

EEG

EMPEROR ENTERTAINMENT GROUP LIMITED
英皇娛樂集團有限公司
(Incorporated in Bermuda with limited liability)



Contents

Corporate Information	2
Biographies of Directors and Senior Executives	3-4
Chairperson's Statement	5-9
Directors' Report	10-26
Corporate Governance Report	27-32
Independent Auditor's Report	33-34
Consolidated Income Statement	35
Consolidated Balance Sheet	36-37
Consolidated Statement of Changes in Equity	38
Consolidated Cash Flow Statement	39-40
Notes to the Consolidated Financial Statements	41-87
Financial Summary	88

Corporate Information

Directors

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

* *Non-executive director*

** *Independent non-executive directors*

Company Secretary

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

Compliance Officer

Wong Chi Fai, FCCA, CPA

Qualified Accountant

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

Authorised Representatives

Fan Man Seung, Vanessa
Mok Fung Lin, Ivy

Audit Committee

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

Remuneration Committee

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

Auditor

Deloitte Touche Tohmatsu

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

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

Registrars (*in Bermuda*)

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

Registrars (*in Hong Kong*)

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

Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Allied Irish Banks plc

Website

<http://www.emp8078.com>

GEM Stock Code

8078

Biographies of Directors and Senior Executives

NON-EXECUTIVE DIRECTOR (CHAIRPERSON)

LUK SIU MAN, SEMON, aged 52, graduated from The University of Toronto with a Bachelor's Degree in Commerce. She worked in the banking industry for almost 10 years. She is also the non-executive director and chairperson of Emperor International Holdings Limited ("Emperor International") and Emperor Entertainment Hotel Limited ("Emperor Hotel"), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Ms. Luk joined Emperor Entertainment Group Limited (the "Company") in November 2000.

EXECUTIVE DIRECTOR

NG SUI WAN alias NG YU, aged 58, is responsible for the corporate and business strategies and operations of the Group. Prior to joining the Company, he was the General Manager of Celestial Pictures Limited, an associated company of Television Broadcasts Limited ("TVB"), in charge of motion film production. He had worked for Capital Artists Limited for four years since 1996, holding the position as General Manager. During that period, he had been involved in record production, publishing and distribution and talent management. Before, he was the Production Controller of TVB for 20 years, commanding television programme production and creative teams. He joined the Company in December 2001.

EXECUTIVE DIRECTOR AND COMPLIANCE OFFICER

WONG CHI FAI, aged 52, is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He is responsible for the overall corporate and business planning of the Group. He has over 20 years' experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development, publishing as well as retail business of watch & jewellery. He is also the joint managing director of Emperor International and a director of Emperor Hotel, New Media Holdings Limited ("New Media") and Emperor Watch & Jewellery Limited ("Emperor Watch & Jewellery"), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Wong joined the Company in January 1994.

EXECUTIVE DIRECTOR

FAN MAN SEUNG, VANESSA, aged 45, is a lawyer by profession in Hong Kong and a registered accountant. She also holds a Master's Degree in Business Administration. She is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International and a director of Emperor Hotel, New Media and Emperor Watch & Jewellery. She has over 15 years of experience in management in various businesses including property investment and development, hotel management, publishing as well as retail business of watch & jewellery. She joined the Company in January 1994.

Biographies of Directors and Senior Executives

INDEPENDENT NON-EXECUTIVE DIRECTOR

WONG CHING YUE, aged 59, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He joined the Company in November 2000.

INDEPENDENT NON-EXECUTIVE DIRECTOR

CHU KAR WING, aged 51, holds a Bachelor's Degree in Social Science majoring in Economics. He has extensive experience in the banking and finance sector for several well-known corporations. He is also an independent non-executive director of China Power New Energy Development Company Limited (formerly known as Oriental Investment Corporation Limited) and ZMAY Holdings Limited (formerly known as New Chinese Medicine Holdings Limited), the shares of which are listed on the Main Board and the Growth Enterprise Market ("GEM") of the Stock Exchange respectively. He joined the Company in September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTOR

WONG TAK MING, GARY, aged 32, is a certified public accountant (practising) and a fellow member of both the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He obtained his Degree in Applied Accounting (Hons) in the United Kingdom. He has over 10 years' experience in the field of auditing and accounting. Mr. Wong is also an independent non-executive director of Century Legend (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange. He joined the Company in September 2004.

Chairperson's Statement

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board" or "Directors") of the Company resolved in March 2008 to change the financial year end date from 31st March to 30th June in order to align with the business cycle in determination and calculation of royalty payment to publishing house/writers/composers which forms part of the cost of music production and distribution of the Company and its subsidiaries (collectively referred to as the "Group"). Accordingly, these consolidated financial statements for the period under review covered the 15-month period from 1st April, 2007 to 30th June 2008 ("15-month Period"). The corresponding comparative figures covered a 12-month period from 1st April, 2006 to 31st March, 2007 ("2007") and therefore may not be comparable with amounts shown for the current period.

For the 15-month Period, the Group reported revenue of approximately HK\$156.2 million (2007: HK\$183.9 million). It had a net loss of approximately HK\$78.5 million, (2007: profit of HK\$17.3 million), primarily due to the impairment loss on film rights of certain films of the Group as a result of the revision of the expected distribution income from the films.

OPERATION REVIEW

Artiste Management

Having one of the biggest pools of artistes in Hong Kong, the Group saw a stable contribution from artiste management. During the 15-month Period, the segment received revenue of approximately HK\$48.1 million (2007: HK\$37.8 million), accounting for 30.8% of the Group's total revenue.

During the 15-month Period, 15 new artistes have joined the Group, including five from "EEG Singing Contest 2007" co-organised with Television Broadcasts Limited in September 2007 and Korean heartthrob Lee Jun Ki. As at the end of the 15-Month Period, the Group managed a total of 56 artistes.

Event Production

The Group also received satisfactory contribution from organising and co-organising concerts for its own artistes as well as other artistes, including concerts featuring Joey Yung in Hong Kong and Malaysia, Twins' concerts in US and Canada, and concerts of Jay Chou, Celine Dion and Elton John in Hong Kong. This segment recorded income of approximately HK\$17.6 million (2007: HK\$7.3 million), which contributed 11.3% to the Group's total revenue during the 15-month Period, from co-production of 16 concerts and provision of event production services.

Music Production and Distribution

The music production and distribution segment recorded revenue of approximately HK\$49.3 million for the 15-month Period (2007: HK\$63.1 million), amounting to 31.6% of the Group's total revenue.

Chairperson's Statement

The drop in revenue was mainly due to keen competition and rampant copyright infringement activities such as free internet download and file sharing and copying through re-writable disc drives. During the 15-month Period, the Group released 84 music albums (2007: 74). Sales of music albums amounted to approximately HK\$22.3 million (2007: HK\$23.5 million).

Income from provision of multimedia content to telecommunications operators amounted to approximately HK\$7.2 million (2007: HK\$7.3 million). Copyright licensing income contributed revenue of approximately HK\$19.8 million (2007: HK\$32.3 million).

Film and Television Program Production and Distribution

The Group – operates under its film production and distribution arm Emperor Motion Picture (“EMP”) received from film and television programme production and distribution revenue of approximately HK\$41.2 million (2007: HK\$75.7 million) during the 15-month Period, accounting for 26.3% of the Group's total revenue, mainly from licensing of *The Medallion*, *The Sun Also Rises*, *Twins Mission* and *The Drummer*. The decrease in revenue was mainly due to the Group's lack of sizable productions of its own during the 15-month Period. The Group had booked an impairment loss of approximately HK\$70.4 million on film rights of certain films as a result of the revision of the expected distribution income from the films.

The Group had released four films theatrically in Hong Kong, namely *The Drummer* starring Tony Leung Ka-fai, *The Sun Also Rises* by Jiang Wen, *Kung Fu Dunk* starring Jay Chou and *Yes, I Can See Dead People*, most of which were co-produced with third parties.

During the 15-month Period, the Group had entered into an alliance with Lark Films Distribution Limited to co-acquire distribution rights in selected foreign language films for the Hong Kong market. The Group believes that such move can expand its business scope and improve its margin. To date, eight titles have been acquired under this arrangement, including the big-screen version of *Sex and the City* which was released in Hong Kong in summer of 2008 and *Space Chimps*. During the 15-month Period, it had distributed nine films including *The Forbidden Kingdom*, *Kung Fu Dunk* and *Run Fat Boy Run*.

On the production front, the Group had completed production of six films, three of which were co-produced with outside partners, namely *Mei Lanfang* with the China Film Group and Taiwan's CMC Magnetics Corporation, *Connected* with Warner China Film HG Corporation and BNJ Armor, and *Home Run* with International Entertainment Corporation, reflecting the Group's shifting focus on establishing regional alliances.

Outside Hong Kong, the Group continued to make steady headway with the licensing of its library titles. The Group had renewed its output agreement with News Corp's STAR TV and signed a similar deal with Celestial Pictures to provide feature productions for their pay-television platforms.

Chairperson's Statement

EMP has also begun its gradual expansion into the financing of international film projects. It had taken an equity position in *W*, a film on U.S. President George W. Bush by award-winning director Oliver Stone and starring Josh Brolin and Elizabeth Banks. The Group hopes to tap into additional revenue streams. The film is planned for a theatrical release in the coming year.

PROSPECTS

The music industry in Hong Kong and worldwide has been transforming from traditional album sales to multi-platform and multimedia business with room for creativity and development.

To stay competitive in the highly mobile industry, the Group is committed to expanding and maintaining a strong talent base, leveraging on its industry expertise and network, while strengthening the audience reach of its artistes. The Group is also taking steps to diversify its income stream and maximise returns from its huge repertoire. In releasing music albums, the Group not only aims at album sales but more importantly building up the Group's asset in the digitalising industry and opening up karaoke market in the Mainland China. The management considered that the market is lucrative in the long run when it is mature and regulated. Meanwhile, album sales also serve as a constant promotion for the Group's artistes thus can boost their popularity so the Group can enjoy returns through concert production and artiste management.

