | – | **(1,757)** | (91,286) | **44,631** | (18,741) | **119,467** | (110,027) |
| – Discontinued operations | **–** | – | **–** | – | **1,196** | 474 | **1,196** | 474 |
| | **76,593** | – | **(1,757)** | (91,286) | **45,827** | (18,267) | **120,663** | (109,553) |
| Tax at the domestic rates applicable to profits in the country concerned | **26,808** | – | **(647)** | (33,593) | **8,019** | (3,197) | **34,180** | (36,790) |
| Tax effect of expenses not deductible for tax purpose | **1,732** | – | **1,542** | 13,535 | **3,493** | 2,924 | **6,767** | 16,459 |
| Tax effect of income not taxable for tax purpose | **(21,558)** | – | **(32)** | – | **(15,382)** | (1,716) | **(36,972)** | (1,716) |
| Tax effect of utilisation of tax losses or deductible temporary difference not previously recognised | **–** | – | **(6,065)** | – | **(38)** | (23) | **(6,103)** | (23) |
| Tax effect of tax losses and deductible temporary not recognised | **5,659** | – | **5,411** | 20,058 | **4,888** | 3,280 | **15,958** | 23,338 |
| Overprovision in prior year | **–** | – | **–** | – | **(5)** | – | **(5)** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **–** | – | **–** | – | **(280)** | (158) | **(280)** | (158) |
| Others | **–** | – | **(209)** | – | **54** | 150 | **(155)** | 150 |
| Tax effect of share of profit of an associate | **–** | – | **–** | – | **(519)** | – | **(519)** | – |
| Taxation charge for the year | **12,641** | – | **–** | – | **230** | 1,260 | **12,871** | 1,260 |

Details of the deferred taxation are set out in note 35 to the consolidated financial statements.

## 15. DISCONTINUED OPERATIONS

During the year, the Group decided to discontinue the operations on network solutions and project services operated by Cyber On-Air Group Limited ("COAG") and its subsidiaries (collectively the "COAG Group").

**15. DISCONTINUED OPERATIONS** *(Continued)*

On 27 December 2007, the Company entered into a conditional sale and purchase agreement with New World Mobile Holdings Limited, a related company beneficially owned by a director of the Company, Mr. Lo Lin Shing, Simon, for the disposal of its entire interests in COAG for a cash consideration of HK$2,000,000. The assets and liabilities attributable to the business, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet (see note 29). The net proceed of the disposal is expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss is recognised. Details of the disposal are set out in the announcements of the Company dated 2 January 2008 and 3 March 2008, and the circular of the Company dated 23 January 2008. The disposal was completed on 25 April 2008.

The business segments of these operations were presented as discontinued operations either upon the classification of the related assets and liabilities as assets classified as held for sale and liabilities associated with assets classified as held for sale respectively or upon the completion of the disposal of subsidiaries engaged in the corresponding business segments.

The combined results of the network solutions and project services operations for the period from 1 April 2007 to the balance sheet date, which have been included in the consolidated income statement, were as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Revenue | **28,248** | 18,693 |
| Cost of sales | **(21,629)** | (12,797) |
| Other income | **540** | 66 |
| General and administrative expenses | **(5,963)** | (5,050) |
| Finance costs | **–** | (438) |
| Profit before taxation | **1,196** | 474 |
| Taxation | **(230)** | (260) |
| Profit for the year, attributable to equity holders of the Company | **966** | 214 |

During the year, the network solutions and project services operations contributed approximately HK$1,119,000 (2007: HK$3,935,000) to the Group's net operating cash flows, paid HK$452,000 (2007: HK$31,000) in respect of investing activities and paid HK$43,000 (2007: HK$4,535,000) in respect of financing activities.

## 16. EARNINGS (LOSS) PER SHARE

**For continuing and discontinued operations**

The calculation of basic and diluted earnings (loss) per share attributable to the equity holders of the Company for the year ended 31 March 2008 together with the comparative figures for 2007 are based on the following data:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| **Earnings (loss)** | | |
| Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the year attributable to equity holders of the Company) | **76,455** | (110,813) |
| Effect of dilutive potential ordinary shares in respect of convertible note: | | |
| – Change in fair value of conversion option derivative | **(64,800)** | – |
| – Effective interest expense | **18,002** | – |
| Earnings (loss) for the purpose of diluted earnings (loss) per share | **29,657** | (110,813) |

| | **2008 In thousand** | 2007 In thousand |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **981,881** | 694,572 |
| Effect of dilutive potential ordinary shares from convertible note | **94,535** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | **1,076,416** | 694,572 |

The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share for both years has been adjusted for the effect of rights issue in August 2007.

The calculation of diluted earnings (loss) per share for year ended 31 March 2008 and 2007 did not assume the exercise of the subsidiary's outstanding share options since the subsidiaries incurred losses.

## 16. EARNINGS (LOSS) PER SHARE *(Continued)*

**From continuing operations**

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the equity holders of the Company is based on the following data:

Earnings (loss) figures are calculated as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit (loss) for the year attributable to equity holders of the Company | **76,455** | (110,813) |
| Less: Profit for the year from discontinued operations attributable to equity holders of the Company | **966** | 214 |
| Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations | **75,489** | (111,027) |
| Effect of dilutive potential ordinary shares in respect of convertible note: | | |
| Change in fair value of conversion option derivative | **(64,800)** | – |
| Effective interest expense | **18,002** | – |
| Earnings (loss) for the purpose of diluted earnings (loss) per share | **28,691** | (111,027) |

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

**From discontinued operations**

Basic and diluted earnings per share for the discontinued operations are HK0.10 cent (2007: HK0.03 cent) and HK0.09 cent (2007: HK0.03 cent) per share respectively based on the profit for the year from the discontinued operations of approximately HK$966,000 (2007: HK$214,000) and the denominators detailed above for both basic and diluted earnings per share.

