Era Information & Entertainment Limited
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(Incorporated in the Cayman Islands with liability)

Stock Code: 8043

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ERA

2008
ANNUAL REPORT

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

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

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

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Sze Hon
Christopher John Parker
David Marc Boulanger

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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COMPANY SECRETARY

Leung Ka Wo

COMPLIANCE OFFICER

Lee Sung Min

AUDIT COMMITTEE

Chan Sze Hon
(Chairman of the Audit Committee)
Christopher John Parker
David Marc Boulanger

REMUNERATION COMMITTEE

Chan Sze Hon
(Chairman of the Remuneration Committee)
Christopher John Parker
David Marc Boulanger

AUTHORISED REPRESENTATIVES

Lee Jong Dae
Lee Sung Min

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
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LEGAL ADVISOR

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

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WEBSITE

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Summary Financial Information

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**15,955**	50,710	71,129	79,445	84,344
Operating loss	**(26,366)**	(17,094)	(11,759)	(6,141)	(9,560)
Finance costs	**(831)**	(1)	(17)	(45)	(57)
Share of losses of associates	**–**	–	–	–	(156)
Loss before tax	**(27,197)**	(17,095)	(11,776)	(6,186)	(9,773)
Income tax expense	**–**	(327)	(300)	(688)	–
Loss for the year	**(27,197)**	(17,422)	(12,076)	(6,874)	(9,773)
Attributable to:					
Equity holders of the Company	**(27,197)**	(17,422)	(12,076)	(6,874)	(8,637)
Minority interest	**–**	–	–	–	(1,136)
	(27,197)	(17,422)	(12,076)	(6,874)	(9,773)

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**43,033**	57,842	44,862	60,901	75,026
Total liabilities	**(32,212)**	(21,737)	(17,051)	(21,003)	(28,265)
Net Assets	**10,821**	36,105	27,811	39,898	46,761

Note: The above financial summary as of and for the years ended 31 December 2007 and 2008 have been extracted from the audited financial statements of the Group as set out on pages 28 to 86 of the annual report.

Chairman's Statement

On behalf of the directors (the "Directors") of Era Information & Entertainment Limited and its subsidiaries (the "Company" and collectively the "Group"), I am pleased to present the annual results for the year ended 31 December 2008.

2008 was a difficult year for the Group. Facing the problems of illegal internet downloading, piracy and lack of major video titles during the year ended 31 December 2008, the Group's turnover in the home video business was lower when compared to the previous year. In order to have more flexibility financially and to be able to respond quickly to possible investment opportunities, on 14 July 2008, pursuant to the general mandate in respect of fiscal year 2008 ("2008 General Mandate"), the Company raised financing, net of related expenses, from the issue of convertible bonds in the notional amount of approximately HK$22 million, representing approximately 62 million new shares. On 29 December 2008, the Company entered into subscription agreements with subscribers to raise an additional HK$1.6 million, net of related expenses, through the private placement of 14.7 million new shares, utilizing in full the 2008 General Mandate. The new shares was issued on 2 December 2009 and resulting net proceeds are for general working capital of the Group and a portion thereof was used as deposits for certain proposed acquisitions. More details of the proposed acquisitions can be found in the Management Discussion and Analysis – Business Review section below.

The management team continues to actively seek promising business opportunities. Although we expect the coming year to be challenging, we hope and expect a number of them to materialize in the near future.

On behalf of the Board
Lee Jong Dae
Chairman

Hong Kong, 20 March 2009

Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$16.0 million (2007: approximately HK$50.7 million). Loss attributable to shareholders amounted to approximately HK$27.1 million (2007: approximately HK$17.4 million). Decrease in consolidated turnover is mainly due to a drop of approximately 65.3% and 95.2% in the home video products distribution and theatrical release arrangement and film rights sub-licensing, respectively, as compared to the same period in the prior year.

BUSINESS REVIEW

The Group released some new video titles including 'Heartbreak Kids', '30 Days of Night', 'Bee Movie' and 'Things We Lost in the Fire', but the results were not as positive as we originally anticipated and there was still a lack of major video titles released in the year 2008. In addition, the theatrical release arrangement of film title released had been further dropped, as compared to prior year which resulted in significant decrease in this segment's turnover.

Upon completion of legal and financial due diligence of Tusunchovan Kebar Joint Venture Company Limited ("Target Company"), a company that is 51% owned by Dean Management Limited and which owns concession and exploration rights to certain natural resources in Mongolia, the Company has decided not to exercise its right to acquire up to 51% of the Target Company. Details are set out in the Company's announcements dated 21 December 2007, 29 April 2008, and 30 July 2008.

On 7 July 2008, the Company entered into a memorandum of understanding ("MOU") with Sakhalin Resources Ltd. ("SR"), a company incorporated in the British Virgin Islands, in relation to the Company's possible acquisition from SR of a 100% equity interest in G.F.T. (FAREAST) Holding Limited, a company incorporated in Hong Kong ("GFT"), for a consideration of approximately HK$112 million (the "Consideration") (subject to additional payment based on GFT's performance in calendar year 2011, valuation, due diligence and negotiation). GFT ultimately owns certain coal mining operations in Sakhalin, Russia (the "Coal Mine") and has been granted approval from The Ministry of Natural Resource in Russia to upgrade the production facilities and sell the production output. At present, the Coal Mine possesses an exploitable area of approximately 15.5 square kilometers located in Russia with one general working face in production currently. Details are set out in the Company's announcement dated 7 July 2008.

On 21 August 2008, the Company entered into an amended term sheet to amend certain terms of the MOU in relation to the possible acquisition by the Company of GFT. In this amended term sheet GFT is the Vendor, replacing SR, due to their restructuring. Pursuant to the amended term sheet, the Company paid a refundable deposit (the "Deposit") of US$1,888,000 to the Vendor. Since 21 August 2008, the Company paid an additional refundable deposit of US$495,600, bringing the total Deposit paid to the Vendor to US$2,383,600 as of 31 December 2008. The Deposit shall be treated as part of the Consideration should the formal agreement be executed by the parties. Details of this transaction are set out in the Company's announcement dated 21 August 2008 and 19 March 2009.

Management Discussion and Analysis

PROSPECTS

The Group continues to seek growth opportunities in distributing Blu-ray products and new video titles. Mindful of the highly competitive home video products market and the challenges from illegal internet download and piracy, the Group continues to actively consider the diversification of business into new areas of high-growth potential which will be in the best interest of the Company. The Board has been seeking opportunities in energy resources due to its long-term positive outlook. In addition, the Board is also exploring opportunities in the equipment manufacturing sector related to mining and general infrastructure.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2008, the Group had net current assets of approximately HK$25.5 million (2007: HK$35.5 million). The Board is confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL STRUCTURE

As at 31 December 2008, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK$10.8 million as at 31 December 2008, representing a decrease of approximately 70% over last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2008, the Group's time deposits of approximately HK$1.5 million were pledged to a bank in respect of banking facilities granted to the Group.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

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

Management Discussion and Analysis

GEARING RATIO

The Group's total borrowings as at 31 December 2008 amounted to approximately HK$15 million, all of which as represented by convertible bonds.