The Group had planned to organise more concerts as well as dramas in the coming periods, including "Art" by Yasmina Reza and "BEYOND". The management expects the productions to bring in positive contribution to the Group. EMP has planned to release its own productions and co-productions, and other productions of third parties. It will actively explore possibility of investing in international productions. It will also consolidate its ties with various regional pay-TV broadcasters such as STAR TV and Celestial Pictures with the renewal of existing and/or conclusion of new output arrangements.

In order to gain a stronger foothold and to better control the distribution and marketing aspects of its own films in the Mainland China market, EMP has applied to set up a wholly-owned distribution subsidiary in Beijing. Meanwhile, the Group will also continue to expand its presence, while at the same time source promising talents and projects from the market.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been participating in charity events, riding on the popularity and affinity of its artistes. In the past year, the Group's artistes have participated in nearly 50 charity performances, including a Shanghai Green Peace concert, Caritas Star Studded Charity Show, Po Leung Kuk Gala Spectacular, Tung Wah Charity Variety Show and Artiste 512 Fund Raising Campaign for the victims of the Sichuan earthquake. They have also participated in a wide range of volunteering activities, such as home visit to senior citizens with mooncakes as gifts during Mid-Autumn Festival for Senior Citizen Home Safety Association and tree planting at Grassy Hill together with Friends of Earth.

Chairperson's Statement

A special book featuring nine artistes' personal experience of fighting through adversity was published during the 15-month Period, which was a joint charity project between the Group and New Media Group to raise fund for Emperor Foundation. The artistes involved rendered contribution to the book for free.

EEG Showroom, the retail arm of the Group specialised in artiste merchandise, offered gifts to the children of Playright Children's Play Association and sponsored the charity bazaar of Social Workers Across Borders.

The Group will continue its charity efforts in the coming year as a caring company.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There is no material change in capital structure of the Group as disclosed in its annual report of the financial year 2007.

In addition to the share capital and reserves, the Group made use of cashflow generated from operations and advances from the substantial shareholder of the Company, Surplus Way Profits Limited ("Surplus Way") to finance its operation. As at 30th June, 2008, the balance of the advances from Surplus Way was amounted to approximately HK\$187.8 million (2007: HK\$29.6 million), which were denominated in Hong Kong dollars, unsecured, interest bearing at the Hong Kong prime rate and repayable on demand. The gearing ratio (expressed as a percentage of total borrowings over total assets) of the Group was 60% (2007: 15%). The Group has a relatively high gearing ratio mainly due to additional advances from Surplus Way for financing the production of films which were still at an investment stage.

Other than disclosed above, the Group had no other external borrowings. The Group's borrowings and bank and cash held in hand were mainly denominated in U.S. dollars, Hong Kong dollars and Reminbi. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and would take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the 15-month Period.

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

COMMITMENTS

Total commitments of the Group as at 30th June, 2008 was approximately HK\$80.3 million (2007: HK\$45.6 million), which comprised HK\$9.1 million for operating leases in respect of rented premises and broadcasting services, HK\$6.4 million for artiste fees and HK\$64.8 million for film production costs.

Chairperson's Statement

CONTINGENT LIABILITIES

During the 15-month Period, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the Group's artistes, and the validity and enforceability of the Group's agreements with one of its artistes. The outcomes of these legal proceedings are uncertain because they are still in the early stage and are difficult for the Directors to assess the impact of the litigations on the financial position of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 30th June, 2008 was 141 (2007: 123) and total staff costs for the 15-month Period were approximately HK\$60.4 million (2007: HK\$43.0 million). All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also has a share option scheme for providing incentive to full-time employees of the Group. No option was granted or outstanding during the 15-month Period.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the period from 1st April, 2007 to 30th June, 2008.

CHANGE IN FINANCIAL YEAR END DATE

The Board has resolved to change the financial year end date from 31st March to 30th June in order to align with the business cycle in determination and calculation of royalty payment to publishing houses, writers and composers which forms part of the cost of music production and distribution of the Group.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the 15-month Period are set out in the consolidated income statement on page 35.

The Directors do not recommend the payment of a dividend for the 15-month Period.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the 15-month Period are set out in note 17 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the 15-month Period are set out on page 38.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 30th June, 2008, the Company's reserves available for distribution consisted of contributed surplus of HK\$3,953,000 (2007: HK\$3,953,000) and retained profits of HK\$19,092,000 (2007: HK\$1,425,000).

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY (continued)

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

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

DIRECTORS

The Directors during the 15-month Period and up to the date of this report were:

Non-executive director:

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

Executive directors:

Mr. Wong Chi Fai

Ms. Fan Man Seung, Vanessa

Mr. Ng Sui Wan (alias Ng Yu)

Independent non-executive directors:

Mr. Wong Ching Yue

Mr. Chu Kar Wing

Mr. Wong Tak Ming, Gary

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

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Ms. Luk Siu Man, Semon ("Ms. Semon Luk"), Mr. Ng Sui Wan (alias Ng Yu) ("Mr. Ng Yu") and Mr. Wong Tak Ming, Gary shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Directors' Report

DIRECTORS (continued)

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

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

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

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

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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) During the 15-month Period, Emperor Motion Picture Limited ("EMP"), an indirect wholly-owned subsidiary of the Company, had the following transactions with JCE Movies Limited ("JCE"), a connected party as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules"):

Date of agreement	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
25th September, 2003 ("Enter the Phoenix Distribution Agreement")	Sole and exclusive right granted to EMP to distribute the licensed rights of a motion picture "Enter The Phoenix" produced by JCE	25th September, 2003 to 24th September, 2008 (subject to automatic renewal for 5 years upon expiry of such renewed term or any subsequent term unless the agreement is terminated by either party in writing 3 months in advance prior to the expiry of such term) at the agency fee rates ranging from 2% to 12% of the gross income from theatrical release or from other forms of media under the agreement.	28
31st October, 2003 ("New Police Story Distribution Agreement")	Sole and exclusive right granted to EMP to distribute the licensed rights of a motion picture "New Police Story" produced by JCE	31st October, 2003 to 31st March, 2006 and subsequently renewed up to 31st March, 2009 (subject to automatic renewal for 3 years upon expiry of such renewed term or any subsequent term (as the case may be) unless the agreement is terminated by either party in writing 3 months in advance prior to the expiry of such term) at the agency fee rate of 2% for the distribution in North America, Hong Kong in respect of theatrical rights and worldwide by sub-sales agents and 12% for others (including distribution in Hong Kong for all licensed rights other than theatrical rights)	207

Directors' Report

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

(a) (continued)

Date of agreement	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
1st November, 2004 ("The Myth Distribution Agreement")	Sole and exclusive right granted to EMP to distribute the licensed rights of a motion picture "The Myth" produced by JCE	1st November, 2004 to 31st March, 2007 and subsequently renewed up to the 31st March, 2010 (subject to automatic renewal for 3 years upon expiry of such renewed term or any subsequent term unless the agreement is terminated by either party in writing 3 months in advance prior to the expiry of such term) at the agency fee rates ranging from 2% to 12% of the gross income from theatrical release or from other forms of media, depends on the type of medium, territories or whether EMP is required to rebate sub-sales agent for the distribution	416
1st November, 2004 ("House of Fury Distribution Agreement")	Sole and exclusive right granted to EMP to distribute the licensed rights of a motion picture "House of Fury" produced by JCE	1st November, 2004 to 31st March, 2007 and subsequently renewed up to 31st March, 2010 (subject to automatic renewal for 3 years upon expiry of such renewed term or any subsequent term unless the agreement is terminated by either party in writing 3 months in advance prior to the expiry of such term) at the agency fee rate of 2% for distribution in North America, Hong Kong in respect of theatrical rights and worldwide by sub-sales agents and 12% for others (including distribution in Hong Kong for all licensed rights other than theatrical rights)	97

Directors' Report

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

(a) (continued)

Date of agreement	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
15th May 2006, ("Rob-B-Hood Distribution and Marketing Agreements")	(i) Provision by EMP to JCE of marketing and public relation services to promote the motion picture "Rob-B-Hood" in Hong Kong at a fixed fee of HK\$30,000 for the project plus a flexible fee ranging from 5% to 10% of the gross/net media publication charges or cash received from sponsors, depending the nature of income from sponsors and promotional expenses	15th May, 2006 to 31st March, 2009 (subject to (a) renewal at the option of EMP for a period from 1st April, 2009 to 31st March, 2012, (b) automatic renewal for 3 years upon expiry of such renewed term or any subsequent term (as the case may be) unless the relevant agreement is terminated by either party with 3-month written notice prior to the expiry of such term) at the agency fee rates ranging from 2% to 12% of the gross income from theatrical release or from other forms of media under the agreement	Nil
	(ii) Sole and exclusive right granted to EMP to distribute the licensed rights of the motion picture "Rob-B- Hood" worldwide in all language versions dubbed and subtitled	2,465	

Directors' Report

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

(a) (continued)

Date of agreement	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
15th October, 2007 ("Run Papa Run Agreement")	(i) Provision by EMP to JCE of marketing and public relation services to promote the motion picture "Run Papa Run" in Hong Kong at (1) a fixed fee of one-time charge HK\$50,000 for the project payable upon presentation of invoice by EMP within 30 days from the date of the Marketing Agreement, plus (2) a flexible fee ranging from 5% to 10% of the gross/net media publication charges or cash received from sponsors, depending the nature of income from sponsors and promotional expenses, which is payable upon such fee is ascertained by EMP based on the charges and sponsors amount	15th October, 2007 to 31st March, 2010 (subject to (a) renewal at the option of EMP for a period of 3 years commencing on 1st April, 2010 and (b) automatic renewal for 3 years upon expiry of such renewed term or any subsequent term unless the agreement is terminated by either party in writing 3 months in advance prior to the expiry of such term) at the agency fee rates ranging from 2% to 12% of the gross income from theatrical release or from other forms of media, depends on the type of medium, territories or whether EMP is required to rebate sub-sales agent for the distribution. EMP is entitled to deduct and retain for itself the agency fee and relevant expenses from the gross income derived from "Run Papa Run"	247
	(ii) Sole and exclusive right granted to EMP to distribute the licensed rights of "Run Papa Run" worldwide in all language versions dubbed and subtitled		569

Remark: JCE is ultimately beneficially owned as to approximately 50% by The Albert Yeung Discretionary Trust (the "Trust"), a discretionary trust set up by Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung"), a deemed substantial shareholder of the Company and the spouse of Ms. Semon Luk, a Director, and 50% by other independent third parties (as defined in the GEM Listing Rules). JCE is therefore a deemed connected person of the Company and Ms. Semon Luk is deemed to be interested in the above agreements.