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For the Year Ended 31 March 2008

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Entertainment equipment HK$'000 | Computer hardware HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1 April 2006 | – | 2,458 | – | 926 | – | 6,794 | – | 10,178 |
| Exchange adjustments | – | (1) | – | (116) | – | – | – | (117) |
| Additions | – | 773 | – | – | – | 294 | – | 1,067 |
| Disposals | – | (1,985) | – | (262) | – | (717) | – | (2,964) |
| At 1 April 2007 | – | 1,245 | – | 548 | – | 6,371 | – | 8,164 |
| Exchange adjustments | 36,429 | 322 | 6,758 | 4,315 | 4,013 | 6 | 9 | 51,852 |
| Acquired on acquisition of subsidiaries *(note 39)* | 527,280 | 4,243 | 87,665 | 56,526 | 52,064 | – | 114 | 727,892 |
| Additions | 225 | 375 | 1,947 | 1,614 | 1,054 | 489 | 730 | 6,434 |
| Disposals | – | – | – | (489) | – | (29) | – | (518) |
| Write-off | – | (9) | – | (6) | – | (4,097) | – | (4,112) |
| Reclassified as assets held for sale | – | (269) | – | (6) | – | (2,059) | – | (2,334) |
| **At 31 March 2008** | **563,934** | **5,907** | **96,370** | **62,502** | **57,131** | **681** | **853** | **787,378** |
| DEPRECIATION | | | | | | | | |
| At 1 April 2006 | – | 1,995 | – | 513 | – | 5,718 | – | 8,226 |
| Exchange adjustments | – | (3) | – | (150) | – | – | – | (153) |
| Provided for the year | – | 271 | – | 267 | – | 879 | – | 1,417 |
| Eliminated on disposals | – | (1,890) | – | (216) | – | (693) | – | (2,799) |
| At 1 April 2007 | – | 373 | – | 414 | – | 5,904 | – | 6,691 |
| Exchange adjustments | 3 | 2 | 5 | 1 | 3 | 1 | – | 15 |
| Provided for the year | 13,000 | 778 | 17,816 | 12,515 | 12,242 | 415 | 78 | 56,844 |
| Eliminated on disposals | – | – | – | (446) | – | (29) | – | (475) |
| Eliminated on write-off | – | (9) | – | (6) | – | (4,097) | – | (4,112) |
| Reclassified as assets held for sale | – | (214) | – | (1) | – | (1,668) | – | (1,883) |
| **At 31 March 2008** | **13,003** | **930** | **17,821** | **12,477** | **12,245** | **526** | **78** | **57,080** |
| CARRYING VALUES | | | | | | | | |
| **At 31 March 2008** | **550,931** | **4,977** | **78,549** | **50,025** | **44,886** | **155** | **775** | **730,298** |
| At 31 March 2007 | – | 872 | – | 134 | – | 467 | – | 1,473 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

| | |
|---|---|
| Buildings | Over the term of the land leases on which the buildings are located |
| Leasehold improvements | Over the term of the land leases on which the buildings are located |
| Furniture, fixtures and equipment | 15% – $33^1/_3$% |
| Plant and machinery | 20% – $33^1/_3$% |
| Entertainment equipment | 20% – $33^1/_3$% |
| Computer hardware | 15% – $33^1/_3$% |
| Motor vehicles | 20% – $33^1/_3$% |

All the buildings are held under medium-term leases in the Philippines.

The carrying value of entertainment equipment of approximately HK$44,886,000 was held for use under operating leases to PAGCOR at 31 March 2008.

## 18. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---:|
| COST | |
| At 1 April 2006, 31 March 2007 and 1 April 2007 | – |
| Exchange adjustments | 88,141 |
| Acquired on acquisition of subsidiaries *(note 39)* | 1,426,620 |
| **At 31 March 2008** | **1,514,761** |
| DEPRECIATION | |
| At 1 April 2006, 31 March 2007 and 1 April 2007 | – |
| Exchange adjustments | 3 |
| Provided for the year | 34,276 |
| **At 31 March 2008** | **34,279** |
| CARRYING VALUES | |
| **At 31 March 2008** | **1,480,482** |
| At 31 March 2007 | – |

The above investment properties are held under medium-term lease in the Philippines. Depreciation is provided to write off the cost of investment properties over the lease term of the lease contract signed with PAGCOR and after taking into account of the residual value, using the straight line method.

The fair value of the Group's investment properties at 31 March 2008 was approximately HK$1,502 million. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Sallmanns Limited ("Jones Lang"), independent valuer not connected with the Group. Jones Lang is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by capitalising the net rental income derived from the existing tenancies and taking into account the future growth potential with reference of historical rental trend achieved in previous years.

## 19. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2006, 31 March 2007 and 31 March 2008 | 14,843 |
| AMORTISATION AND IMPAIRMENT | |
| At 1 April 2006, 31 March 2007 and 31 March 2008 | 14,843 |
| CARRYING VALUES | |
| **At 31 March 2008** | **–** |
| At 31 March 2007 | – |

## 20. INVESTMENT IN AN ASSOCIATE

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Cost of investment in an associate, unlisted | **567,416** | – |
| Share of post-acquisition profit | **2,963** | – |
| | **570,379** | – |

As at 31 March 2008 and 31 March 2007, the Group had interest in the following associate:

| Name of associate | Place of incorporation | Issued and fully paid registered capital | Proportion of interest indirectly held by the Company | | Proportion of voting power held by the Company | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | **2008 %** | 2007 % | **2008 %** | 2007 % | |
| Arc of Triumph Development Company Limited ("ATD") | Macau Special Administrative Regional of the PRC ("Macau") | MOP180,000 | **40** | – | **40** | – | Property development and investment |

## 20. INVESTMENT IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group's associate is set out below:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total assets | **3,895,089** | – |
| Total liabilities | **2,469,141** | – |
| Net assets | **1,425,948** | – |
| Group's share of net assets of an associate | **570,379** | – |
| Revenue | **–** | – |
| Profit for the year | **7,408** | – |
| Group's share of result of an associate for the year | **2,963** | – |

## 21. OTHER ASSETS

The amounts represent the value added tax receivables which can be utilised to set off the value added tax payables in the future. In the opinion of the directors of the Company, the amounts at the balance sheet date will not be utilised in the next twelve months from the balance sheet date. According to the regulation of the Philippines, the value added tax receivables can be carried forward indefinitely.

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

Pledged bank deposits carry interest at fixed interest rate which range from 2.30% to 5.57% (2007: 2.90% to 5.19%) per annum.

As at 31 March 2008, all pledged bank deposits are pledged to banks to secure the instalment bank loans that are classified as current and non-current bank borrowings at the balance sheet date. The pledged bank deposits will be released upon the settlement of entire instalment bank loans and are therefore classified as non-current assets.

As at 31 March 2007, the pledged bank deposits of approximately HK$12,853,000 and HK$1,000,000 were pledged to banks to secure short-term bank borrowings and general borrowing facilities respectively. Therefore, the pledged bank deposits were classified as current assets.

## 22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at prevailing market interest rates which range from 0.75% to 6.50% (2007: 1.00% to 4.98%) per annum.