On this basis, the gearing ratio is calculated at (1.39) (2007: Nil), based on an amount of shareholders' equity of HK$10,821,000.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group had commitments of unpaid film rights of approximately HK$0.4 million due to licensors and commitments of unpaid purchase costs of HK$1.7 million due to suppliers.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group had a total of 14 employees. The total staff costs, including directors' emoluments, amounted to approximately HK$6.6 million for the year under review.

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

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

Directors and Senior Management

Details of the current management team are as follows:

DIRECTORS

Executive Directors

Mr. Lee Jong Dae, aged 49, is the Chairman and Chief Executive Officer of the Company. He is an experienced international lawyer and investment banker. Mr. Lee holds a Juris Doctor degree from Georgetown University, Washington, D.C. He is an executive director of China HealthCare Holdings Limited, a company listed on the Main Board of Stock Exchange and a non-executive director of Asian Logic Limited, a company listed on Alternative Investment Market ("AIM") of the London Stock Exchange.

Mr. Lee Sung Min, aged 37, is the Compliance Officer of the Company. He is an Australian Korean who has 9 years' experience in legal practice. He has been a partner of DaeJi Law Firm in Korea since 2005. Prior to that, he worked for two renowned law firms in Korea. Mr. Lee was admitted as a legal practitioner of the Supreme Court of New South Wales in Australia in 1999. He also obtained a diploma in law granted by the Legal practice from The College of Law PTY Ltd. in Australia in 1999.

Mr. Kim Beom Soo, aged 40, is a director of Hunitech Co Limited which is principally engaged in telecommunication network construction in Korea since 2002. He is also a director of HtwoM Co. Limited, a company of which is engaged in the telecommunication equipment sales in Korea. Prior to that, he has years of experience in information and telecommunication industry.

Independent non-executive Directors

Mr. Chan Sze Hon, aged 35, is the Chairman of each of the audit committee and remuneration committee. He holds a Bachelor of Arts Degree in Accountancy from City University of Hong Kong and a Master Degree in Corporate Finance from The Hong Kong Polytechnic University. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Chan has over 13 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong for over 8 years. He is currently a non-executive director of Greater China Holdings Limited ("Greater China"), a company listed on the Main Board of the Exchange. During the period from 18 July 2005 to 12 October 2008, Mr. Chan was the executive director of Greater China. Mr. Chan is also the independent non-executive director of China Mining Resources Group Limited, a company listed on the Main Board of the Exchange, and Blu Spa Holdings Limited, a company listed on the Growth Enterprise Market of the Exchange ("GEM").

Directors and Senior Management

DIRECTORS *(continued)*

Independent non-executive Directors (continued)

Mr. Christopher John Parker, aged 41, is an executive director of Asian Logic Limited, a company listed on AIM of the London Stock Exchange, which is engaged in online gaming and multiplayer games, live video streaming, casino gaming and related business. He was appointed as a director of The Tressider-Tuohy Group (Hong Kong) Limited, an independent financial services firm, in 2003. Mr. Parker has also served five years of military service with the Coldstream Guards.

Mr. David Marc Boulanger, aged 44, is a director of Northman Holdings Inc., a company that owns Supplierpipeline Inc., a company engaged in the distribution of both professional and do-it-yourself hardware products and accessories and Lite Products Inc., a company engaged in the manufacture of ladders and other climbing products under proprietary brand names including "LITE" "EAGLE", and "GRIFFIN". Mr. Boulanger holds an honours bachelor of science degree in chemical engineering from University of Waterloo.

SENIOR MANAGEMENT

Mr. Leung Ka Wo, aged 35, is the Finance Director and Company Secretary of the Company. He holds a Bachelor of Arts Degree in Accountancy from Seattle University, Seattle, Washington, USA. He is a member of the American Institute of Certified Public Accountants and Certified Public Accountants, California, USA. He has over 9 years of experience in auditing and accounting, and had worked as a manager for an international accounting firm before joining the Company.

Mr. David Leng, aged 62, is the General Counsel of the Company. He holds a Juris Doctor degree from Harvard University, Cambridge, Massachusetts. He has almost thirty years of work experience in Asia, including being a senior lawyer for the Asian Development Bank in Manila, Philippines, and serving as the head of the inhouse legal departments for the Asian operations of Digital Equipment Corporation and Kraft Foods Asia Limited.

Directors' Report

The Directors have pleasure in presenting their report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 and the state of the affairs of the Group at that date are set out in the financial statements on pages 28 to 86.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008.

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment during the year are set out in note 18 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2008 are set out in note 34 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movement in the Company's share capital and share options during the year are set out in notes 27 and 30 to the financial statements respectively.

RESERVES

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

Directors' Report

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$16.7 million. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 63% of the total sales for the year and the sales attributable to the largest customer included therein amounted to approximately 43%.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 15% of the total purchases for the year and purchases attributable to the largest supplier included therein amounted to approximately 8%.

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

Directors' Report

DIRECTORS

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

Executive directors

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

Independent non-executive directors

Mr. Chan Sze Hon	(appointed on 25 February 2008)
Mr. Christopher John Parker	
Mr. David Marc Boulanger	
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)

In accordance with article 87(1) and (2) of the Company's articles of association as resolved by the board of Directors, Mr. Kim Beom Soo and Mr. Lee Sung Min will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

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

DIRECTORS' EMOLUMENTS AND THE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and of the individuals with highest emoluments of the Group are set out in notes 13 and 14 to the financial statements respectively.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 15 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Report

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

As at 31 December 2008, the interests of the Directors and the chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which have been be notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

Interests in shares of the Company

Name of Directors	Capacity	Number and class of shares	Approximate percentage of issued share capital
Mr. Lee Sung Min	Corporate Interest *(Note 1)*	105,512,000 ordinary shares (long position)	27.48%
Mr. Lee Jong Dae	Corporate Interest *(Note 2)*	18,000,000 ordinary shares (long position)	4.69%

Note 1: The 105,512,000 ordinary shares in the Company owned by Mr. Lee Sung Min are beneficially owned by and registered in the name of Vasky Inc.

Note 2: Wah Hong Investments Limited is wholly and beneficially owned by Mr. Lee Jong Dae, the chairman and executive Director.

Directors' Report

Long positions in underlying shares of equity derivatives of the Company

Name of Directors	Capacity	Description of equity derivatives (number and class of underlying shares)	Approximate percentage of issued share capital
Mr. Lee Jong Dae	Beneficial owner	share options to subscribe for shares (3,800,000 ordinary shares) *(Note)*	0.99%
Mr. Lee Sung Min	Beneficial owner	share options to subscribe for shares (900,000 ordinary shares) *(Note)*	0.23%
Mr. Kim Beom Soo	Beneficial owner	share options to subscribe for shares (900,000 ordinary shares) *(Note)*	0.23%
Mr. David Marc Boulanger	Beneficial owner	share options to subscribe for shares (900,000 ordinary shares) *(Note)*	0.23%
Mr. Christopher John Parker	Beneficial owner	share options to subscribe for shares (900,000 ordinary shares) *(Note)*	0.23%
Mr. Chan Sze Hon	Beneficial owner	share options to subscribe for shares (300,000 ordinary shares) *(Note)*	0.08%

Note: The aforesaid share options are classified as "long position" under the SFO. For details of the share options granted, please refer to note 30.