The "Distribution and promotion income" in the amount of HK\$4,029,000 as shown in note 37(a) – "Related Party Transactions" to the consolidated financial statements represents the same total amount of the above continuing connected transactions under item (a).

Directors' Report

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

(a) (continued)

The provision of the market and distribution services by EMP to JCE under the above agreements is in the ordinary and usual course of business of EMP as EMP is engaged in the business of film distribution. The Directors consider that the terms of the agreements are fair and reasonable and they are in the best interest of the Company and its shareholders as a whole. The terms of the agreements were negotiated on arm's length basis between the parties and are on normal commercial terms after comparing with other film distribution agreements made by EMP with other independent third parties (as defined in the GEM Listing Rules).

(b) During the 15-month Period, Emperor Connection Limited, an indirect wholly-owned subsidiary of the Company, had the following transactions with connected persons as defined in the GEM Listing Rules:

Name of counterparty	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
(i) Tenancy Agreements dated 8th August, 2005/26th May, 2008 in respect of certain floors of Emperor Group Centre ("EGC")			
Very Sound Investments Limited (Note)	Operating lease rentals paid (portion of 26/F of EGC)	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$51,270 (exclusive of rates, management fees and other outgoings charges)	412
		From 6th February, 2006, the monthly rental was decreased to HK\$45,750 (exclusive of rates, management fees and other outgoings charges) due to the decrease in the floor area occupied by the Group	
	Management fees paid (portion of 26/F of EGC)	1st April, 2005 to 31st March, 2008 at a monthly fee of HK\$16,210 (subject to increase)	130
		From 6th February, 2006, the monthly fee was decreased to HK\$14,469 (subject to increase) due to the decrease in the floor area occupied by the Group	
	Operating lease rentals paid (27/F of EGC)	1st April, 2005 to 31st March, 2008 at a monthly rental of HK\$121,200 (exclusive of rates, management fees and other outgoing charges)	1,454

Directors' Report

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

(b) (continued)

	Name of counterparty	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
		Management fees paid (27/F of EGC)	1st April, 2005 to 31st March, 2010 at a monthly fee of HK\$38,334.30 (subject to increase)	460
		Operating lease rentals paid (27/F of EGC)	1st April, 2008 to 31st March, 2010 at a monthly rental of HK\$233,075 (exclusive of rates, management fees and other outgoing charges)	699
		Operating lease rentals paid (Shop 121 of EGC)	1st April, 2008 to 31st March, 2009 at a monthly rental of HK\$40,000 (inclusive of rates, management fees and air- conditioning charges)	120
(ii)	Tenancy Agreement dated 26th May, 2008			
	Golden Pegasus Investment Limited (Note)	Operating lease rentals paid (portion of 12/F of Ulferts Centre)	1st April, 2008 to 31st March, 2011 at a monthly rental of HK\$15,248 (inclusive of rates and management fees)	46
(iii)	Tenancy Agreement dated 6th December, 2007			
	Headwise Investment Limited (Note)	Operating lease rentals paid (Unit 2101 of EGC)	8th September, 2007 to 31st March, 2010 at a monthly rental of HK\$47,916 (exclusive of rates, management fees and other outgoing charges)	446

The "Management fees and air-conditioning charges" and "Operating lease rental expenses" as shown in note 37(a) – "Related Party Transactions" to the consolidated financial statements, included the total amount of HK\$3,767,000 of the above continuing connected transactions under item (b)(i) to (iii).

Directors' Report

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

(b) (continued)

	Name of counterparty	Nature of transaction	Terms	Amount for the 15-month Period HK\$'000
(iv)	Licence Agreements dated 8th August, 2005 in respect of the car parking spaces in Kwong Sang Hong Building, Wanchai, Hong Kong			
	Active Pace Investment Limited (Note)	Car park licence fee paid (Carpark No. 2)	From 1st February, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,600 (subject to increase). The agreement was terminated in 18th March, 2008	43
		Car park licence fee paid (Carpark No. 3)	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,800 (subject to increase)	57
		Car park licence fee paid (Carpark No. 24 & 24A)	From 1st April, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$4,800 (subject to increase)	72
		Car park licence fee paid (Carpark No. 11)	From 4th August, 2005 and can be terminated by either party by giving one month's prior written notice at a monthly fee of HK\$3,400 (subject to increase)	52
			From 19th March, 2008, the monthly fee was increased to HK\$3,600 (subject to increase)	

The "Car park rental expenses" in the amount of HK\$224,000 as shown in note 37(a) – "Related Party Transactions" to the consolidated financial statements represents the same total amount of the above continuing connected transactions under item (b)(iv).

Note: The counterparties are all indirect wholly-owned subsidiaries of Emperor International. Emperor International is a listed company, 55.76% of the shares of which were beneficially owned by Charron Holdings Limited ("Charron") as at 30th June, 2008. The entire issued share capital of Charron was indirectly held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A&A Unit Trust under the Trust. The founder of the Trust is Dr. Albert Yeung, a deemed substantial shareholder of the Company.

Directors' Report

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

(b) (continued)

The terms of the above tenancy and licence agreements are arrived at after arm's length negotiation which are on normal commercial terms and the rental/licence fees thereof were determined by reference to the prevailing market rent of similar properties in the nearby locations.

The Directors considered that the renting of the office premises and car parking spaces would consolidate the operations of the Group into the same premises which would enhance the efficiency of management of the Group.

The Directors considered that the above continuing connected transactions have been entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

In accordance with Rule 20.34 of the GEM Listing Rules, based on the calculations of the percentage ratios (other than the profits ratio) and since the total amount of the annual fees to be received under the continuing connected transactions for each of the period/year ended/ending 30th June 2008, 30th June 2009 is expected to be less than HK\$10,000,000, the continuing connected transactions will only be subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules and will be exempted from the independent shareholders' approval requirements. The Directors confirmed that in respect of the above continuing connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

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

Save as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries and subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the 15-month Period or at any time during the 15-month Period.

Directors' Report

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

As at 30th June, 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long position in shares of the Company

Name of director	Nature of interests	Number of ordinary shares held	Approximate percentage holding
Ms. Semon Luk (Note)	Family	204,484,000	78.65%

Note: The shares were beneficially owned by Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 204,484,000 shares held by Surplus Way. By virtue of the aforesaid interests of Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and a Director) was also deemed to be interested in the above 204,484,000 shares held by Surplus Way.

(b) Long positions in shares of associated corporations

Name of director	Name of associated corporation	Nature of interests	Number of ordinary share(s) held	Approximate percentage holding
Ms. Semon Luk	Surplus Way (Note (1))	Family	1	100%
Ms. Semon Luk	Jumbo Wealth (Note (1))	Family	1	100%
Ms. Semon Luk	Charron (Note (2))	Family	1	100%
Ms. Semon Luk	Emperor International (Note (2))	Family	989,811,364	55.76%
Mr. Wong Chi Fai	Emperor International (Note (3))	Beneficial owner	15,000,000	0.84%
Ms. Fan Man Seung, Vanessa	Emperor International (Note (3))	Beneficial owner	15,000,000	0.84%

Directors' Report

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

(b) Long positions in shares of associated corporations (continued)

Notes:

- (1) Surplus Way was the beneficial owner of 204,484,000 shares, representing 78.65% of the issued share capital of the Company. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Surplus Way. By virtue of the aforesaid interests of Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and a Director) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth respectively.
- (2) Charron was the beneficial owner of 989,811,364 shares in Emperor International. The entire issued share capital of Charron was held by Jumbo Wealth on trust for The A&A Unit Trust. By virtue of the interests of The A&A Unit Trust in Surplus Way and Charron, both Charron and Emperor International were associated corporations of the Company. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Charron and Emperor International respectively. By virtue of the aforesaid interests of Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and a Director) was also deemed to be interested in the share capital of Charron and Emperor International.
- (3) Share options granted to Directors under the share option scheme of Emperor International.

Save as disclosed above, as at 30th June, 2008, none of the Directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

At the annual general meeting of the Company held on 26th August, 2004, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 11th November, 2004. Details of the share option scheme are set out in note 35 to the consolidated financial statements.

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

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

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30th June, 2008, the persons or corporations (other than the Directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
Surplus Way (Note (1))	Beneficial owner	204,484,000	78.65%
Jumbo Wealth (Note (1))	Trustee	204,484,000	78.65%
GZ Trust Corporation ("GZ Trust") (Note (1))	Trustee	204,484,000	78.65%
Dr. Albert Yeung (Note (1))	Founder of the Trust	204,484,000	78.65%
South China Finance and Management Limited (Note (2))	Beneficial owner	15,556,000	5.98%
South China Financial Holdings Limited (formerly South China Brokerage Company Limited) (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
South China Holdings Limited (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Ms. Cheung Choi Ngor (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Mr. Richard Howard Gorges (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Mr. Ng Hung Sang (Note (2))	Interest in a controlled corporation	15,556,000	5.98%

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (continued)

Long positions in shares of the Company (continued)

Notes:

- (1) The shares were held by Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A&A Unit Trust. The A&A Unit Trust was a unit trust under the Trust, the trustee of which is GZ Trust. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 204,484,000 shares held by Surplus Way. The above shares were the same shares as set out under section (a) of the paragraph headed "Directors' and chief executives' interests and short positions in securities" above.
- (2) South China Finance and Management Limited is a wholly-owned subsidiary of South China Financial Holdings Limited. East Hill Development Limited is a controlling shareholder of South China Financial Holdings Limited and is wholly-owned by Tek Lee Finance and Investment Corporation which is a wholly-owned subsidiary of South China (BVI) Limited.