The Group's bank balances and pledged bank deposits that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **Bank balances** | | **Pledged bank deposits** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Denominated in USD | **201,487** | 84 | **349,924** | – |
| Denominated in HKD | **388,268** | 141,206 | **–** | – |

## 23. INVENTORIES

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Work in progress | **–** | 750 |
| Finished goods | **286** | 831 |
| Hotel consumable, food and beverages | **4,267** | – |
| | **4,553** | 1,581 |

## 24. FILM COSTS

| | HK$'000 |
|---|---:|
| COST | |
| At 1 April 2006 | 572,775 |
| Exchange adjustments | 8,634 |
| Additions during the year | 48,287 |
| At 1 April 2007 | 629,696 |
| Exchange adjustments | 1,118 |
| Additions during the year | 22,298 |
| **At 31 March 2008** | **653,112** |
| AMORTISATION AND IMPAIRMENT | |
| At 1 April 2006 | 374,568 |
| Exchange adjustments | 4,362 |
| Provided for the year | 88,862 |
| Impairment loss recognised | 102,815 |
| At 1 April 2007 | 570,607 |
| Exchange adjustments | 1,067 |
| Provided for the year | 24,304 |
| Impairment loss recognised | 26,681 |
| **At 31 March 2008** | **622,659** |
| CARRYING VALUES | |
| **At 31 March 2008** | **30,453** |
| At 31 March 2007 | 59,089 |

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

The recoverable amount of the film costs as at 31 March 2008 is determined using the value in use with reference to the future prospect and present value of expected revenue to be generated from the films derived from discounting the projected cash flows by a discount rate of 12.50% (2007: 12.50%) and the directors determined that an impairment loss of approximately HK$26,681,000 (2007: HK$102,815,000) be recognised in the consolidated income statement.

## 25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong at fair value | **12,672** | 13,786 |

## 26. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Trade receivables | **32,556** | 5,791 |
| Less: Allowance for doubtful debts for trade receivables | **(70)** | (32) |
| | **32,486** | 5,759 |
| Other receivables, deposits and prepayments | **47,999** | 38,693 |
| Less: Allowance for doubtful debts for other receivables | **(4,728)** | (3,932) |
| | **43,271** | 34,761 |
| Total trade receivables, other receivables, deposits and prepayments | **75,757** | 40,520 |

The average credit terms for trade and other receivables granted by the Group range from 0 to 90 days. A longer period is granted to customers with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables net of allowance for doubtful debts at balance sheet date is as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Aged: | | |
| 0 – 30 days | **31,231** | 3,306 |
| 31 – 60 days | **307** | 750 |
| 61 – 90 days | **141** | 779 |
| Over 90 days | **807** | 924 |
| | **32,486** | 5,759 |

## 26. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. At 31 March 2008, trade receivables with an aggregate carrying amount of HK$29,637,000 (2007: HK$3,473,000) were neither past due nor impaired. The directors of the Company consider these trade receivables are of good credit quality.

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$2,849,000 (2007: HK$2,286,000) which were past due at the balance sheet date for which the Group has not provided for impairment loss as these trade receivables are either settled subsequent to the balance sheet date or the respective customers have good repayment history. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance of doubtful debts as at balance sheet date. The Group does not hold any collateral over these balances. The average age of these receivables is 45 days (2007: 75 days).

**Ageing of trade receivables which are past due but not impaired**

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| 0 – 30 days | **1,594** | 348 |
| 31 – 60 days | **307** | 235 |
| 61 – 90 days | **141** | 779 |
| Over 90 days | **807** | 924 |
| Total | **2,849** | 2,286 |

The Group has provided fully for all trade and other receivables over 1 year because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable.

**Movement in the allowance for doubtful debts for trade and other receivables**

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Balance at beginning of the year | **3,964** | 2,917 |
| Exchange adjustments | **187** | (38) |
| Impairment losses recognised on trade and other receivables | **679** | 1,085 |
| Amount classified as assets held for sale | **(32)** | – |
| Balance at end of the year | **4,798** | 3,964 |

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of approximately HK$4,798,000 (2007: HK$3,964,000) which have been in severe financial difficulties.

## 27. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are disclosed as follows:

| Name of related company | Relationship | 2008 HK$'000 | 2007 HK$'000 | Maximum amount of outstanding during the year HK$'000 |
|---|---|---|---|---|
| Mongolia Energy Corporation (Greater China) Limited (previously known as New World CyberBase (Greater China) Limited ("NWC")) | Common key management personnel Mr. Lo Lin Shing, Simon | **13** | 13 | 13 |
| New World CyberBase (Shanghai) Limited | Common key management personnel Mr. Lo Lin Shing, Simon | **–** | 28 | 28 |
| | | **13** | 41 | |

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

## 28. AMOUNT DUE FROM AN ASSOCIATE

Included in the amount due from an associate is an amount of approximately HK$88 million (2007: nil), which is unsecured, non-interest bearing and is repayable on demand. The remaining amount is unsecured, interest-bearing at 6% per annum and is repayable on demand.

For the year ended 31 March 2008, the entire amount is denominated in Hong Kong dollars, which is other than the functional currency of respective group entities (2007: nil).

## 29. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

As explained in note 15, the assets and liabilities of COAG Group were classified as assets held for sale and liabilities associated with assets classified as held for sale respectively as at 31 March 2008.

The major classes of assets and liabilities of the COAG Group as at 31 March 2008, which have been presented separately in the consolidated balance sheet, are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 451 |
| Inventories | 634 |
| Trade receivables | 3,884 |
| Other receivables, deposits and prepayments | 228 |
| Amounts due from related companies | 892 |
| Pledged bank deposits | 1,000 |
| Bank balances and cash | 2,003 |
| Total assets classified as held for sale | 9,092 |
| Trade payables | 4,052 |
| Other payables and accrued charges | 1,638 |
| Amounts due to related companies | 1,257 |
| Tax liabilities | 165 |
| Total liabilities associated with assets classified as held for sale | 7,112 |

The average credit term granted by COAG Group to its customers is 60 days. The average credit period on purchase of goods is 90 days. The aged analysis of trade receivables net of allowance for doubtful debts and trade payables at the balance sheet date are as follows:

| | **Trade receivables** HK$'000 | **Trade payables** HK$'000 |
|---|---|---|
| Aged: | | |
| 0-30 days | 3,135 | 3,369 |
| 31-60 days | 411 | 359 |
| 61-90 days | 62 | 5 |
| Over 90 days | 276 | 319 |
| | 3,884 | 4,052 |

## 29. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

Amounts due from related companies are disclosed as follows:

| Name of related company | Relationship | As at 31 March 2008 HK$'000 | Maximum amount of outstanding during the year HK$'000 |
|---|---|---|---|
| New World Mobile Holdings Limited | Common key management personnel, Mr. Lo Lin Shing, Simon | 10 | 10 |
| New World Telecommunication Limited | Common key management personnel, Mr. Lo Lin Shing, Simon | 882 | 1,560 |
| | | 892 | |

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

## 30. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Trade payables, other payables and accrued charges comprise amounts outstanding for the purchase and ongoing costs.