Save as disclosed above, as at 31 December 2008, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2008, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Number and class of shares	Approximate percentage of issued share capital
Vasky Inc. *(Note)*	105,512,000 ordinary shares (long position)	27.48%

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

Save as disclosed above, as at 31 December 2008, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

Directors' Report

SHARE OPTION SCHEME

The following table discloses details of options outstanding and the movements during the year ended 31 December 2008 under the Company's share option scheme (the "Share Option Scheme") adopted by the Company on 5 June 2001:

Name of grantee	Date of grant	Granted	Number of shares options Outstanding as at 1 January 2008	Lapsed during the year under review	Outstanding as at 31 December 2008
Mr. Lee Jong Dae	10 July 2008	3,800,000	–	–	3,800,000
Mr. Lee Sung Min	10 July 2008	900,000	–	–	900,000
Mr. Kim Beom Soo	10 July 2008	900,000	–	–	900,000
Mr. David Marc Boulanger	10 July 2008	900,000	–	–	900,000
Mr. Christopher John Parker	10 July 2008	900,000	–	–	900,000
Mr. Chan Sze Hon	10 July 2008	300,000	–	–	300,000
Employees in aggregate	10 July 2008	4,900,000	–	–	4,900,000
Advisors and Consultants	10 July 2008	25,800,000	–	–	25,800,000
Total			–	–	38,400,000

The share options were granted on 10 July 2008 at the exercise price of HK$0.40 per share with exercisable period from 10 July 2009 to 9 July 2013.

Details of the Share Option Scheme are set out in note 30. In order to widen the scope of eligible participants under the Share Option Scheme, afford more flexibility for the Board in considering the grant of share options to the eligible participants under the Share Option Scheme, and to update certain terms of the Share Option Scheme to comply with the current requirements of the GEM Listing Rules, certain terms have been amended in the Share Option Scheme during the year. Details of the amendments are set out in the Company's circular dated 2 April 2008.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2008 which do not constitute connected transactions under the GEM Listing Rules are set out in note 33 to the financial statements.

COMPETING INTEREST

As at 31 December 2008, none of the Directors or their respective associates (as defined in the GEM Listing Rules) had any interests in any business that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

As required by the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors, Chan Sze Hon, Christopher John Parker and David Marc Boulanger. The Audit Committee met on a quarterly basis during the year under review. The Group's financial results for the year ended 31 December 2008 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

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

Directors' Report

AUDITOR

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

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

On behalf of the Board

Lee Jong Dae
Chairman and Executive Director

Hong Kong, 20 March 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealing and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2008.

Corporate Governance Report

BOARD OF DIRECTORS

Directors **Attendance**

The Directors held 14 meetings during the year. Details of the attendance are as follows:

Directors		Attendance
Executive Directors		
Mr. Lee Jong Dae		14/14
Mr. Lee Sung Min		7/14
Mr. Kim Beom Soo		7/14
Independent non-executive Directors		
Mr. Chan Sze Hon	(appointed on 25 February 2008)	14/14
Mr. Christopher John Parker		13/14
Mr. David Marc Boulanger		13/14
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)	Nil

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

BOARD OF DIRECTORS *(continued)*

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

Corporate Governance Report

REMUNERATION OF DIRECTORS *(continued)*

Members of the remuneration committee included:

Mr. Chan Sze Hon	(appointed on 25 February 2008)
Mr. Christopher John Parker	
Mr. David Marc Boulanger	
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)

The remuneration committee has held two meetings during the year. Details of the attendance of the remuneration committee meetings are as follows: –

Members		**Attendance**
Mr. Chan Sze Hon		2/2
Mr. Christopher John Parker		2/2
Mr. David Marc Boulanger		2/2
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)	Nil

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

NOMINATION OF DIRECTORS

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

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

Directors		**Attendance**
Executive Directors		
Mr. Lee Jong Dae *(Chairman)*		1/1
Mr. Lee Sung Min		1/1
Mr. Kim Beom Soo		1/1
Independent non-executive Directors		
Mr. Chan Sze Hon	(appointed on 25 February 2008)	1/1
Mr. Christopher John Parker		1/1
Mr. David Marc Boulanger		1/1
Mr. Wong Man Hin, Raymond		Nil

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

AUDITOR'S REMUNERATION

The Company's external auditor is RSM Nelson Wheeler. The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group. During the year under review, the Group has paid an aggregate of approximately HK$551,000 to the external auditor for their non-audit services including taxation and other advisory services.

Corporate Governance Report

AUDIT COMMITTEE

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

Members of the audit committee included:

Mr. Chan Sze Hon	(appointed on 25 February 2008)
Mr. Christopher John Parker	
Mr. David Marc Boulanger	
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)

The audit committee held four meetings during the year. Details of the attendance of the audit committee meetings are as follows: –

Members		**Attendance**
Mr. Chan Sze Hon	(appointed on 25 February 2008)	4/4
Mr. Christopher John Parker		4/4
Mr. David Marc Boulanger		4/4
Mr. Wong Man Hin, Raymond	(resigned on 25 February 2008)	Nil

The Group's audited results for the year ended 31 December 2008 and the unaudited results for the financial statements published during the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

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

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

INTERNAL CONTROL

The board of Directors have overall responsibilities for maintaining and reviewing the effectiveness of the system of internal control of the Group. The internal control system is to safeguard the assets of the Group and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirements of the GEM Listing Rules. During the year ended 31 December 2008, the board of Directors had reviewed the effectiveness of the system of internal control of the Group. The review had covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group.

Independent Auditor's Report

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

We have audited the consolidated financial statements of Era Information & Entertainment Limited (the "Company") set out on pages 28 to 86, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITY *(continued)*

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

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

OPINION

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

Certified Public Accountants
Hong Kong

20 March 2009

Consolidated Income Statement
Year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	7	**15,955**	50,710
Cost of goods sold		**(13,256)**	(40,678)
Gross profit		**2,699**	10,032
Other income	8	**2,140**	558
Fair value gain on derivative components of convertible bonds	26	**6,845**	–
Selling and distribution costs		**(1,066)**	(8,576)
Administrative expenses		**(25,715)**	(18,238)
Gain on disposal of a subsidiary	31(b)	**1,484**	–
Other operating expenses		**(12,753)**	(870)
Loss from operations		**(26,366)**	(17,094)
Finance costs	10	**(831)**	(1)
Loss before tax		**(27,197)**	(17,095)
Income tax expense	11	**–**	(327)
Loss for the year attributable to equityholders of the Company	12	**(27,197)**	(17,422)
		HK Cents	HK Cents
Loss per share	17		
Basic		**(7.08)**	(5.41)
Diluted		**(8.03)**	N/A