Mr. Ng Hung Sang is the controlling shareholder of Earntrade Investments Limited, Parkfield Holdings Limited, Fung Shing Group Limited and Bannock Investment Limited, all of which are deemed substantial shareholders of South China Holdings Limited. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are both substantial shareholders of Earntrade Investments Limited.

Save as disclosed above, as at 30th June, 2008, the Directors were not aware of any other person or corporation (other than the Directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the 15-month Period, the five largest customers of the Group accounted for approximately 34% of the revenue of the Group and the largest customer accounted for approximately 8% of the Group's revenue.

The five largest suppliers contributed to less than 30% of the Group's total purchases and services received for the 15-month Period.

None of the Directors, their associates and shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the issued capital of the Company) had any interest in any of the five largest customers of the Group for the 15-month Period.

DONATIONS

During the 15-month Period, the Group made donations amounting to approximately HK\$1,701,000.

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

During the 15-month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Report

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING INTERESTS

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

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

Directors' Report

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 27 to 32.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independent pursuant to the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

AUDITOR

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

On behalf of the Board

Luk Siu Man, Semon

Chairperson

Hong Kong, 18th September, 2008

Corporate Governance Report

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

THE BOARD

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

As at 30th June, 2008, the Board comprised seven Directors (one non-executive Director who is also the Chairperson of the Company, three executive Directors and three independent non-executive Directors). The biographies of the Directors are set out on pages 3 to 4 of this report under the "Biographies of Directors and Senior Executives" section.

Ms. Luk Siu Man, Semon has been appointed as the Chairperson since 2000. With the assistance the Company Secretary, she would ensure all Board members work effectively and discharge his/her responsibility by providing timely, reliable and sufficient information on issues to be discussed at Board meetings. She is also responsible for setting the agenda for each Board meeting, taking into account any matters proposed by the Directors. The Board members are properly briefed of the issues discussed and the meeting material is dispatched to the Directors before the meetings.

The independent non-executive Directors who bring in strong expertise, contributing a more impartial view and making independent judgement on issues to be discussed at Board meetings.

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

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

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

Corporate Governance Report

THE BOARD *(continued)*

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

The Company has not established a nomination committee. During the 15-month Period, there is no appointment of new Directors to the Board. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of any recommended candidates for directorship.

The Board held ten meetings during the 15-month Period with the attendance of each Directors as follows:

Name of Committee member	Number of meeting attended	Attendance rate
<i>Non-executive director:</i>		
Luk Siu Man, Semon	9/10	90%
<i>Executive directors:</i>		
Wong Chi Fai	8/10	80%
Fan Man Seung, Vanessa	9/10	90%
Ng Sui Wan	8/10	80%
<i>Independent non-executive directors:</i>		
Wong Ching Yue	7/10	70%
Chu Kar Wing	10/10	100%
Wong Tak Ming, Gary	10/10	100%

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

Corporate Governance Report

THE BOARD *(continued)*

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

Audit Committee

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

The Audit Committee convened six meetings during the 15-month Period with the attendance as follows:-

Name of Committee member	Number of meeting attended	Attendance rate
Chu Kar Wing	6/6	100%
Wong Ching Yue	5/6	83.33%
Wong Tak Ming, Gary	6/6	100%

Corporate Governance Report

THE BOARD *(continued)*

Audit Committee *(continued)*

All Committee members attend the meetings. Draft and final versions of minutes were circulated to Committee members for their review and record respectively. The summary of work performed by the Audit Committee during the 15-month Period is set out below:

- i. Reviewed with the senior management the internal control system of the Group;
- ii. Meeting with the external auditor and review their work and findings relating to the annual audit;
- iii. Annual review of the non-exempt continuing connected transactions;
- iv. Determined the external auditor's independence and reviewed the effectiveness of the audit process;
- v. Reviewed the impact to the Group in respect of the amendments to the accounting principles with the external auditor;
- vi. Reviewed with the senior management and/or the external auditor the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual financial statement for the year ended 31st March, 2007 and the quarterly and interim financial statements for the 15-month Period; and
- vii. Approved the 2007 audit fee.

Remuneration Committee

The Remuneration Committee consists of three members namely Mr. Wong Chi Fai, an executive Director, and two independent non-executive Directors, Mr. Chu Kar Wing and Mr. Wong Tak Ming, Gary. The Remuneration Committee is chaired by Mr. Wong Chi Fai. The major responsibility of the Remuneration Committee is assisting the Board to attract, retain and motivate the high calibre executives, and making recommendations on the establishment of a formal and transparent procedure for developing remuneration policy.

Details of the remuneration of each of the Directors for the 15-month Period are set out in note 14(a) to the consolidated financial statements. The specific written terms of reference of the Remuneration Committee are available in the Company's website: www.emp8078.com.

Corporate Governance Report

THE BOARD *(continued)*

Remuneration Committee *(continued)*

The Remuneration Committee convened two meetings during the 15-month Period with the attendance as follows:-

Name of Committee member	Number of meeting attended	Attendance rate
Wong Chi Fai	2/2	100%
Chu Kar Wing	2/2	100%
Wong Tak Ming, Gary	2/2	100%

The summary work performed by the Remuneration Committee during the 15-month Period is set out as follows:

- i reviewed and endorsed the remuneration structure of the Directors;
- ii. reviewed and approved the performance incentive payment for Mr. Ng Yu; and
- iii. made recommendation to the Board on the annual Directors' fees.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that it is their responsibility to prepare the accounts of the Group and other financial disclosures required under the GEM Listing Rules. The management has provided information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

INTERNAL CONTROL

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

The internal control system has been implemented by the Company since 2000. During the 15-month Period, the Company has formulated an internal self-assessment process of all material controls including financial, operational and compliance controls and risk management functions and the Audit Committee is charged with the task to evaluate the effectiveness of the system. Also, the management has analysed the control environment and risk assessment, assessed the various controls implemented and agreed with the Audit Committee on the scope of review. The approach of the review includes conducting interviews with relevant management and staff members, reviewing relevant documentation of the internal control system and evaluating findings on any deficiencies in the design of the internal controls and developing recommendations for improvement, where appropriate.

Corporate Governance Report

INTERNAL CONTROL *(continued)*

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

COMMUNICATION WITH SHAREHOLDERS

The Company communicated with the shareholders in the following ways: (i) the holding of annual general meeting which provide an opportunity for the shareholders to communicate directly with the Board; (ii) the publication of announcements, quarterly reports, interim reports, annual report and/or circular as required under the GEM Listing Rules providing up-dated information of the Group; and (iii) the availability of latest information of the Group in our website. Shareholders and investors are welcome to visit the Company's website and raise enquiries through our Investor Relations Department whose contact details are available on the website. Separate resolutions are proposed at the annual general meeting on each substantial separate issues, including the election of individual directors as required under the GEM Listing Rules.

The Chairperson and the chairman of the committees, were available at the annual general meeting held on 30th August, 2007 to answer questions from the shareholders.

Voting by Poll

The rights to demand a poll were set out in the circular dispatched to the shareholders during the year. The chairperson of the annual general meeting held on 30th August, 2007 had explained the rights and procedures to demand a poll.

AUDITOR'S REMUNERATION

During the 15-month Period, the remuneration paid to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

Service rendered	fee paid/payable HK\$'000
Audit services	2,696

Independent Auditor's Report

Deloitte.

德勤

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

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Emperor Entertainment Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 87, which comprise the consolidated balance sheet as at 30th June, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1st April, 2007 to 30th June, 2008, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30th June, 2008 and of the Group's loss and cash flows for the period from 1st April, 2007 to 30th June, 2008 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
18th September, 2008

Consolidated Income Statement

For the period from 1st April, 2007 to 30th June, 2008

	NOTES	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Revenue	8 & 9	156,229	183,915
Other income		9,104	5,929
Cost of music production and distribution		(43,678)	(46,046)
Cost of film and television programme production and distribution		(94,490)	(47,554)
Cost of provision of event production services		(2,885)	(1,193)
Selling and distribution costs		(11,882)	(13,547)
Administrative expenses		(84,230)	(61,131)
Finance cost	10	(6,529)	(750)
Gain on winding up of a subsidiary	11	317	–
Gain on disposal of a subsidiary	12	–	822
Share of results of a jointly controlled entity		(212)	(377)
(Loss) profit before taxation	13	(78,256)	20,068
Taxation	15	(219)	(2,976)
(Loss) profit for the period/year		(78,475)	17,092
Attributable to:			
Equity holders of the Company		(78,469)	17,280
Minority interests		(6)	(188)
		(78,475)	17,092
(Loss) earnings per share – basic	16	HK cents (30.18)	HK cents 6.65

Consolidated Balance Sheet

At 30th June, 2008

	NOTES	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Non-current assets			
Property, plant and equipment	17	2,180	2,708
Interests in jointly controlled entities	18	4,246	2,084
Prepayments and other receivables	19	9,955	11,928
Film rights	20	189,509	55,124
		205,890	71,844
Current assets			
Inventories and record masters	21	1,857	2,430
Trade receivables	22	31,621	30,022
Prepayments and other receivables	19	40,208	31,947
Loan to a jointly controlled entity	23	3,044	–
Taxation recoverable		142	125
Bank balances and cash	24	32,545	69,951
		109,417	134,475
Current liabilities			
Trade payables	25	20,496	14,697
Other payables and accrued charges	26	87,045	64,283
Amount due to ultimate holding company	27	119,495	29,643
Loan from a minority shareholder of a subsidiary	28	2,000	2,000
Taxation payable		161	939
		229,197	111,562
Net current (liabilities) assets		(119,780)	22,913
Total assets less current liabilities		86,110	94,757
Non-current liability			
Amount due to ultimate holding company	27	68,322	–
Net assets		17,788	94,757