The aged analysis of trade payables at the balance sheet date is as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Aged: | | |
| 0 – 30 days | **4,962** | 3,821 |
| 31 – 60 days | **1,786** | 390 |
| 61 – 90 days | **60** | 270 |
| Over 90 days | **67,527** | 88,378 |
| | **74,335** | 92,859 |

The average credit period on purchase of goods is 90 days. There is no fixed repayment term for trade payables arising from film production.

## 31. AMOUNTS DUE TO RELATED COMPANIES

Related companies are companies in which the shareholders are close members of the family of a key management personnel of the Company.

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

## 32. PROMISSORY NOTES

Pursuant to the agreement dated 11 October 2007, two promissory notes ("Promissory Notes") with an aggregate amount of approximately HK$642 million were issued by a wholly-owned subsidiary of the Company in favor of two related companies, which are beneficially owned by the intermediate holding company, CTF. The amount of HK$642 million represented the shareholders' loans assigned by shareholders. The details are disclosed in note 39. Pursuant to the terms of the Promissory Notes, the amounts are unsecured, interest-free and are repayable on demand. During the year, the Group settled part of the Promissory Notes amounting to approximately HK$81 million.

As at 31 March 2008, the entire amount was denominated in HKD, which is other than the functional currency of respective group entities (2007: nil).

## 33. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

On 11 October 2007, the Company issued a convertible note of HK$400 million as part of the consideration in the acquisition of the entire equity interest of Fortune Gate Overseas Limited. Details of the acquisition are set out in note 39 and the circular of the Company dated 29 June 2007.

The convertible note is denominated in Hong Kong dollars and is unsecured. The convertible note entitles the holder to convert into ordinary shares of the Company in amounts or integral multiples of HK$4,000,000 at any time after the date of issue of the convertible note until the business day immediate prior to the maturity date of the convertible note at an initial conversion price of HK$2 per share subject to customary adjustments for among other things, subdivision or consolidation of shares, bonus issues, rights issues and other events which have diluting effects on the issued share capital of the Company. If the whole amount of the convertible note is converted on the conversion price of HK$2 per share, the Company will issue 200,000,000 shares. If the convertible note has not been converted, it will be repaid on the maturity date at its principal amount. Interest of 1% per annum will be paid annually in arrear upto the maturity date of the convertible note. The Company does not have the rights to redeem the convertible note prior to the maturity date of the convertible note. The fair values of convertible note as at issue date of 11 October 2007 and 31 March 2008, were determined by the valuation performed by an independent valuer.

The convertible note contains the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement":

(a) Liability component of the convertible note represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 13.41% per annum.

(b) Embedded conversion option of the convertible note to be accounted for as a separate financial liability represents the fair value of the option to convert the liability into equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

## 33. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE *(Continued)*

The movement of the liability component and conversion option derivative of the convertible note for the year is set out as below:

| | Liability component HK$'000 | Conversion option derivative HK$'000 | Total HK$'000 |
|---|---|---|---|
| Carrying amount at 11 October 2007, date of issue | 284,000 | 206,000 | 490,000 |
| Interest charge *(note 10)* | 18,002 | – | 18,002 |
| Gain arising on change of fair value | – | (64,800) | (64,800) |
| As at 31 March 2008 | 302,002 | 141,200 | 443,202 |

The fair value of conversion option derivative was calculated using the Black-Scholes pricing model (as at 11 October 2007) and binominal tree option pricing model (as at 31 March 2008) by an independent valuer as at issue date and balance sheet date. The inputs into the model at issue date and balance sheet date are as follows:

| | As at 11 October 2007 | As at 31 March 2008 |
|---|---|---|
| Weighted average share price | HK$1.87 | HK$1.50 |
| Exercise price | HK$2.00 | HK$2.00 |
| Expected volatility | 90% | 90.85% |
| Expected life | 3 years | 2.5 years |
| Risk-free interest rate | 3.88% | 1.39% |
| Expected dividend yield | 0% | 0% |

Expected volatility was determined by using the historical volatility of the price return of the ordinary shares of the Company and comparable companies.

Expected dividend yield was determined by using the historical dividend yield of the Company.

Because the Black-Scholes pricing model and binominal tree option pricing model require the input of highly subject assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

## 34. BANK BORROWINGS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Secured bank loans | **195,795** | 12,853 |
| Carrying amount repayable: | | |
| On demand or within one year | **75,875** | 12,853 |
| More than one year, but not exceeding two years | **105,115** | – |
| More than two years but not more than five years | **14,805** | – |
| | **195,795** | 12,853 |
| Less: Amounts due within one year shown under current liabilities | **(75,875)** | (12,853) |
| | **119,920** | – |

As at 31 March 2008, all secured bank borrowings are under the guarantee of letters of credit issued by a bank in Hong Kong. The letters of credit are secured by the Group's pledged bank deposits of approximately US$44,862,000 (equivalent to approximately HK$349,924,000).

As at 31 March 2007, all bank borrowings were secured by pledged bank deposits of approximately HK$12,853,000.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | 2008 | 2007 |
|---|---|---|
| Effective interest rate: | | |
| Variable-rate borrowings | 1.5% over the Philippine Interbank Offered Rate | 0.75% to 1.5% over the announced base rate of interest of Bank of America Corporation |

As at 31 March 2008, all the bank borrowings were denominated in Peso (2007: denominated in USD), which is the same as the functional currency of the relevant group entities.

## 35. DEFERRED TAXATION

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

| | **Unrealised foreign exchange gain** | **Fair value adjustments arising on property, plant and equipment and investment properties** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2006 and 31 March 2007 | – | – | – |
| Exchange adjustments | 2,012 | 22,392 | 24,404 |
| Acquisition of subsidiaries *(note 39)* | 26,046 | 405,761 | 431,807 |
| Charge (credit) to consolidated income statement *(note 14)* | 22,188 | (9,547) | 12,641 |
| At 31 March 2008 | 50,246 | 418,606 | 468,852 |

At the balance sheet date, the Group had estimated unused tax losses of approximately HK$762,466,000 (2007: HK$720,499,000) and deductible temporary differences of HK$2,020,000 (2007: HK$157,000) available for offset against future profits. As at 31 March 2008 and 2007, no deferred tax assets was recognised of such losses due to the unpredictability of future profit streams. Tax losses amounting to HK$115,495,000 (2007: HK$276,245,000) may be carried forward indefinitely.