Consolidated Balance Sheet

31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	18	**399**	598
Current assets			
Inventories	20	**–**	2,342
Film rights	21	**–**	1,718
Trade and other receivables	22	**5,705**	14,815
Prepayments and deposits	23	**28,986**	22,262
Pledged bank deposits	24	**1,477**	2,741
Bank and cash balances	24	**6,466**	13,366
		42,634	57,244
Current liabilities			
Trade and other payables	25	**16,088**	21,737
Derivative components of convertible bonds	26	**1,041**	–
Current tax liabilities		**11**	–
		17,140	21,737
Net current assets		**25,494**	35,507
Total assets less current liabilities		**25,893**	36,105
Non-current liabilities			
Convertible bonds	26	**15,072**	–
Net assets		**10,821**	36,105
Capital and reserves			
Share capital	27	**3,840**	3,840
Share premium		**91,066**	91,066
Share option reserve		**2,338**	–
Exchange reserve		**(419)**	6
Accumulated losses		**(86,004)**	(58,807)
TOTAL EQUITY		**10,821**	36,105

The financial statements on pages 28 to 86 were approved and authorised for issue by the Board of Directors on 20 March 2009 and are signed on its behalf by

Lee Jong-Dae
Chairman and Executive Director

Lee Sung Min
Executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to equityholders of the Company					
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	3,200	65,991	5	–	(41,385)	27,811
Exchange differences	–	–	1	–	–	1
Share issue expenses	–	(525)	–	–	–	(525)
Net expense recognised directly in equity	–	(525)	1	–	–	(524)
Loss for the year	–	–	–	–	(17,422)	(17,422)
Total recognised income and expense for the year	–	(525)	1	–	(17,422)	(17,946)
Issue of shares on placement	640	25,600	–	–	–	26,240
At 31 December 2007 and 1 January 2008	3,840	91,066	6	–	(58,807)	36,105
Exchange differences	–	–	(412)	–	–	(412)
Net expense recognised directly in equity	–	–	(412)	–	–	(412)
Loss for the year	–	–	–	–	(27,197)	(27,197)
Total recognised income and expense for the year	–	–	(412)	–	(27,197)	(27,609)
Recognition of share-based payments	–	–	–	2,338	–	2,338
Disposal of a subsidiary	–	–	(13)	–	–	(13)
	–	–	(13)	2,338	–	2,325
At 31 December 2008	3,840	91,066	(419)	2,338	(86,004)	10,821

Consolidated Cash Flow Statement

Year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(27,197)**	(17,095)
Adjustments for:		
Allowance for doubtful debts		
– Trade and other receivables	**1,919**	871
– Prepayments and deposits	**10,168**	–
Allowance for inventories	**–**	344
Amortisation of film rights	**6,803**	22,978
Bad debts written off	**–**	515
Depreciation	**202**	327
Equity-settled share-based payments	**2,338**	–
Fair value gain on derivative components of convertible bonds	**(6,845)**	–
Film rights written off	**1,241**	174
Finance costs	**831**	1
(Gain)/loss on disposal of a subsidiary	**(1,484)**	305
Gain on disposals of property, plant and equipment	**(80)**	–
Goodwill written off	**85**	–
Interest income	**(96)**	(173)
Inventories written off	**1,014**	1,523
Impairment losses on film rights	**–**	1,523
Property, plant and equipment written off	**496**	155
Reversal of allowance for doubtful debts	**(401)**	(440)
Reversal of allowance for inventories	**(816)**	(819)
Reversal of impairment losses on film rights	**–**	(127)
Operating (loss)/profit before working capital changes	**(11,822)**	10,062
Decrease/(increase) in inventories	**2,144**	(117)
Decrease in trade and other receivables	**8,635**	3,259
Decrease/(increase) in prepayments and deposits	**1,672**	(480)
(Decrease)/increase in trade and other payables	**(5,637)**	4,686
Cash (used in)/generated from operations	**(5,008)**	17,410
Income tax paid	**(5)**	–
Interest paid	**–**	(1)
Net cash (used in)/generated from operating activities	**(5,013)**	17,409

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposit paid for acquisition of an investment		**(18,604)**	(19,500)
Purchases of film rights		**(6,326)**	(21,196)
Purchases of property, plant and equipment		**(504)**	(209)
Net cash (outflow)/inflow arising on disposal of a subsidiary	31(b)	**(222)**	345
Decrease/(increase) in pledged bank deposits		**1,260**	(613)
Net cash inflow arising on acquisition of a subsidiary	31(a)	**1,007**	–
Interest income		**96**	173
Proceeds from disposals of property, plant and equipment		**80**	–
Refund of film rights		**–**	186
Net cash used in investing activities		**(23,213)**	(40,814)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds		**21,727**	–
Proceeds from issue of shares		**–**	26,240
Share issue expenses paid		**–**	(525)
Net cash generated from financing activities		**21,727**	25,715
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(6,499)**	2,310
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**13,366**	11,089
Effect of foreign exchange rate change		**(401)**	(33)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**6,466**	13,366
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**6,466**	13,366

Notes to the Financial Statements

Year ended 31 December 2008

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the substantial shareholder, at a level sufficient to finance the working capital requirements of the Group. The substantial shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

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

Notes to the Financial Statements

Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivatives which are carried at their fair values.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

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

(a) Consolidation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

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

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

Notes to the Financial Statements
Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

(iii) Translation on consolidation

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

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

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

– All resulting exchange differences are recognised in the foreign currency translation reserve.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation *(continued)*

(iii) Translation on consolidation (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

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

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

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

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(e) Operating leases

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Inventories

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

(g) Film rights

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

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

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

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

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

(h) Recognition and derecognition of financial instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Recognition and derecognition of financial instruments *(continued)*

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

(i) Trade and other receivables

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

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

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

Notes to the Financial Statements

Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial liabilities and equity instruments

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

(i) Trade and other payables

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

(ii) Equity instruments

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

(iii) Convertible bonds

Convertible bonds which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability components and is carried as a liability at amortised cost using the effective interest rate method until extinguished on conversion or redemption. The derivative components is measured at fair value with gains and losses recognised in the income statement.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(iv) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(l) **Revenue recognition**

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

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

Theatrical income is recognised when the film is released.

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

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

Revenue from the provision of accounting, management and secretarial services is recognised when the services are rendered.