Consolidated Balance Sheet

At 30th June, 2008

	NOTE	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Capital and reserves			
Share capital	29	2,600	2,600
Reserves		17,129	93,845
Equity attributable to equity holders of the Company		19,729	96,445
Minority interests		(1,941)	(1,688)
Total equity		17,788	94,757

The consolidated financial statements on pages 35 to 87 were approved and authorised for issue by the Board of Directors on 18th September, 2008 and are signed on its behalf by:

Wong Chi Fai
Director

Fan Man Seung, Vanessa
Director

Consolidated Statement of Changes in Equity

For the period from 1st April, 2007 to 30th June, 2008

	Attributable to equity holders of the Company						Minority interests HK\$'000	Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (Note 30(a))	Special reserve HK\$'000 (Note 30(b))	Translation reserve HK\$'000	Accumulated losses HK\$'000			Total HK\$'000
At 1st April, 2006	2,600	105,614	83,783	75,000	(699)	(187,468)	78,830	(714)	78,116
Exchange differences on translation of foreign operations	-	-	-	-	393	-	393	22	415
Share of changes in equity of a jointly controlled entity	-	-	-	-	(39)	-	(39)	-	(39)
Net income recognised directly in equity	-	-	-	-	354	-	354	22	376
Profit (loss) for the year	-	-	-	-	-	17,280	17,280	(188)	17,092
Transfer to profit or loss on disposal of a subsidiary	-	-	-	-	(19)	-	(19)	(808)	(827)
Total recognised income (expense) for the year	-	-	-	-	335	17,280	17,615	(974)	16,641
At 31st March, 2007 and 1st April, 2007	2,600	105,614	83,783	75,000	(364)	(170,188)	96,445	(1,688)	94,757
Exchange differences on translation of foreign operations	-	-	-	-	1,722	-	1,722	(3)	1,719
Share of changes in equity of a jointly controlled entity	-	-	-	-	104	-	104	-	104
Net income (expense) recognised directly in equity	-	-	-	-	1,826	-	1,826	(3)	1,823
Loss for the period	-	-	-	-	-	(78,469)	(78,469)	(6)	(78,475)
Transfer to profit or loss on winding up of a subsidiary	-	-	-	-	(73)	-	(73)	(244)	(317)
Total recognised income (expense) for the period	-	-	-	-	1,753	(78,469)	(76,716)	(253)	(76,969)
At 30th June, 2008	2,600	105,614	83,783	75,000	1,389	(248,657)	19,729	(1,941)	17,788

Consolidated Cash Flow Statement

For the period from 1st April, 2007 to 30th June, 2008

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Cash flows from operating activities		
(Loss) profit before taxation	(78,256)	20,068
Adjustments for:		
Allowance for bad and doubtful debts	3	34
Amortisation of film rights	18,696	43,112
Depreciation of property, plant and equipment	2,219	1,714
Finance cost	6,529	750
Impairment loss on film rights recognised	70,396	2,969
Impairment loss on prepaid artiste fees	1,991	–
Imputed interest on initial recognition of interest-free loans to artistes	207	1,807
Interest income	(2,111)	(1,719)
Gain on winding up of a subsidiary	(317)	–
Gain on disposal of a subsidiary	–	(822)
(Gain) loss on disposal of property, plant and equipment	(50)	191
Share of results of a jointly controlled entity	212	377
Operating cash flows before movements in working capital	19,519	68,481
Decrease (increase) in inventories and record masters	587	(95)
Increase in trade receivables	(1,602)	(8,374)
(Increase) decrease in prepayments and other receivables	(3,951)	2,267
Increase in trade payables	5,795	6,343
Increase (decrease) in other payables and accrued charges	22,364	(20,564)
Decrease in amount due to a related company	–	(8,999)
Cash generated from operations	42,712	39,059
Hong Kong Profits Tax paid	(1,014)	(2,773)
Net cash from operating activities	41,698	36,286

Consolidated Cash Flow Statement

For the period from 1st April, 2007 to 30th June, 2008

	NOTES	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Cash flows from investing activities			
Additional costs incurred in film rights		(223,477)	(45,870)
Purchase of property, plant and equipment		(1,657)	(2,510)
Capital contribution to a jointly controlled entity		(2,270)	(2,500)
Advance to a jointly controlled entity		(3,044)	–
Interest received		869	1,344
Disposal of a subsidiary, net of cash and cash equivalents disposed of	12	–	845
Acquisition of a subsidiary	32	2,694	–
Proceeds from disposal of property, plant and equipment		62	17
Net cash used in investing activities		(226,823)	(48,674)
Cash flows from financing activities			
Advances from ultimate holding company		214,026	110,600
Repayment of advances to ultimate holding company		(60,652)	(97,007)
Interest paid		(6,529)	(750)
Net cash from financing activities		146,845	12,843
Net (decrease) increase in cash and cash equivalents		(38,280)	455
Cash and cash equivalents at beginning of the period/year		69,951	69,496
Effect of foreign exchange rates changes		874	–
Cash and cash equivalents at end of the period/year		32,545	69,951
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		32,545	69,951

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

1. GENERAL

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

The Company is an investment holding company. The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of its principal subsidiaries are set out in note 38.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the current period cover the fifteen-month period ended 30th June, 2008. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve-month period from 1st April, 2006 to 31st March, 2007 and therefore may not be comparable with amounts shown for the current period. The period covered by the 2008 consolidated financial statements is greater than 12 months because the directors of the Company determined to bring the balance sheet date in line with the business cycle in determination and calculation of royalty payment to publishing houses, writers and composers which forms part of the cost of music production and distribution of the Group.

In preparing the consolidated financial statements the directors of the Company have given consideration to the future liquidity of the Group in light of its net current liabilities of HK\$119,780,000 as at 30th June, 2008. The Group has obtained the financial support from the ultimate holding company, which will not demand for the repayment of the amount due to it until the Group has the ability to repay the amount. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current period, the Group has applied, for the first time, the following new Standard, Amendment of Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK(IFRIC) Int”s) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (collectively referred to as “new HKFRSs”), which are effective for the Group’s financial year beginning at 1st 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 the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has 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 requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current period.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

The Group has not early applied the following new and revised standards 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 arrangements 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
HK(IFRIC) – Int 15	Agreements for the construction of real estate ¹
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation ⁵

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

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

³ Effective for annual periods beginning on or after 1st January, 2008.

⁴ Effective for annual periods beginning on or after 1st July, 2008.

⁵ Effective for annual periods beginning on or after 1st October, 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual report period beginning on or after 1st 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 other standards or interpretations will have no material impact on the results or financial position of the Group.

4. 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 on initial recognition, 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.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Jointly controlled entities

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

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue

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

Revenue recognition

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

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

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

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

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

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

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

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

Interest income 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.

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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 period in which the item is derecognised.

Film rights

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Borrowing costs

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

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

Inventories

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

Record masters

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

Financial instruments

Financial assets and financial liabilities are recognised 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan to a jointly controlled entity and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Impairment of loans and receivables

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

The 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.

An impairment loss of loans and receivables 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. 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 loss 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 being reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of loans and receivables (continued)

The carrying amount of the loans and receivables is reduced by the impairment loss directly 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.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

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

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

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred taxation 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 taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the period of the relevant 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.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Amortisation and impairment on film rights

Film rights are amortised using a method that reasonably relates the carrying amount of the film rights to the net revenue expected to be realised, which was estimated according to the recent market information of the film industry for each of the films. If the actual revenue differs from the estimated net revenue expected to be realised, such difference will impact the amortisation for the remaining period to be amortised. In addition, at each balance sheet date, when the expected future net revenue of the film rights is estimated to be less than its carrying amount, the carrying amount of the film rights will be written down to its expected future net revenue. After the recognition of an impairment loss, the revised carrying amount of the film rights will be amortised over the remaining period on the above systematic method.

6. 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.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

6. CAPITAL RISK MANAGEMENT *(continued)*

The capital structure of the Group consists of net debt, which includes amount due to ultimate holding company as disclosed in note 27, loan from a minority shareholder of a subsidiary as disclosed in note 28 and cash and cash equivalent, and equity attributable to equity holders of the Company, comprising issued share capital and 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 as well as the debt raising.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Financial assets		
Loans and receivables		
Trade receivables	31,621	30,022
Other receivables	24,666	27,990
Loan to a jointly controlled entity	3,044	–
Bank balances and cash	32,545	69,951
	91,876	127,963
Financial liabilities		
Amortised cost		
Trade payables	20,496	14,697
Other payables	12,633	10,107
Amount due to ultimate holding company	187,817	29,643
Loan from a minority shareholder of a subsidiary	2,000	2,000
	222,946	56,447

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

7. FINANCIAL INSTRUMENTS (*continued*)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, loan to a jointly controlled entity, bank balances and cash, trade payables, other payables, amount due to ultimate holding company and loan from a minority shareholder of a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. 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

Foreign currency risk

The Group has sales and production costs denominated in foreign currencies, which exposes the Group to foreign currency risk. Some of the Group's sales and production costs incurred are denominated in United States dollars. Expenses incurred are generally denominated in Hong Kong dollars which is the functional currency of the Group.