The remaining tax losses will be expired as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Year 2008 | **82,619** | – |
| Year 2009 | **69,312** | – |
| Year 2010 | **42,874** | – |
| Year 2011 | **9,689** | – |
| Year 2017 | **264,095** | 276,475 |
| Year 2028 | **178,382** | 167,779 |

## 36. SHARE CAPITAL

| | Par value of shares HK$ | Number of shares | Value HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| Ordinary shares | | | |
| At 1 April 2006 and 31 March 2007 | 1 each | 500,000,000 | 500,000 |
| Increase during the year *(note a)* | 1 each | 1,500,000,000 | 1,500,000 |
| At 31 March 2008 | | 2,000,000,000 | 2,000,000 |
| Issued and fully paid: | | | |
| Ordinary shares | | | |
| At 1 April 2006 and 31 March 2007 | 1 each | 235,831,447 | 235,831 |
| Issued on rights issue *(note b)* | 1 each | 943,325,788 | 943,326 |
| At 31 March 2008 | | 1,179,157,235 | 1,179,157 |

*Notes:*

*(a) Pursuant to the resolutions passed at the extraordinary general meeting held on 1 August 2007, the authorised share capital of the Company was increased to HK$2,000,000,000 divided into 2,000,000,000 shares of HK$1 each in the share capital of the Company (the "Shares") by creation of 1,500,000,000 new Shares of HK$1 each.*

*(b) On 28 August 2007, the Company allotted and issued 943,325,788 Shares by way of a rights issue at a subscription price of HK$1.50 per share to the qualifying shareholders, on the basis of four rights shares for every existing Share then held. These new Shares rank pari passu with the then existing Shares in all respects.*

## 37. SHARE OPTION SCHEMES

### THE COMPANY

**Share option scheme adopted on 20 August 2004**

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

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

## 37. SHARE OPTION SCHEMES *(Continued)*

### THE COMPANY *(Continued)*

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

The maximum number of shares in respect of which options may be granted to grantees under this share option scheme and other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time (the "Scheme Limit"). The maximum number of shares in respect of which options may be granted under this share option scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on the adoption date of this share option scheme (the "Scheme Mandate Limit"), which is 20,483,144 shares, representing approximately 1.74% of the issued share capital as at the date of this annual report. Option lapsed in accordance with the terms of this share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may grant options beyond the scheme mandate if approval is obtained from Company's shareholders in general meetings.

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

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

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

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

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

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

## 37. SHARE OPTION SCHEMES *(Continued)*

### THE COMPANY *(Continued)*

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

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

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

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

### A SUBSIDIARY OF THE COMPANY

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

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

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

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

The exercise period of option granted under the Plan may not exceed 10 years from the date of grant.

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

No payment is required on acceptance of option.

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

### 37. SHARE OPTION SCHEMES *(Continued)*

**A SUBSIDIARY OF THE COMPANY** *(Continued)*

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

The Plan shall continue as long as the board of directors of M8 does not terminate it. Details of the share options outstanding as at 31 March 2008 which have been granted under the Plan to employees are as follows:

| Name or category of participant | Date of grant | Vesting period | Exercisable period | Exercise price per share CAD | At 1 April 2006 | Options cancelled during the year *(Note)* | At 31 March 2007 | Options cancelled during the year *(Note)* | At 31 March 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Employee | 25 May 2000 | – | 26 May 2000 – 25 May 2010 | 0.120 | 100,000 | – | 100,000 | – | 100,000 |
| Employee | 29 August 2000 | 30 August 2000 – 29 August 2002 | 30 August 2002 – 29 August 2010 | 0.100 | 137,500 | (137,500 ) | – | – | – |
| Employee | 29 August 2000 | 30 August 2000 – 29 August 2003 | 30 August 2003 – 29 August 2010 | 0.100 | 306,250 | (212,500 ) | 93,750 | – | 93,750 |
| Employee | 29 August 2000 | 30 August 2000 – 29 August 2004 | 30 August 2004 – 29 August 2010 | 0.100 | 306,250 | – | 306,250 | – | 306,250 |
| Employee | 24 May 2001 | – | 25 May 2001 – 24 May 2011 | 0.035 | 100,000 | – | 100,000 | – | 100,000 |
| Employee | 15 February 2002 | 16 February 2002 – 15 February 2003 | 16 February 2003 – 15 February 2012 | 0.075 | 830,000 | (320,000 ) | 510,000 | (100,000 ) | 410,000 |
| Employee | 13 May 2002 | 14 May 2002 – 13 May 2003 | 14 May 2003 – 13 May 2012 | 0.170 | 750,000 | (700,000 ) | 50,000 | (50,000 ) | – |
| Employee | 13 May 2002 | 14 May 2002 – 13 May 2004 | 14 May 2004 – 13 May 2012 | 0.170 | 1,150,000 | – | 1,150,000 | (50,000 ) | 1,100,000 |
| Employee | 13 May 2002 | 14 May 2002 – 13 May 2005 | 14 May 2005 – 13 May 2012 | 0.170 | 1,150,000 | – | 1,150,000 | (50,000 ) | 1,100,000 |
| Employee | 13 May 2002 | 14 May 2002 – 13 May 2006 | 14 May 2006 – 13 May 2012 | 0.170 | 1,150,000 | – | 1,150,000 | (50,000 ) | 1,100,000 |
| Employee | 28 August 2002 | 29 August 2002 – 28 August 2004 | 29 August 2004 – 28 August 2012 | 0.160 | 1,200,000 | – | 1,200,000 | (200,000 ) | 1,000,000 |
| Employee | 1 May 2003 | – | 2 May 2003 – 1 May 2013 | 0.075 | 5,970,000 | (50,000 ) | 5,920,000 | (2,600,000 ) | 3,320,000 |
| Total | | | | | 13,150,000 | (1,420,000 ) | 11,730,000 | (3,100,000 ) | 8,630,000 |

*Note: The options were cancelled due to cessation of employment of participants with M8 and its subsidiaries.*

No option was exercised or granted during the year ended 31 March 2007 and 2008.

## 38. RETIREMENT BENEFITS SCHEMES

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

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 31% to 32% (2007: 31% to 32%) of the monthly basic salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to the retired staff.

The relevant USA subsidiaries partcipates in a 401K retirement plan, a defined contribution scheme. The administrator of the plan is Nationalwide Life Insurance. During the year ended 31 March 2008, the relevant subsidiaries make contributions to the plan in a range of 1.5% to 4.0% (2007: 1.5% to 4.0%) of the basic salary of the employees under the plan on bi-weekly basis.