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

Rental income is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements
Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(n) Share-based payments

The Group issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Borrowing costs

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

(p) Taxation

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

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

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

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

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

Notes to the Financial Statements
Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Taxation *(continued)*

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

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

(q) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Segment reporting

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

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

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

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

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

(s) Impairment of assets

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

Notes to the Financial Statements
Year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Impairment of assets *(continued)*

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Provisions and contingent liabilities

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

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

(u) Events after the balance sheet date

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

Notes to the Financial Statements
Year ended 31 December 2008

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Allowance for doubtful debts of receivables

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

(b) Allowance for slow-moving inventories

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

(c) Impairment loss of film rights

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Share-based payment expenses

The fair value of the share options granted to the directors, employees and consultants determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In assessing the fair value of the share options, the Binomial option pricing model (the "Binomial Model") was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Binomial Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

(e) Fair value of derivative components

As disclosed in note 26 to the financial statements, determination of the fair values of the derivative components of the convertible bonds at the date of issue and the balance sheet date involves the use of Binomial Model. Application of Binomial Model requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of the convertible bonds in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT

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

Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements

Year ended 31 December 2008

6. FINANCIAL RISK MANAGEMENT *(continued)*

Price risk

The Group's derivative components of convertible bonds are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk.

At 31 December 2008, if the share price of the Company had increased or decreased by 20% with all other variables held constant and the fair value of the derivative components of convertible bonds moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would have been HK$448,000 or HK$389,000 (2007: N/A) higher or lower respectively, arising from losses or gains in fair value of the derivative components of convertible bonds.

Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, and prepayments and deposits included in the balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

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

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

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

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

6. FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk

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

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2008				
Trade and other payables	16,106	–	–	–
Convertible bonds	229	629	22,378	–
At 31 December 2007				
Trade and other payables	21,737	–	–	–

Interest rate risk

The Group's exposure to interest rate risk arises from its bank balances and convertible bonds. The interest rates of the convertible bonds are fixed as disclosed in note 26 and expose the Group to fair value interest rate risks. The bank balances bear interests at variable rates varied with the then prevailing market condition and therefore are subject to cash flow interest rate risks. The exposure of the interest rate risks of the bank balances is insignificant given the existing low bank interest deposit rate.

Fair values

Except as stated in note 26, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

Notes to the Financial Statements
Year ended 31 December 2008

7. TURNOVER

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

	2008	2007
	HK$'000	HK$'000
Home video products distribution	**15,691**	45,257
Theatrical release arrangement and film rights sub-licensing	**264**	5,405
Games distribution	**–**	48
	15,955	50,710

8. OTHER INCOME

	2008	2007
	HK$'000	HK$'000
Accountancy fee income	**236**	–
Bank interest income	**96**	173
Distribution income	**9**	20
Management fee income	**150**	150
Rental income	**402**	–
Secretarial service income	**882**	–
Sundry income	**365**	215
	2,140	558

9. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into three main business segments:

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

(b) Secondary reporting format – geographical segments

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

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

Notes to the Financial Statements

Year ended 31 December 2008

9. SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments

	Home video products distribution		Theatrical release arrangement and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE										
External turnover	**15,691**	45,257	**264**	5,405	**–**	48	**–**	–	**15,955**	50,710
External other income	**454**	385	**–**	–	**–**	–	**–**	–	**454**	385
Inter-segment revenue	**18**	–	**–**	–	**–**	623	**(18)**	(623)	**–**	–
Total revenue	**16,163**	45,642	**264**	5,405	**–**	671	**(18)**	(623)	**16,409**	51,095
RESULT										
Segment result	**(6,283)**	(5,142)	**(1,469)**	(3,955)	**(81)**	(669)	**–**	–	**(7,833)**	(9,766)
Unallocated corporate expenses									**(26,958)**	(7,501)
Gain on disposal of a subsidiary									**1,484**	–
Fair value gain on derivative components of convertible bonds									**6,845**	–
Operating loss excluding interest									**(26,462)**	(17,267)
Interest expenses									**(831)**	(1)
Interest income									**96**	173
Loss before tax									**(27,197)**	(17,095)
Income tax expense									**–**	(327)
Loss for the year									**(27,197)**	(17,422)

9. SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

	Home video products distribution		Theatrical release arrangement and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS										
Segment assets	**10,688**	27,593	**–**	1,780	**–**	57	**–**	–	**10,688**	29,430
Unallocated corporate assets									**32,345**	28,412
Consolidated total assets									**43,033**	57,842
LIABILITIES										
Segment liabilities	**7,803**	18,191	**–**	1,797	**85**	161	**–**	–	**7,888**	20,149
Unallocated corporate liabilities									**24,324**	1,588
Consolidated total liabilities									**32,212**	21,737
OTHER INFORMATION										
Capital expenditure	**6,830**	20,219	**–**	1,183	**–**	3	**–**	–	**6,830**	21,405
Depreciation and amortisation	**6,943**	23,160	**61**	138	**1**	7	**–**	–	**7,005**	23,305
Impairment losses on film rights	**–**	550	**–**	973	**–**	–	**–**	–	**–**	1,523
Unallocated amounts										
– goodwill written off	**–**	–	**–**	–	**–**	–	**–**	–	**85**	–
– allowance for trade and other receivables	**–**	–	**–**	–	**–**	–	**–**	–	**305**	–
– allowance for prepayments and deposits	**–**	–	**–**	–	**–**	–	**–**	–	**10,168**	–
Non-cash expenses other than depreciation, amortisation and impairment losses	**4,154**	1,873	**126**	401	**5**	49	**–**	–	**4,285**	2,323

Notes to the Financial Statements

Year ended 31 December 2008

9. SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

	Revenue		Total assets		Capital expenditure	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**16,145**	45,029	**42,592**	56,062	**6,830**	21,392
The PRC	**264**	5,405	**–**	1,780	**–**	13
Others	**–**	661	**441**	–	**–**	–
	16,409	51,095	**43,033**	57,842	**6,830**	21,405

10. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on convertible bonds wholly repayable within five years	**831**	–
Bank overdraft interest	**–**	1
	831	1

11. INCOME TAX EXPENSE

	2008	2007
	HK$'000	HK$'000
Deferred tax *(note 19)*	**–**	327

The Hong Kong Legislative Council passed the Revenue Bill 2008 on 26 June 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. No provision for Hong Kong Profits Tax profits tax has been made as the Group has no assessable profit for the year (2007: Nil).

11. INCOME TAX EXPENSE *(continued)*

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof. No provision for overseas tax was required as no assessable profit for the year.