As Hong Kong dollars is pegged to United States dollars, the currency risk associated with United States dollars and Hong Kong dollars is considered minimal. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant currency risk should the need arise.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate loans to artistes, bank balances and amount due to ultimate holding company. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the variable-rate financial assets and financial liabilities at the balance sheet date and the reasonably possible change taking place at the beginning of each year and held constant throughout the respective period/year.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

7. FINANCIAL INSTRUMENTS *(continued)*(b) Financial risk management objectives and policies *(continued)**Market risk (continued)**Cash flow interest rate risk (continued)*

If interest rates had been 200 basis points higher and all other variables were held constant, the potential effect on loss (2007: profit) before taxation would be as follows:

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Decrease (increase) in loss (2007: Increase (decrease) in profit) before taxation		
– other receivables	53	204
– bank balances	650	1,399
– amount due to ultimate holding company	(3,756)	(593)
	(3,053)	1,010

If interest rates had been 200 basis points lower and all other variables were held constants, the potential effect on loss (2007: profit) would be equal and opposite.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30th June, 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 manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

7. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk (continued)

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

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 following table details the Group's and remaining contractual maturity for its financial liabilities that will result in cash out flow. The table has been drawn up based on the undiscounted cash flows of the 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.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

7. FINANCIAL INSTRUMENTS (continued)

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

*Liquidity risk (continued)**Liquidity and interest risk tables*

	Weighted average effective interest rate	Less than 1 month or repayable on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Adjustments HK\$'000	Total carrying amounts HK\$'000
At 30th June, 2008								
Trade payables	N/A	20,496	-	-	-	20,496	-	20,496
Other payables	N/A	12,633	-	-	-	12,633	-	12,633
Amount due to ultimate holding company	6.34%	-	-	129,267	72,654	201,921	(14,104)	187,817
Loan from a minority shareholder of a subsidiary	N/A	2,000	-	-	-	2,000	-	2,000
		35,129	-	129,267	72,654	237,050	(14,104)	222,946
At 31st March, 2007								
Trade payables	N/A	14,697	-	-	-	14,697	-	14,697
Other payables	N/A	10,107	-	-	-	10,107	-	10,107
Amount due to ultimate holding company	7.83%	29,836	-	-	-	29,836	(193)	29,643
Loan from a minority shareholder of a subsidiary	N/A	2,000	-	-	-	2,000	-	2,000
		56,640	-	-	-	56,640	(193)	56,447

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost at the respective balance sheet dates approximate their corresponding fair values.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

8. REVENUE

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
An analysis of the Group's revenue is as follows:		
Artiste management fee income	48,059	37,787
Event production		
– income from jointly organised events	10,972	207
– income from provision of event production services	6,669	7,130
	17,641	7,337
Music production and distribution		
– sales of albums	22,303	23,518
– licence income	19,816	32,271
– multimedia income	7,181	7,346
	49,300	63,135
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	34,897	58,337
– distribution of films and television programmes	6,332	17,319
	41,229	75,656
	156,229	183,915

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

9. SEGMENT INFORMATION

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

Principal activities are as follows:

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

9. SEGMENT INFORMATION (*continued*)

(a) By activity

	1.4.2007 to 30.6.2008		1.4.2006 to 31.3.2007	
	Revenue HK\$'000	Contribution to loss for the period HK\$'000	Revenue HK\$'000	Contribution to profit for the year HK\$'000
Artiste management	48,059	20,713	37,787	18,164
Event production	17,641	9,419	7,337	2,972
Music production and distribution	49,300	(21,184)	63,135	(6,067)
Film and television programme production, distribution and licensing	41,229	(74,598)	75,656	8,671
	156,229	(65,650)	183,915	23,740
Other income not allocated to principal activities		2,126		2,063
Unallocated corporate expenses		(7,991)		(5,430)
Finance cost		(6,529)		(750)
Gain on disposal of a subsidiary		–		822
Share of results of a jointly controlled entity (note)		(212)		(377)
(Loss) profit before taxation		(78,256)		20,068
Taxation		(219)		(2,976)
(Loss) profit for the period/year		(78,475)		17,092

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

9. SEGMENT INFORMATION (continued)

(a) By activity (continued)

	Artiste management HK\$'000	Event production HK\$'000	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Total HK\$'000
Balance sheet as at 30th June, 2008					
ASSETS					
Segment assets	14,392	7,234	18,371	233,143	273,140
Interests in jointly controlled entities	2,270	–	–	1,976	4,246
Loan to a jointly controlled entity	–	–	–	3,044	3,044
Unallocated corporate assets					34,877
Consolidated total assets					315,307
LIABILITIES					
Segment liabilities	12,424	9,747	37,349	44,461	103,981
Unallocated corporate liabilities					193,538
Consolidated total liabilities					297,519
Other information for the period from 1st April, 2007 to 30th June, 2008					
Allowance for bad and doubtful debts	–	–	–	3	3
Amortisation of film rights	–	–	–	18,696	18,696
Depreciation of property, plant and equipment	543	35	820	302	1,700
Unallocated depreciation of property, plant and equipment					519
					2,219
Impairment loss on film rights	–	–	–	70,396	70,396
Impairment loss on prepaid artiste fees	1,991	–	–	–	1,991
Gain on disposal of property, plant and equipemnt	10	1	23	–	34
Unallocated gain on disposal of property, plant and equipment					16
					50
Additions to property, plant and equipment and film rights	249	18	479	224,115	224,861
Unallocated additions					273
					225,134

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

9. SEGMENT INFORMATION (continued)

(a) By activity (continued)

	Artiste management HK\$'000	Event production HK\$'000	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2007					
ASSETS					
Segment assets	11,594	10,547	32,837	76,855	131,833
Interests in a jointly controlled entity	–	–	–	2,084	2,084
Unallocated corporate assets					72,402
Consolidated total assets					206,319
LIABILITIES					
Segment liabilities	5,686	7,511	39,010	25,201	77,408
Unallocated corporate liabilities					34,154
Consolidated total liabilities					111,562
Other information for the year ended 31st March, 2007					
Allowance for bad and doubtful debts	–	–	34	–	34
Amortisation of film rights	–	–	–	43,112	43,112
Depreciation of property, plant and equipment	312	96	686	245	1,339
Unallocated depreciation of property, plant and equipment					375
					1,714
Impairment loss on film rights	–	–	–	2,969	2,969
Loss on disposal of property, plant and equipment	8	156	18	–	182
Unallocated loss on disposal of property, plant and equipment					9
					191
Additions to property, plant and equipment and film rights	555	56	1,168	45,961	47,740
Unallocated additions					640
					48,380

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

9. SEGMENT INFORMATION (continued)

(b) By geographical market

	Revenue	
	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Greater China		
– Hong Kong	78,550	75,158
– Mainland China	37,488	52,504
– Taiwan	5,206	1,782
Japan	1,235	2,668
Other Asian countries	14,052	9,489
North America	4,563	18,738
European countries	1,259	9,422
Other areas	13,876	14,154
	156,229	183,915

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

	Carrying amount of segment assets		Additions to property, plant and equipment and film rights	
	30.6.2008 HK\$'000	31.3.2007 HK\$'000	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Greater China				
– Hong Kong	153,715	95,617	141,701	47,686
– Mainland China	18,191	3,958	15,774	54
– Taiwan	44	–	–	–
Other Asian countries	76,127	30,837	43,986	–
Ireland	25,063	1,421	23,400	–
	273,140	131,833	224,861	47,740

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

10. FINANCE COST

The amount represents interest on the amount due to ultimate holding company.

11. WINDING UP OF A SUBSIDIARY

On 17th June, 2008, a non-wholly owned subsidiary of the Group, 星力無限(北京)文化發展有限公司, was voluntarily wound up. The net assets of the subsidiary at the date of winding up were as follows:

	17.6.2008 HK\$'000
Intercompany debts	610
Translation reserve realised	(73)
	537
Minority interests	(244)
Waiver of intercompany debts by the subsidiary	(610)
Gain on winding up of a subsidiary	317
	—

The subsidiary wound up in the current period did not have significant contribution to the Group's revenue and operating results for the period.

12. DISPOSAL OF A SUBSIDIARY

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

12. DISPOSAL OF A SUBSIDIARY (continued)

The net assets of 中北英皇 at the Date of Disposal were as follows:

	14.6.2006 HK\$'000
Loan to a minority shareholder of a subsidiary	60
Property, plant and equipment	1,154
Prepayments and other receivables – non-current portion	276
Prepayments and other receivables – current portion	448
Trade receivables	202
Bank balances and cash	1,076
Other payables and accrued charges	(1,290)
	<hr/>
	1,926
Minority interests	(808)
Translation reserve realised	(19)
Gain on disposal of a subsidiary	822
	<hr/>
Total consideration	1,921
	<hr/>
Satisfied by:	
Cash	1,921
	<hr/>
Net cash inflow arising on disposal of a subsidiary:	
Cash consideration received	1,921
Cash and cash equivalent disposed of	(1,076)
	<hr/>
	845
	<hr/>

During the period up to the Date of Disposal, 中北英皇 had no significant impact on the revenue, results and cash flows of the Group.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

13. (LOSS) PROFIT BEFORE TAXATION

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' emoluments (note 14(a))	4,990	4,013
Retirement benefit scheme contributions	1,793	1,273
Other staff costs	53,661	37,699
Total staff costs	60,444	42,985
Allowance for bad and doubtful debts	3	34
Amortisation of film rights charged to cost of film and television programme production and distribution	18,696	43,112
Auditor's remuneration		
– current period/year	2,610	1,814
– underprovision in prior years	86	444
Cost of inventories recognised as expense	23,232	23,183
Depreciation of property, plant and equipment	2,219	1,714
Impairment loss on film rights recognised and included in cost of film and television programme production and distribution	70,396	2,969
Impairment loss on prepaid artiste fees (included in selling and distribution costs)	1,991	–
Imputed interest on initial recognition of interest-free loans to artistes (included in selling and distribution costs)	207	1,807
Loss on disposal of property, plant and equipment	–	191
Operating lease rentals in respect of rented premises	5,891	3,490
Operating lease rentals in respect of broadcasting service	1,030	320
and after crediting:		
Imputed interest income on interest-free loans to artistes and staff	1,242	375
Interest on bank deposits	417	648
Interest on loans to artistes	452	696
Total interest income	2,111	1,719
Gain on disposal of property, plant and equipment	50	–
Rental income	–	363