The relevant Philippines subsidiaries have provided long service payments for employees who have provided at least five years services to the subsidiaries in accordance with the regulations in the Philippines. The Group has not joined any retirement benefits scheme for long service payment as all of its employees have been employed for less than five years. The directors provided the long service payment provision based on the historical turnover rate of the employees. In the opinion of the directors, the long service payment provision is considered adequate as at the balance sheet date. In addition, the Group operates a defined contribution retirement benefit plans for several executive employees and the assets of the plans are held separately from those of the Group in funds under the control of trustee. The only obligation of the Group with respect of the defined contribution retirement benefit plans is to make the specific contributions. The amounts have been made based on the management estimation of expected obligation. In the opinion of the directors, the provision for long service payment is insignificant.

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

| | **2008** | | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Hong Kong HK$'000** | **PRC HK$'000** | **USA HK$'000** | **The Philippines HK$'000** | **Total HK$'000** | Hong Kong HK$'000 | PRC HK$'000 | USA HK$'000 | Total HK$'000 |
| **Continuing operations** | | | | | | | | | |
| Employers' contributions | **145** | **34** | **39** | **183** | **401** | 125 | – | 192 | 317 |
| **Discontinued operations** | | | | | | | | | |
| Employers' contributions | **193** | **–** | **–** | **–** | **193** | 140 | 52 | – | 192 |

## 39. ACQUISITION OF SUBSIDIARIES

Pursuant to the sale and purchase agreement dated 23 November 2004, the Company conditionally agreed to acquire and Cross-Growth Co., Ltd. ("Cross-Growth"), a wholly owned subsidiary of CTF, conditionally agreed to sell the entire issued share capital of Fortune Gate Overseas Limited (the "Fortune Gate"), all the amounts due from Fortune Gate and its subsidiaries to CTF and its subsidiaries as at the date of completion of the acquisition and 40% equity interests in ATD. After the Group reorganisation, details of which are set out in the circular dated 29 June 2007 issued by the Company, Fortune Gate has a 51% equity interest of the subsidiaries operating the hotel and leasing businesses in the Philippines and a 40% equity interest in ATD (the "Fortune Gate Group"). The total consideration for the acquisition was approximately HK$1,492 million of which approximately HK$1,091 million was settled by cash and HK$400 million was settled by issue of convertible note to Cross-Growth.

The acquisition was completed on 11 October 2007. This acquisition has been accounted for using the purchase method. Discount on acquisition arising as a result of the acquisition was approximately HK$222,120,000 and was credited to the other reserve as deemed contribution from the shareholders.

The Fortune Gate Group is principally engaged in hotel operation and leasing of properties. The net assets acquired in the transaction and the discount on acquisition (treated as shareholders' contribution recognised in other reserve) are as follows:

| | **Acquiree's carrying amount before combination** HK$'000 | **Fair value adjustments** HK$'000 *(note)* | **Fair value** HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 566,540 | 161,352 | 727,892 |
| Investment properties | 428,655 | 997,965 | 1,426,620 |
| Investment in an associate | 567,416 | – | 567,416 |
| Amount due from an associate | 81,581 | – | 81,581 |
| Other non-current assets | 15,905 | – | 15,905 |
| Pledged bank deposits | 505,456 | – | 505,456 |
| Inventories | 2,523 | – | 2,523 |
| Trade receivables | 40,024 | – | 40,024 |
| Other receivables, deposits and prepayments | 8,760 | – | 8,760 |
| Bank balances and cash | 255,819 | – | 255,819 |
| Trade payable | (11,398) | – | (11,398) |
| Other payables and accrued charges | (22,897) | – | (22,897) |
| Shareholders' loans | (642,294) | – | (642,294) |
| Amounts due to related companies | (4,868) | – | (4,868) |
| Bank borrowings | (206,182) | – | (206,182) |
| Deferred tax liabilities | (26,046) | (405,761) | (431,807) |
| Other non-current liabilities | (459) | – | (459) |
| Net assets | 1,558,535 | 753,556 | 2,312,091 |
| Minority interests | | | (485,767) |
| Discount on acquisition recognised in other reserve as deemed shareholders' contribution | | | (222,120) |
| Total consideration | | | 1,604,204 |

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

| | **Acquiree's carrying amount before combination** HK$'000 | **Fair value adjustments** HK$'000 | **Fair value** HK$'000 |
|---|---|---|---|
| Satisfied by: | | | |
| Cash | | | 1,091,645 |
| Convertible note at fair value *(note 33)* | | | 490,000 |
| Incidental costs | | | 22,559 |
| | | | 1,604,204 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | 1,091,645 |
| Bank balances and cash acquired | | | (255,819) |
| Incidental costs | | | 22,559 |
| | | | 858,385 |

*Note: The fair value adjustments in respect of building (included in property, plant and equipment) and investment properties located in the Philippines were determined based on the valuation carried out by Jones Lang. The valuation of the investment properties was arrived at by capitalising the estimated net rental income derived from the existing tenancies of investment properties and taking into account the future growth potential with reference of historical rental income trend achieved in previous years. A steady annual growth rate is assumed over the period of the lease term with the existing tenancies. The valuation of the building was arrived by capitalising the net revenue generated from hotel operations and taking into account the future growth potential with reference of historical hotel revenue. The steady annual growth rate is assumed over the next 10 years and a nil growth rate is extrapolated for the remaining years up to the expiry of the lease term of the land which the hotel building is located. The corresponding deferred taxation was calculated at the rate prevailing in the Philippines.*

Fortune Gate Group contributed approximately HK$228 million and approximately HK$88 million to the Group's revenue and profit for the period between the date of acquisition and the balance sheet date respectively.

If the acquisition had been completed on 1 April 2007, the total Group's revenue for the year would have been approximately HK$501 million, and the profit for the year would have been approximately HK$191 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor is it intended to be a projection of future results.

## 40. DISPOSAL OF SUBSIDIARIES

The net liabilities of the Cyber On-Air Multimedia Limited and its subsidiaries (the "COAM Group") at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Net liabilities disposed of: | |
| Amounts due from related companies | 61 |
| Bank balances and cash | 22 |
| Trade payables | (48) |
| Other payables and accrued charges | (788) |
| Amounts due to related companies | (1,043) |
| | (1,796) |
| Gain on disposal | 1,796 |
| Total consideration | – |
| Satisfied by: | |
| Cash | – |
| Net cash outflow arising on disposal: | |
| Cash consideration | – |
| Bank balances and cash disposed of | (22) |
| | (22) |

The consideration for the disposal of the subsidiaries is HK$1. The disposal of COAM Group did not have any significant impact on the results and cash flows of the Group for the period from 1 April 2007 to the date of disposal.