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

	2008	2007
	HK$'000	HK$'000
Loss before tax	**(27,197)**	(17,095)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**(4,488)**	(2,992)
Tax effect of expenses that are not deductible	**5,686**	368
Tax effect of income that is not taxable	**(1,143)**	(119)
Tax effect of tax losses previously recognised and reversed	**–**	327
Tax effect of temporary differences not recognised	**(178)**	3,566
Tax effect of utilisation of tax losses not recognised previously	**(701)**	(823)
Tax effect of tax losses not recognised	**824**	–
Income tax expense	**–**	327

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

Notes to the Financial Statements
Year ended 31 December 2008

12. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITYHOLDERS OF THE COMPANY

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

	2008 HK$'000	2007 HK$'000
Allowance for doubtful debts		
– Trade and other receivables	**1,919**	871
– Prepayments and deposits	**10,168**	–
Allowance for inventories (included in cost of goods sold)	**–**	344
Amortisation of film rights (included in cost of goods sold)	**6,803**	22,978
Auditor's remuneration		
– Current year	**526**	470
– Over-provision in prior year	**(21)**	–
	505	470
Bad debts written off	**–**	515
Cost of inventories sold *(note)*	**13,256**	8,956
Depreciation	**202**	327
Director's emoluments *(note 13)*		
– As directors	**249**	195
– For management	**881**	2,266
	1,130	2,461
Film rights written off	**1,241**	174
Goodwill written off	**85**	–
Impairment losses on film rights (included in cost of goods sold)	**–**	1,523
Inventories written off	**1,014**	1,523
(Gain)/loss on disposal of a subsidiary	**(1,484)**	305
Gain on disposal of property, plant and equipment	**(80)**	–
Property, plant and equipment written off	**496**	155
Operating lease rentals in respect of land and buildings	**1,481**	1,698
Reversal of allowance for doubtful debts		
– Trade and other receivables	**(401)**	(436)
– Prepayments and deposits	**–**	(4)
Reversal of allowance for inventories (included in cost of goods sold)	**(816)**	(819)
Reversal of impairment losses on film rights (included in cost of goods sold)	**–**	(127)
Equity-settled consultancy fees	**1,571**	–
Staff costs including directors' emoluments		
– Salaries and other costs	**8,504**	11,211
– Equity-settled share-based payments	**767**	–
– Retirement benefit scheme contributions	**174**	568
	9,445	11,779

12. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITYHOLDERS OF THE COMPANY *(continued)*

Note:

Cost of inventories sold includes inventories written off of approximately HK$1,014,000 (2007: HK$1,523,000), allowance for inventories of approximately HK$Nil (2007: HK$344,000) and reversal of allowance for inventories of approximately HK$816,000 (2007: HK$819,000) which are included in the amounts disclosed separately.

13. DIRECTORS' EMOLUMENTS

The emoluments of each director were as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement benefit scheme contributions	2008 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Lee Jong Dae *(note i)*	–	540	231	–	771
Kim Beom Soo *(note i)*	–	–	55	–	55
Lee Sung Min *(note i)*	–	–	55	–	55
Independent non-executive directors					
Chan Sze Hon *(note vi)*	102	–	18	–	120
Boulanger David Marc *(note ii)*	–	–	55	–	55
Parker Christopher John *(note ii)*	–	–	55	–	55
Wong Man Hin, Raymond *(note v)*	19	–	–	–	19
	121	540	469	–	1,130

Notes to the Financial Statements
Year ended 31 December 2008

13. DIRECTORS' EMOLUMENTS *(continued)*

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

Notes:

(i) Appointed on 27 July 2007.
(ii) Appointed on 17 August 2007.
(iii) Resigned on 17 August 2007.
(iv) Resigned on 27 January 2007.
(v) Appointed on 17 August 2007 and resigned on 25 February 2008.
(vi) Appointed on 25 February 2008.

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

14. EMPLOYEE EMOLUMENTS

The five highest paid individuals in the Group during the year included one (2007: three) director whose emoluments are disclosed in note 13 to the consolidated financial statements. The emoluments of the remaining four (2007: two) individuals are set out below:

	2008 HK$'000	2007 HK$'000
Basic salaries, allowances and benefits in kind	**3,415**	1,079
Discretionary bonuses	**42**	–
Share-based payments	**152**	–
Retirement benefit scheme contributions	**–**	17
	3,609	1,096

The emoluments of the remaining four (2007: two) individuals with the highest emoluments are within the following bands:

	Number of employees 2008	2007
Nil to HK$1,000,000	**3**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	4	2

During the year, emoluments of HK$228,000 were paid by the Group to one individual with highest emoluments as compensation for loss of office.

Notes to the Financial Statements
Year ended 31 December 2008

15. RETIREMENT BENEFIT SCHEMES

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

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

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

16. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2007: Nil).

17. LOSS PER SHARE

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equityholders of the Company of approximately HK$27,197,000 (2007: HK$17,422,000) and the weighted average number of ordinary shares of 384,000,000 (2007: 321,928,767) in issue during the year.

The calculation of diluted loss per share attributable to equityholders of the Company for 2008 is based on the adjusted loss for the year attributable to equityholders of the Company of approximately HK$33,211,000 and the adjusted weighted average number of ordinary share outstanding of 413,538,240 to assume the conversion of convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the loss for the year attributable to equityholders of the Company is adjusted to eliminate the interest expenses and fair value gain on the derivates.

17. LOSS PER SHARE *(continued)*

	2008
	HK$'000
Loss attributable to equityholders of the Company	
Loss attributable to equityholders of the Company for the purpose of calculating basic loss per share	27,197
Finance costs saving on conversion of convertible bonds outstanding	(831)
Fair value gain on derivative components of convertible bonds	6,845
Loss for the purpose of calculating diluted loss per share	33,211

	2008
	'000
Number of shares	
Weighted average number of ordinary shares in issue	384,000
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	29,538
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	413,538
Diluted loss per share (Hong Kong Cent per share)	8.03

No diluted loss per share figures are presented for the year ended 31 December 2007 as the Company did not have any dilutive potential ordinary shares during that year.

Notes to the Financial Statements
Year ended 31 December 2008

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computers HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2007	3,992	3,471	3,211	644	11,318
Additions	–	205	4	–	209
Disposals	–	–	(375)	–	(375)
Exchange differences	–	10	48	–	58
At 31 December 2007	3,992	3,686	2,888	644	11,210
Additions	186	–	–	318	504
Written off/disposals	(4,178)	(3,447)	(2,876)	(644)	(11,145)
Disposal of a subsidiary	–	–	(12)	–	(12)
At 31 December 2008	–	239	–	318	557
Accumulated depreciation					
At 1 January 2007	3,746	3,112	2,804	644	10,306
Charge for the year	65	109	153	–	327
Disposals	–	–	(220)	–	(220)
Exchange differences	–	4	20	–	24
At 31 December 2007	3,811	3,225	2,757	644	10,437
Charge for the year	33	68	68	33	202
Written off/disposals	(3,844)	(3,168)	(2,818)	(644)	(10,474)
Disposal of a subsidiary	–	–	(7)	–	(7)
At 31 December 2008	–	125	–	33	158
Impairment losses					
At 1 January 2007 and 31 December 2007	–	175	–	–	175
Written off	–	(175)	–	–	(175)
At 31 December 2008	–	–	–	–	–
Carrying amount					
At 31 December 2008	–	114	–	285	399
At 31 December 2007	181	286	131	–	598

Because of the removal to new offices during the year, the carrying amount of the Group's property, plant and equipment amounting to HK$496,000 have been fully written off and included in other operating expenses in consolidated income statement.

19. DEFERRED TAX

The following are the movement of deferred tax assets recognised by the Group during the current and prior years.