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

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

	Mr. Wong Chi Fai HK\$'000	Ms. Fan Man Seung, Vanessa HK\$'000	Mr. Ng Sui Wan (alias Ng Yu) HK\$'000	Ms. Luk Siu Man, Semon (Chairperson) HK\$'000	Mr. Wong Ching Yue HK\$'000	Mr. Chu Kar Wing HK\$'000	Mr. Wong Tak Ming, Gary HK\$'000	1.4.2007 to 30.6.2008 Total HK\$'000
Fees	125	125	125	-	125	125	125	750
Other emoluments								
Salaries and other benefits	-	-	3,750	-	-	-	-	3,750
Contributions to retirement benefit schemes	-	-	200	-	-	-	-	200
Performance related incentive payment (Note)	-	40	250	-	-	-	-	290
	125	165	4,325	-	125	125	125	4,990
	Mr. Wong Chi Fai HK\$'000	Ms. Fan Man Seung, Vanessa HK\$'000	Mr. Ng Sui Wan (alias Ng Yu) HK\$'000	Ms. Luk Siu Man, Semon (Chairperson) HK\$'000	Mr. Wong Ching Yue HK\$'000	Mr. Chu Kar Wing HK\$'000	Mr. Wong Tak Ming, Gary HK\$'000	1.4.2006 to 31.3.2007 Total HK\$'000
Fees	100	100	100	-	100	100	100	600
Other emoluments								
Salaries and other benefits	-	-	3,000	-	-	-	-	3,000
Contributions to retirement benefit schemes	-	-	163	-	-	-	-	163
Performance related incentive payment (Note)	-	-	250	-	-	-	-	250
	100	100	3,513	-	100	100	100	4,013

Note: The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics during the period/year.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (*continued*)

(b) Employees

During the period/year, the five highest paid individuals included one director (2007: one director). The total emoluments of the remaining four (2007: four) highest paid individuals were as follows:

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Salaries and other benefits	11,031	5,172
Bonuses	725	273
Retirement benefit scheme contributions	358	113
	12,114	5,558

	Number of individuals	
	1.4.2007 to 30.6.2008	1.4.2006 to 31.3.2007
Emoluments of the employees were within the following bands:		
Nil - HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	–	3
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$4,000,000	1	–

During the period/year, no emoluments (2007: nil) were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during the period/year.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

15. TAXATION

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period/year	207	3,090
Under(over)provision in prior years	12	(114)
	219	2,976

Hong Kong Profits Tax is calculated at 17.5% and 16.5% (2007: 17.5%) of the estimated assessable profit for the period covering the years of assessment 2007/08 and 2008/09 (2007: 2006/07), respectively. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the taxation for the period from 1st April, 2007 to 30th June, 2008.

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

15. TAXATION (continued)

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

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
(Loss) profit before taxation	(78,256)	20,068
Tax (credit) charge of Hong Kong Profits Tax at 16.5% (2007: 17.5%)	(12,912)	3,512
Tax effect of expenses not deductible for tax purpose	6,614	5,846
Tax effect of income not taxable for tax purpose	(4,036)	(7,163)
Tax effect of tax losses not recognised	12,999	3,859
Tax effect of utilisation of tax losses previously not recognised	(1,983)	(1,922)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(429)	(989)
Under(over)provision in prior years	12	(114)
Others	(46)	(53)
Taxation charge for the period/year	219	2,976

As at 30th June, 2008, the Group has unused tax losses of HK\$258,824,000 (2007: HK\$192,060,000) available for offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the period/year or at the balance sheet date.

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the period attributable to equity holders of the Company of HK\$78,469,000 (2007: profit of HK\$17,280,000) and the 260,000,000 shares in issue during the period/year.

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1st April, 2006	3,283	3,640	1,570	2,063	1,665	12,221
Currency realignment	4	–	–	–	17	21
Additions	1,306	551	236	417	–	2,510
Disposals	(330)	(35)	(84)	(752)	–	(1,201)
At 31st March, 2007	4,263	4,156	1,722	1,728	1,682	13,551
Currency realignment	–	31	3	15	54	103
Additions	420	990	63	184	–	1,657
Disposals	(3)	(211)	(40)	(73)	(449)	(776)
At 30th June, 2008	4,680	4,966	1,748	1,854	1,287	14,535
DEPRECIATION						
At 1st April, 2006	2,905	3,152	1,284	1,923	855	10,119
Currency realignment	–	–	–	–	3	3
Provided for the year	782	462	182	134	154	1,714
Eliminated on disposals	(174)	(29)	(60)	(730)	–	(993)
At 31st March, 2007	3,513	3,585	1,406	1,327	1,012	10,843
Currency realignment	1	26	1	10	19	57
Provided for the period	845	737	142	178	317	2,219
Eliminated on disposals	(2)	(211)	(31)	(71)	(449)	(764)
At 30th June, 2008	4,357	4,137	1,518	1,444	899	12,355
CARRYING VALUES						
At 30th June, 2008	323	829	230	410	388	2,180
At 31st March, 2007	750	571	316	401	670	2,708

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

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:

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 30th June, 2008, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
上海上影英皇文化發展有限公司	Mainland China	Capital contribution – HK\$5,000,000	50%	Distribution of film and television programme rights
北京博納英龍演藝經紀有限公司	Mainland China	Capital contribution – RMB5,000,000	40%	Artiste management
Wisdom Sea Group Limited	British Virgin Islands	Ordinary – US\$10	40%	Investment holding
			30.6.2008	31.3.2007
			HK\$'000	HK\$'000
Cost of unlisted investments in jointly controlled entities			4,770	2,500
Share of post-acquisition losses			(589)	(377)
Share of translation reserve			65	(39)
			4,246	2,084

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

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

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Current assets	8,273	2,081
Non-current assets	2,545	6
Current liabilities	6,572	3
Income	1,966	–
Expenses	2,178	377

19. PREPAYMENTS AND OTHER RECEIVABLES

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Prepaid artiste fees (note (a))	6,940	4,402
Prepaid salaries (note (b))	–	233
Loans to artistes (note (c))	11,814	21,300
Staff loans (note (d))	20	167
Other prepayments	28,293	15,593
Other receivables	3,096	2,180
	50,163	43,875
The amount of prepayments and other receivables is analysed for reporting purpose as follows:		
Non-current portion	9,955	11,928
Current portion	40,208	31,947
	50,163	43,875

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

19. PREPAYMENTS AND OTHER RECEIVABLES (continued)

Notes:

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

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Non-current portion	2,669	739
Current portion	4,271	3,663
	6,940	4,402

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

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Non-current portion	–	33
Current portion	–	200
	–	233

- (c) The loans to artistes are unsecured. An amount of HK\$2,670,000 (2007: HK\$10,198,000) bears prevailing market interest rates ranging from 5.25% per annum to 8% per annum (2007: 4.75% per annum to 8% per annum) and is repayable by fixed monthly instalment with reference to the terms of respective agreements. Other amounts are interest-free and have no fixed repayment terms. The amount of loans to artistes that is expected to be repaid within twelve months from the balance sheet date is classified as current asset. The remaining balance is classified as non-current asset. Effective interest rate of the interest-free loans to artistes is 2008: 10% (2007: 10%) per annum. The amount of the loans to artistes at the balance sheet date is analysed for reporting purpose as follows:

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Non-current portion	7,286	11,107
Current portion	4,528	10,193
	11,814	21,300

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

19. PREPAYMENTS AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (d) The staff loans are unsecured and interest-free. They are repayable by fixed monthly instalments with reference to the terms of respective agreements. The amount of staff loans which is repayable within twelve months from the balance sheet date is classified as current asset. The remaining balance is classified as non-current asset. Effective interest rate of the interest-free staff loans is 10% (2007: 10%) per annum. The amount of staff loans at the balance sheet date is analysed for reporting purpose as follows:

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Non-current portion	–	49
Current portion	20	118
	20	167

20. FILM RIGHTS

	HK\$'000
COST	
At 1st April, 2006	532,369
Additions	45,870
	<hr/>
At 31st March, 2007	578,239
Additions	223,477
	<hr/>
At 30th June, 2008	801,716
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st April, 2006	477,034
Provided for the year	43,112
Impairment loss recognised in the year	2,969
	<hr/>
At 31st March, 2007	523,115
Provided for the period	18,696
Impairment loss recognised in the period	70,396
	<hr/>
At 30th June, 2008	612,207
	<hr/>
CARRYING VALUES	
At 30th June, 2008	189,509
	<hr/>
At 31st March, 2007	55,124
	<hr/>

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

20. FILM RIGHTS (*continued*)

During the period/year, in light of the circumstances of film industry, the Group undertook a review of its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts. The directors of the Company determined that a number of these film rights were impaired due to worsen marketability of respective film rights. The recoverable amount of the relevant assets have been determined on the basis of the present value of expected future net revenue net of the relevant expenses arising from distribution and licensing of distribution rights of each of the films by reference to the recent market information of the film industry. The carrying amount of certain of the film rights amounting to HK\$70,396,000 (2007: HK\$2,969,000) was written off to the consolidated income statement.

21. INVENTORIES AND RECORD MASTERS

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Record masters	1,857	2,392
Finished goods	–	38
	1,857	2,430

22. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$9,853,000 (2007: HK\$14,243,000) which were past due at the balance sheet date for which the Group had not provided for impairment loss. Based on the repayment pattern of the customers of the Group, debtors which are past due but not impaired are eventually recoverable. The Group's management closely monitors the credit quality of debtors and considers the debtors that are neither past due nor impaired to be of a good credit quality. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

22. TRADE RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts at the balance sheet date:

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Current	21,768	15,779
Overdue		
0 - 30 days	4,896	1,049
31 - 60 days	1,246	6,851
61 - 90 days	268	1,527
over 90 days	3,443	4,816
	9,853	14,243
	31,621	30,022

Movement in the allowance for bad and doubtful debts

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Balance at beginning of the period/year	3,145	3,088
Currency realignment	69	23
Impairment losses recognised	3	34
Balance at end of the period/year	3,217	3,145

Allowance for bad and doubtful debts are debtors which are either aged over 1 year or individually impaired that have been placed under liquidation or in severe financial difficulties, which are generally not recoverable based on the historical experience. The Group does not hold any collateral over these balances.