## 41. PLEDGE OF ASSETS

Apart from the pledged bank deposits as set out in note 22, a share with nominal value of MOP72,000 in ATD, an associated company of the Company, representing 40% equity interest, has been pledged to certain financial institutions in Hong Kong and Macau for a syndicated loan facility of HK$1.5 billion obtained by ATD.

## 42. MAJOR NON-CASH TRANSACTIONS

During the year, the Company issued a convertible note with a principal amount of HK$400 million as part of the consideration for acquisition of the equity interest in the Fortune Gate Group. Details of the convertible note and the acquisition are set out in notes 33 and 39 respectively.

The shareholders loans of HK$642 million assigned on acquisition of subsidiaries are offset by the Promissory Notes issued on 11 October 2007. The details of the Promissory Notes are set out in note 32.

## 43. OPERATING LEASE COMMITMENTS

**The Group as lessor**

Marina Square Properties, Inc. ("MSPI"), an indirect subsidiary of the Company signed a contract with PAGCOR on 14 March 2003 to lease equipped gaming premises and office premises for a period of twelve years commencing from 31 March 2004. The monthly rental would be based on a certain percentage of net gaming revenue of the casino operated by PAGCOR or a fixed amount of Peso100,000 (equivalent to approximately HK$18,500), whichever is higher.

PAGCOR is chartered under Presidential Decore No. 1869, as amended ("PAGCOR Charter") to operate the casino in the Philippines. The PAGCOR Charter is currently due to expire on 10 July 2008 and renewal have been granted in June 2007 for 25 years from 11 July 2008. Casino rental income earned during the period since the acquisition date was approximately HK$142,806,000, including contingent rental charges amounting to approximately HK$142,695,000.

**The Group as lessee**

At 31 March 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Within one year | **8,656** | 2,843 |
| In the second to fifth year inclusive | **31,173** | 1,441 |
| Over five years | **93,471** | – |
| | **133,300** | 4,284 |

Operating lease payments represent rentals payable by the Group in respect of leasehold land, condominium-units, office premises and staff quarters. Leases are negotiated for terms ranging from two to twenty years and rentals are fixed for the lease period.

## 44. CAPITAL COMMITMENTS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **5,086** | – |

**Other commitments**

(i) New Coast Hotel, Inc. ("NCHI"), a subsidiary acquired during the year entered into a license agreement on 12 December 2003 with Hotel Project Systems, Pte. Limited ("HPSL"), a wholly-owned subsidiary of Hyatt International Corporation, to lease the technology and know-how of hotel technical systems and related services, and license the name "Hyatt" and related trademarks for use in the hotel owned by NCHI. In consideration thereof, NCHI will pay a royalty during the operating term based on a certain percentage of the gross operating profit as agreed by NCHI and HPSL. The license agreement is effective for an initial term from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HPSL") in September 2004. NCHI and HPSL will each have the option to extend the agreement for an additional period of five years after the Initial Period of HPSL, and thereafter for another additional period of three years. The royalty charges paid by NCHI since the acquisition date was approximately HK$1,364,000.

(ii) NCHI entered into a sale and marketing agreement on 12 December 2003 with Hyatt International – SEA (Pte) Limited ("HISPL"), a wholly owned subsidiary of Hyatt International Corporation, pursuant to which HISPL agreed to provide (a) appropriate sale and marketing services and (b) advertising and promotional services for the hotel operation. In consideration thereof, HISPL will be entitled to receive a certain percentage of the total revenue of the hotel operation as a sale and marketing fee. The agreement is effective from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HISPL"). NCHI and HISPL will each have the option to extend the agreement for an additional period of five years after the Initial Period of HISPL, and thereafter for another additional period of three years. The sale and marketing fee paid or payable by NCHI since the acquisition date was amounted to approximately HK$1,689,000.

## 45. RELATED PARTY TRANSACTIONS

**A.** Apart from the related party transactions as disclosed in notes 9, 10, 15, 27, 28, 29, 31, 32, 33, 39 and 41, the Group entered into the following transactions with related parties during the year:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Rentals and office administrative expenses *(note a)* | **26** | 625 |
| Rental expenses *(note b)* | **737** | 1,334 |
| Finance costs to related companies *(note c)* | **–** | 308 |
| Finance costs to directors *(note d)* | **–** | 65 |
| Project service income *(note e)* | **3,542** | 639 |
| Financial advisory and professional fee to related companies *(note f)* | **5,003** | – |
| Underwriting commission *(note g)* | **13,009** | – |
| Interest income from an associate *(note h)* | **85** | – |

*Notes:*

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

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

*(c) Companies in which Mr. Lo, a director of the Company, has a beneficial interest, provided loans to the Group. The loans were unsecured, carried interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum and was fully repaid during the year ended 31 March 2007.*

*(d) The amounts included finance costs paid in respect of loans from Mr. Choi Wing Kin and Mr. So Kam Wing, the former directors of the Company. The loans were unsecured, carried interest at HIBOR plus 2% per annum. The loans were fully repaid during the year ended 31 March 2007.*

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

*(f) The amounts represented professional fees in respect of providing financial advisory services for acquisition and disposal of subsidiaries occurred during the year and were paid to related companies, in which Dr. Cheng, Mr. Lo and Mr. To Hin Tsun, Gerald, directors of the Company, have managerial duties and significant influence in the financial and operating policy.*

*(g) The underwriting commission was paid to CTF, for acting as an underwriter of the Shares under the rights issue during the year.*

*(h) Interest income was received from an associate by a wholly owned subsidiary of the Company. Details of the interest rate and terms are disclosed in note 28.*

## 45. RELATED PARTY TRANSACTIONS *(Continued)*

### B. Compensation of key management personnel

The remuneration of other members of key management exclude emoluments of directors and the five (2007: five) employees with the highest emoluments in the Group as disclosed in notes 12 and 13 respectively during the year was as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Short-term employee benefits | **–** | 742 |

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

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2008 and 31 March 2007 are as follows:

| Name of subsidiary | Place/country of incorporation or registration/ operations | Form of business structure | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company Directly 2007 % | Directly 2008 % | Indirectly 2007 % | Indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| Five Stories, Inc. | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production |
| Gugo Entertainment Company Limited | Hong Kong | Limited company | Ordinary | HK$21,260,100 | – | **–** | 75 | **75** | Animation/development of carton services, licensing and merchandising distribution |
| Image Organisation, Inc. | USA | Limited company | Ordinary | US$1,382,494 | – | **–** | 50.4 | **50.4** | Film production and distribution |
| Happy Noodle | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production and financing |
| Loverwrecked, Inc. | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production |
| Lucky Genius Limited | British Virgin Islands ("BVI") | Limited company | Ordinary | US$1 | 100 | **100** | – | **–** | Investment holding on available-for-sale financial assets |