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	(8)	335	327
Charged to the income statement for the year *(note 11)*	8	(335)	(327)
At 31 December 2007, 1 January 2008 and 31 December 2008	–	–	–

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

	2008 HK$'000	2007 HK$'000
(Accelerated)/decelerated depreciation allowances	**(55)**	180
Tax losses	**11,434**	14,643
	11,379	14,823

No deferred tax assets have been recognised due to the unpredictably of future profit streams. Certain tax losses have not been agreed by the tax authority. Included in unrecognised tax losses are losses of approximately HK$1,435,000 (2007: HK$11,532,000) that will expire within five years. The remaining unrecognised tax losses may be carried forward indefinitely.

20. INVENTORIES

	2008 HK$'000	2007 HK$'000
Finished goods	**–**	2,342

Notes to the Financial Statements
Year ended 31 December 2008

21. FILM RIGHTS

	HK$'000
Cost	
At 1 January 2007	76,801
Additions	21,196
Written off/disposals	(36,361)
At 31 December 2007 and 1 January 2008	61,636
Additions	6,326
Written off/disposals	(25,252)
At 31 December 2008	42,710
Accumulated amortisation	
At 1 January 2007	69,650
Charge for the year	22,978
Written off/disposals	(36,001)
At 31 December 2007 and 1 January 2008	56,627
Charge for the year	6,803
Written off	(23,261)
At 31 December 2008	40,169
Impairment losses	
At 1 January 2007	1,895
Recognise for the year	1,523
Reversal/written off	(127)
At 31 December 2007 and 1 January 2008	3,291
Written off	(750)
At 31 December 2008	2,541
Carrying amount	
At 31 December 2008	–
At 31 December 2007	1,718

Because of the termination and expiry of licenses agreements signed with film right licensers during the year, the carrying amount of film rights amounting to HK$1,241,000 have been fully written off and included in cost of inventories sold.

22. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**7,804**	17,044
Allowance for doubtful debts		
At 1 January	**2,592**	1,996
Arising from acquisition of a subsidiary	**227**	–
Disposal of a subsidiary	**(365)**	–
Charge for the year	**1,919**	871
Written back	**(401)**	(301)
Exchange differences	**–**	26
At 31 December	**3,972**	2,592
Trade receivables, net *(note a)*	**3,832**	14,452
Other receivables *(note b)*	**1,873**	363
	5,705	14,815

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

	2008 HK$'000	2007 HK$'000
Current – 30 days	**12**	2,327
31 – 60 days	**82**	3,474
61 – 90 days	**191**	1,534
91 – 180 days	**2,715**	3,020
181 – 365 days	**832**	2,511
Over 1 year	**–**	1,586
	3,832	14,452

22. TRADE AND OTHER RECEIVABLES *(continued)*

As of 31 December 2008, trade receivables of approximately HK$3,611,000 (2007: HK$6,793,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2008	2007
	HK$'000	HK$'000
Up to 3 months	**2,842**	2,891
3 to 6 months	**446**	1,648
Over 6 months	**323**	2,254
	3,611	6,793

(b) As at 31 December 2008 included in other receivables was amount due from Era International (HK) Limited, a related company of the subsidiary of the Group, of HK$161,000. The amount due was unsecured, interest free and repayable on demand. The maximum amount due during the year was HK$540,000. Detailed relationship has been disclosed in note 33(b).

23. PREPAYMENTS AND DEPOSITS

(a) Included in prepayments and deposits was deposit of approximately HK$9,332,000 paid for a possible acquisition. This amount has been arrived at after deducting allowances of HK$10,168,000 (2007: Nil). On 21 December 2007, the Group entered into a memorandum of understanding ("MOU 1") in relation to possible acquisition of 25% equity interest of Tusunchovan Kebar Joint Venture Company Limited which was established in Mongolia (the "Target Company") for a cash consideration of between USD2,500,000 to USD5,000,000 (subject to valuation, due diligence and negotiation). On 29 April 2008, the Company and the vendor entered into an amended term sheet to amend certain terms of the MOU 1. Pursuant to the amended term sheet the vendor granted an option to the Company to purchase additional 26% equity interest in the Target Company for additional consideration between US$2.5 million to US$5 million (subject to valuation, due diligence and negotiation). The Target Company owns concession rights to certain natural resources. In addition, pursuant to the amended term sheet, the deposit is refundable subject to the transaction being cancellable or expired on the closing date of 31 December 2008. Up to the approval date of the financial statements, an amount totalling HK$9,332,000 have been settled by the vendor.

23. PREPAYMENTS AND DEPOSITS *(continued)*

(b) Included in prepayments and deposits was deposit of approximately HK$18,605,000 (originally denominated in USD of USD2,383,600) paid for a possible acquisition. On 7 July 2008, the Group entered into a memorandum of understanding ("MOU 2") with Sakhalin Resources Ltd. in relation to possible acquisition of 100% equity interest in G.F.T. (FAREAST) Holdings Limited which was established in Hong Kong for a cash consideration of approximately HK$112,000,000. G.F.T. (FASTEAST) Holdings Limited ultimately owns certain coal mining operation in Sakhalin, Russia.

On 21 August 2008, the Group entered into an amended term sheet with G.F.T. (FAREAST) Holdings Limited (being the wholly owned subsidiary of Sakhalin Resources Ltd. and it now becomes the vendor after entering this amended term sheet) to amend certain terms of MOU2. Pursuant to the amended term sheet, the Group will acquire 100% equity interest in Adventio Investments Limited which ultimately owns certain coal mining operation on Sakhalin, Russia.

Pursuant to the amended term sheet dated 19 March 2009, the deposit is refundable subject to the transaction being cancellable or expired on the closing date of 31 December 2009.

(c) As at 31 December 2007 and 2008, an allowance was made for estimated irrecoverable trade deposits in relating to games distribution of approximately HK$5,142,000.

24. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The amounts represent time deposits pledged to banks in respect of banking facilities granted to the Group. The deposits are in Hong Kong dollars and South Korean Won and at fixed interest rate of 2.7% per annum (2007: 3.39% per annum) and 6% per annum (2007: nil) respectively and therefore are subject to fair value interest rate risk.

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

Notes to the Financial Statements

Year ended 31 December 2008

25. TRADE AND OTHER PAYABLES

	Note	2008 HK$'000	2007 HK$'000
Trade payables	(a)	**2,480**	7,512
Film right payables	(a)	**1,836**	3,730
Other payables	(b)	**11,772**	10,495
		16,088	21,737

(a) An ageing analysis of trade payables is as follows:

	2008 HK$'000	2007 HK$'000
Current – 30 days	**6**	1,888
31 – 60 days	**28**	1,147
61 – 90 days	**24**	1,044
91 – 180 days	**125**	1,389
181 – 365 days	**109**	855
Over 1 year	**2,188**	1,189
	2,480	7,512

An ageing analysis of film right payables is as follows:

	2008 HK$'000	2007 HK$'000
Current – 30 days	**–**	2,295
181 – 365 days	**405**	–
Over 1 year	**1,431**	1,435
	1,836	3,730

(b) As at 31 December 2008 included in other payables is short-term loan of approximately HK$1,326,000 which is secured by a personnel guarantee issued by a director of a wholly-owned subsidiary, interest bearing at 1.25% per annum and repayable on 31 May 2009.