23. LOAN TO A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of seven days at prevailing market interests rates ranging from 2.5% to 2.6% (2007: 2.5% to 2.75%) per annum.

25. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Current	5,952	1,526
Overdue		
0 - 30 days	3,185	1,690
31 - 60 days	1,591	3,233
61 - 90 days	1,836	4,161
over 90 days	7,932	4,087
	20,496	14,697

26. OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2008	31.3.2007
	HK\$'000	HK\$'000
Deposits from customers	48,137	30,915
Accrued charges	18,305	15,833
Artiste payables	7,685	7,185
Others	12,918	10,350
	87,045	64,283

27. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured and bears interest at prime rate ranged from 5.25% to 7.75% (2007: 7.75% to 8%) per annum. The carrying amount of HK\$68,322,000 (2007: nil) is due after next twelve months, and accordingly, such amount is classified as a non-current liability. The remaining balance of HK\$119,495,000 is repayable on demand but the Group has obtained the financial support from the ultimate holding company, which will not demand for the repayment of such amount until the Group has the ability to repay the amount (note 2).

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

28. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand. The minority shareholder is entitled to repayment only after its share of losses in the relevant subsidiary is made good.

29. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 1st April, 2006, 31st March, 2007 and 30th June, 2008	10,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2006, 31st March, 2007 and 30th June, 2008	260,000,000	2,600

There were no changes in the Company's authorised, issued and fully paid share capital during the period/year.

30. RESERVES

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

31. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") for employees joining the Group before 1st December, 2000. The assets of the ORSO Scheme are held separately from those of the Group in funds under the control of the independent trustees. In light of the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme"), all the employees were granted a one-off option to elect to switch to the MPF Scheme or stay with the ORSO Scheme.

The cost charged to the consolidated income statement represents contributions payable to both schemes by the Group at rates specified in the rules of respective schemes. The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7% of the employee's relevant payroll costs, depending on the length of service with the Group. The MPF Scheme is funded by monthly contributions from both employees and the Group at a rate of 5% of the relevant payroll costs but a maximum capped at HK\$1,000.

Where there are employees who have elected to stay with the ORSO Scheme and leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group in future years are reduced by the amount of forfeited contributions. At the balance sheet date, the total amount of forfeited contributions of the ORSO Scheme, which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable by the Group in the future years was not significant.

32. ACQUISITION OF A SUBSIDIARY

On 31st December, 2007, the Group acquired 100% interests of 上海威通投資諮詢有限公司, which was inactive at the date of acquisition, from an independent third party for a cash consideration of HK\$4,800,000. The acquisition was accounted for as acquisition of assets.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount HK\$'000
Bank balances and cash	2,694
Other receivable	2,153
Other payables	(47)
	<hr/>
Total consideration	4,800
	<hr/>
Total consideration satisfied by:	
Advance from ultimate holding company	4,800
	<hr/>
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	2,694
	<hr/>

The subsidiary had no significant impact on the Group's loss for the period between the date of acquisition and the balance sheet date respectively.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

33. OPERATING LEASE COMMITMENTS

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

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
In respect of:		
Rented premises		
Within one year	5,187	3,222
In the second to fifth year inclusive	3,235	1,092
	8,422	4,314
Broadcasting service		
Within one year	540	960
In the second to third year inclusive	225	1,600
	765	2,560

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

34. OTHER COMMITMENTS

	30.6.2008 HK\$'000	31.3.2007 HK\$'000
Amounts contracted for but not provided in the consolidated financial statements in respect of:		
Artiste fees	6,382	10,399
Film production costs	64,776	28,292
	71,158	38,691

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

35. SHARE OPTION SCHEME

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

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

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

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

35. SHARE OPTION SCHEME (*continued*)

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

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

36. CONTINGENT LIABILITIES

During the period, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the Group's artistes, and the validity and enforceability of the Group's agreements with one of its artistes. The outcomes of these legal proceedings are uncertain because they are still in the early stage and are difficult for the directors of the Company to assess the impact of the litigations on the financial position of the Group.

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

37. RELATED PARTY TRANSACTIONS

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

	1.4.2007 to 30.6.2008 HK\$'000	1.4.2006 to 31.3.2007 HK\$'000
Transaction with ultimate holding company		
Interest expense (Note (1))	6,529	750
Transactions with related companies		
Distribution and promotion income	4,029	17,345
Income from back office support services (including accounting and tax consultancy services) (Note (2))	120	260
Income from sales of goods (Note (2))	530	291
Sponsorship fee income (Note (2))	400	412
Advertising and promotion expenses (Note (2))	287	206
Car park rental expenses	224	188
Corporate secretarial fee (Note (2))	253	320
Management fees and air-conditioning charges	793	630
Operating lease rental expenses	3,705	2,403
Sharing of administrative expenses (Note (2))	4,337	3,839

The related companies are companies ultimately controlled by The Albert Yeung Discretionary Trust (of which Dr. Yeung Sau Shing, Albert is the founder), a controlling shareholder of the Company, and/or by certain directors of the Company.

Notes:

- (1) This transaction involved the payment of interest to the ultimate holding company, a connected person of the Company, which provided financial assistance to the Group on normal commercial terms and no security over the assets of the Group was granted in respect of the financial assistance. The transaction is an exempted continuing connected transaction fall under Chapter 20.65(4) of the GEM Listing Rules.
- (2) These transactions are exempted continuing connected transactions under the definition of continuing connected transactions in Chapter 20.31 of the GEM Listing Rules.

- (b) Compensation of key management personnel

Remuneration paid key management personnel include solely the directors of the Company as determined with reference to remuneration committee, is disclosed in note 14(a).

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company, all of which are limited liability companies, as at 31st March, 2007 and 30th June, 2008 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			30.6.2008	31.3.2007	
<i>Directly held</i>					
Emperor Entertainment Group (China) Limited	British Virgin Islands	Ordinary – US\$1	100%	100%	Investment holding
Mile Oak Profits Limited	British Virgin Islands	Ordinary – US\$6	100%	100%	Investment holding
Music Icon Entertainment Limited	British Virgin Islands	Ordinary – US\$1	100%	100%	Investment holding
<i>Indirectly held</i>					
Artlanda Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Production of films and provision of agency services to group companies
EEG Music Publishing Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Licensing of musical works
Emperor Classic Films Company Limited	Hong Kong	Ordinary – HK\$10	100%	100%	Production and distribution of films and licensing of distribution rights
Emperor Connection Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Provision of paid television programmes and tenancy signing agency service to group companies
Emperor Dragon Movies Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Production and distribution of films and licensing of distribution rights
Emperor Entertainment Development Limited	Hong Kong	Ordinary – HK\$200	100%	100%	Concert management and organisation

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			30.6.2008	31.3.2007	
<i>Indirectly held (continued)</i>					
Emperor Entertainment Group (International) Limited	Mauritius	Ordinary – US\$1,000	100%	100%	Licensing of musical and multimedia works
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands/Taiwan	Ordinary – US\$1	100%	100%	Licensing of musical and multimedia works
Emperor Entertainment (Hong Kong) Limited	Hong Kong	Ordinary – HK\$10,000,000	100%	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation
Emperor Entertainment Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Investment holding
Emperor Motion Picture (HK) Limited	Hong Kong	Ordinary – HK\$10,000	100%	100%	Investment holding, production and distribution of films, and licensing of distribution rights
Emperor Motion Picture (International) Limited	British Virgin Islands/Japan and Macau	Ordinary – US\$1	100%	100%	Production and distribution of films and licensing of distribution rights
Emperor Motion Picture Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Provision of film distribution services
Emperor Production Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Investment holding, concert management and organisation, and provision of event production services
Emperor Stage Limited	Hong Kong	Ordinary – HK\$1	100%	100%	Event organisation

Notes to the Consolidated Financial Statements

For the period from 1st April, 2007 to 30th June, 2008

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			30.6.2008	31.3.2007	
<i>Indirectly held (continued)</i>					
Golden Port Productions Limited	Ireland	Ordinary – Euro 4	100%	100%	Production and distribution of films, licensing of distribution rights, and provision of distribution services
Goldpeak Corporation Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Production and distribution of films and licensing of distribution rights
Music Icon Records Limited	Hong Kong	Ordinary – HK\$2	100%	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation
英皇星藝(北京)文化發展有限公司	Mainland China	Capital contribution – HK\$5,000,000	100%	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes, and concert management and organisation
上海威通投資諮詢有限公司	Mainland China	Capital contribution – RMB4,500,000	100%	–	Investment holding

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

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

Financial Summary

	Period from 1st April, 2007 to 30th June, 2008 HK\$'000	Year ended 31st March,			
		2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
RESULTS					
Revenue	156,229	183,915	196,917	245,137	378,729
(Loss) profit before taxation	(78,256)	20,068	(32,078)	17,882	20,188
Taxation	(219)	(2,976)	(2,383)	(8,675)	(632)
(Loss) profit for the period/year	(78,475)	17,092	(34,461)	9,207	19,556
Attributable to:					
Equity holders of the Company	(78,469)	17,280	(32,549)	10,689	20,656
Minority interests	(6)	(188)	(1,912)	(1,482)	(1,100)
	(78,475)	17,092	(34,461)	9,207	19,556
ASSETS AND LIABILITIES					
	At 30th June 2008 HK\$'000	At 31st March,			
		2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Total assets	315,307	206,319	200,267	321,210	292,818
Total liabilities	(297,519)	(111,562)	(122,151)	(198,684)	(181,080)
Total equity	17,788	94,757	78,116	122,526	111,738
Attributable to:					
Equity holders of the Company	19,729	96,445	78,830	121,390	111,003
Minority interests	(1,941)	(1,688)	(714)	1,136	735
	17,788	94,757	78,116	122,526	111,738