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

| Name of subsidiary | Place/country of incorporation or registration/ operations | Form of business structure | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company Directly 2007 % | Directly 2008 % | Indirectly 2007 % | Indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| M8 Entertainment Inc. | Canada | Limited company | Ordinary | Class A CAD4,520,000 Class B CAD103,246,000 "Class B M8 Shares" Class C CAD24,171,000 "Class C M8 Shares" | – | **–** | 50.4 | **50.4** | Film production and distribution |
| M8 Production 2 Inc. | Canada | Limited company | Ordinary | CAD1 | – | **–** | 50.4 | **50.4** | Film production |
| Man About Town Films Inc. | Canada | Limited company | Ordinary | CAD1 | – | **–** | 50.4 | **50.4** | Film production and distribution |
| Media 8 Distribution II | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production and financing |
| Media 8 Distribution V | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production and financing |
| Media 8 Distribution VI | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production and financing |
| IEC Production Limited | Hong Kong | Limited company | Ordinary | HK$1 | – | **–** | 100 | **100** | Media related business |
| IEC Record Production Company Limited | Hong Kong | Limited company | Ordinary | HK$1 | – | **–** | 100 | **100** | Record production |
| Media 8 Entertainment | USA | Limited company | Ordinary | US$10,000 | – | **–** | 50.4 | **50.4** | Film production and distribution |
| Mediamaster Limited | BVI | Limited company | Ordinary | HK$1 | 100 | **100** | – | **–** | Investment holding |
| Running Scared, Inc. | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production |
| Tropical Production Inc. | USA | Limited company | Ordinary | US$1,000 | – | **–** | 50.4 | **50.4** | Film production |
| Zodiac Productions Inc. | USA | Limited company | Ordinary | US$2,000 | – | **–** | 50.4 | **50.4** | Film production |
| Fortune Gate Overseas Limited | BVI | Limited company | Ordinary | US$1 | – | **100** | – | **–** | Investment holding |

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

| Name of subsidiary | Place/country of incorporation or registration/ operations | Form of business structure | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Directly | | Indirectly | | |
| | | | | | 2007 % | **2008 %** | 2007 % | **2008 %** | |
| Maxprofit International Limited | BVI | Limited company | Ordinary | US$1 | – | **–** | – | **51** | Investment holding |
| Starcharm Limited | BVI | Limited company | Ordinary | US$1 | – | **–** | – | **51** | Provision of finance to group company |
| MSPI | Philippines | Limited company | Ordinary | Peso2,722,930,653 | – | **–** | – | **51** | Property investment |
| NCHI | Philippines | Limited company | Ordinary | Peso621,444,867 | – | **–** | – | **51** | Hotel owner |
| 北京國娛匯星文化傳播有限公司 | PRC | Wholly-owned foreign enterprise | – | Registered capital of HK$3,000,000 | – | **–** | 100 | **100** | Media related business |

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

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

## 47. POST BALANCE SHEET EVENTS

(a) The disposal of COAG Group was completed on 25 April 2008. The details of the disposal are set out in the announcements of the Company dated 2 January 2008 and 3 March 2008, and the circular of the Company dated 23 January 2008.

(b) Pursuant to the board resolution of ATD dated 8 April 2008, the shareholders of ATD agreed to provide additional shareholders' loans at a maximum amount of HK$1,900 million to ATD to finance its property development and investment activities. The shareholders' loans are granted in proportion to the shareholdings of respective shareholder. Accordingly, the Group is expected to make approximately HK$760 million loan to ATD.

The amounts are unsecured, interest-bearing at 6% per annum and are repayable in full on the earlier of the second anniversary of the loan agreement dated 8 April 2008 and the seventh day after the issue of the certificate of compliance and the occupation permit for the properties in Macau.

Details of the transaction are set out in the announcement of the Company dated 8 April 2008 and the circular of the Company dated 28 April 2008.

# Financial Summary

For the Year Ended 31 March 2008

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | **2008**<br>**HK$'000** |
| Revenue | 16,131 | 34,448 | 274,311 | 137,310 | **331,980** |
| (Loss) profit before taxation | (35,552) | (29,878) | (173,012) | (109,553) | **120,663** |
| Taxation | – | – | (22,049) | (1,260) | **(12,871)** |
| (Loss) profit for the year | (35,552) | (29,878) | (195,061) | (110,813) | **107,792** |
| Attributable to: | | | | | |
| Equity holders of the Company | (35,552) | (19,295) | (117,063) | (110,813) | **76,455** |
| Minority interests | – | (10,583) | (77,998) | – | **31,337** |
| | (35,552) | (29,878) | (195,061) | (110,813) | **107,792** |

## ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | **2008**<br>**HK$'000** |
| Total assets | 15,243 | 951,792 | 542,567 | 310,881 | **4,314,379** |
| Total liabilities | (87,558) | (469,986) | (255,075) | (133,194) | **(1,806,338)** |
| Shareholders' funds | (72,315) | 481,806 | 287,492 | 177,687 | **2,508,041** |
| Equity attributable to equity holders of the Company | (72,315) | 404,429 | 287,492 | 177,687 | **1,935,171** |
| Minority interests | – | 77,377 | – | – | **572,870** |
| | (72,315) | 481,806 | 287,492 | 177,687 | **2,508,041** |

# Schedule of Principal Properties

| Company | Address | Existing use | Lease term | Site area | Gross area | % of interest |
|---|---|---|---|---|---|---|
| New Coast Hotel, Inc. | Hyatt Hotel and Casino Manila 1588 Pedro Gil cor. M.H. Del Pilar, Malate Manila The Philippines | Hotel operation | Medium-term lease | 8,770 sq.m. | 44,625 sq.m. | 51% |
| Marina Square Properties, Inc. | Hyatt Hotel and Casino Manila 1588 Pedro Gil cor. M.H. Del Pilar, Malate Manila The Philippines | Leasing of properties | Medium-term lease | 8,770 sq.m. | 48,250 sq.m. | 51% |
| Arc of Triumph Development Company Limited | A parcel of land Novos Aterros do Porto Exterior Macau | Under construction for residential and commercial use | Medium-term lease | 7,128 sq.m. | 7,128 sq.m. | 40% |