26. CONVERTIBLE BONDS

On 1 May 2008 the Group issued convertible bonds with a nominal value of HK$400,000 ("CB1"). At the option of the bondholders, the bondholders have the right, subject to "conditions Precedent" stated in terms of CB1 to convert either in whole or in part (in multiples of HK$100) the principal amount into the Company's ordinary shares at an initial conversion price, subject to adjustment, of HK$0.5 per share for the period commencing from the date of issue of the CB1 up to the maturity date at the discretion of the holders of the CB1, provided that any conversion shall be made in amounts of not less than a whole multiple of HK$100 on each conversion save that if at any time the outstanding principal amount of the CB1 is less than HK$100, the whole (but not part only) of the outstanding principal amount of the CB1 may be converted. Any CB1 not converted will be redeemed on 30 April 2010 at 100% of their face value plus accrued interest. CB1 carries interests at 3% per annum payable semi-annually in arrears on the last day of each half year.

On 14 July 2008 the Group issued convertible bonds with a nominal value of HK$21,726,600 ("CB2"). At the option of the bondholders, the bondholders have the right, subject to "Conditions Precedent" stated in terms of CB2 to convert either in whole or in part (in multiples of HK$100) the principal amount into the Company's ordinary shares at an initial conversion price, subject to adjustment, of HK$0.35 per share for the period commencing from the date of issue of the CB2 up to the maturity date at the discretion of the holders of the CB2, provided that any conversion shall be made in amounts of not less than a whole multiple of HK$100 on each conversion save that if at any time the outstanding principal amount of the CB2 is less than HK$100, the whole (but not part only) of the outstanding principal amount of the CB2 may be converted. Any CB2 not converted will be redeemed on 13 July 2013 at 100% of their face value plus accrued interest. CB2 carries interests at 1% per annum payable semi-annually in arrears on the last day of each half year. In the event that the prevailing price of the conversion shares is at least HK$2 per share for 5 consecutive trading days before the maturity date, the bondholders of the CB 2 shall mandatory exercise its rights to convert all of the CB 2 into conversion shares. The Company may redeem all but not some of the CB 2 at face value plus accrued interest at any time after the issuance of the CB 2 but prior to the maturity date at its discretion by 30 business days' notice in advance to the bondholders of the CB 2, provided that each bondholders of the CB 2 shall retain its conversion right prior to the completion of the redemption.

Details of CB2 are disclosed in the Company's announcement dated 16 July 2008.

Notes to the Financial Statements

Year ended 31 December 2008

26. CONVERTIBLE BONDS *(continued)*

The fair value of the derivative components estimated at the issuance using an option pricing model and the change in fair value of that components is recognised in the income statement. The residual amount is assigned as the liability components.

	CB1	CB2	Total
	HK$'000	HK$'000	HK$'000
Nominal values of convertible loan notes issued	400	21,727	22,127
Derivate components	(58)	(7,828)	(7,886)
Liability components at date of issue	342	13,899	14,241
Interest charged	26	805	831
Liability components at 31 December 2008	368	14,704	15,072
Derivative components at date of issue	58	7,828	7,886
Fair value gain for the year	(57)	(6,788)	(6,845)
Derivative components at 31 December 2008	1	1,040	1,041

The interest charged for the year for CB1 and CB2 are calculated by applying effective interest rates of 10.21% and 10.18% respectively to the liability components since the bonds were issued.

The directors estimate the fair values of the liability components of CB1 and CB2 at 31 December 2008 to be approximately HK$363,000 and HK$13,138,000 respectively. These fair values have been calculated by discounting the future cash flows at the market rate.

26. CONVERTIBLE BONDS *(continued)*

The fair values of the derivative components of CB1 and CB2 were revalued as at the date of issue and 31 December 2008 based on valuations by an independent valuer, Greater China Appraisal Limited, determined using the Binomial Model. The significant inputs to the model were as follows:

	CB1		CB2	
	At 31 December 2008	At 1 May 2008	**At 31 December 2008**	At 14 July 2008
Share price of underlying shares *(HK$)*	**0.100**	0.425	**0.100**	0.340
Exercise price *(HK$)*	**0.500**	0.500	**0.350**	0.350
Expected volatility *(%)*	**64.128**	54.075	**58.055**	54.653
Expected life *(years)*	**1.33**	2	**4.53**	5
Risk-free rate *(%)*	**0.341**	1.662	**1.124**	3.400
Expected dividend yield *(%)*	**–**	–	**–**	–

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous periods equivalent to the length of the expected life.

27. SHARE CAPITAL

	2008 HK$'000	2007 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
384,000,000 ordinary shares of HK$0.01 each	**3,840**	3,840

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

Notes to the Financial Statements
Year ended 31 December 2008

27. SHARE CAPITAL *(continued)*

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

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit through the year. As at 31 December 2008, 67.84% (2007: 46.6%) of the shares were in public hands.

28. BALANCE SHEET OF THE COMPANY

	2008	2007
	HK$'000	HK$'000
Investments in subsidiaries	**4,513**	9,263
Prepayments and deposits and other receivables	**28,353**	21,254
Bank and cash balances	**1,228**	7,155
Convertible bonds	**(15,072)**	–
Current liabilities	**(6,525)**	(1,567)
NET ASSETS	**12,497**	36,105
Share capital	**3,840**	3,840
Reserves	**8,657**	32,265
TOTAL EQUITY	**12,497**	36,105

29. RESERVES

(a) Group

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

(b) Company

	Share premium	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	84,553	–	(59,942)	24,611
Issue of shares on placement	25,600	–	–	25,600
Share issue expenses	(525)	–	–	(525)
Loss for the year	–	–	(17,421)	(17,421)
At 31 December 2007 and at 1 January 2008	109,628	–	(77,363)	32,265
Recognition of share-based payments	–	2,338	–	2,338
Loss for the year	–	–	(25,946)	(25,946)
At 31 December 2008	109,628	2,338	(103,309)	8,657

Notes to the Financial Statements
Year ended 31 December 2008

29. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium account

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

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

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(c) to the financial statements.

(iii) Share options reserve

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors, employees and other eligible participant of the Group as set out in note 30 to financial statements recognised in accordance with the accounting policy in note 4(n) to the financial statements.

30. SHARE OPTION SCHEME

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

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of the Stock Exchange of Hong Kong Limited (the "Exchange") on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price of the shares of the Company as stated in the Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant of the options.

Pursuant to an ordinary resolution passed by shareholders at annual general meeting held at 24 April 2008, in order to widen the scope of eligible participants under the Share Option Scheme, afford more flexibility for the Board in considering the grant of share options to the eligible participants under the Share Option Scheme, and to update certain terms of the Share Option Scheme to comply with the current requirements of the GEM Listing Rules, certain terms of the Share Option Scheme have been amended. Details of the amendments are set out in the Company's circular dated 2 April 2008.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit.

The total number of the shares of the Company 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 of the Company must not exceed 30% of the shares of the Company in issue from time to time. HK$1 is payable as consideration for each offer of share option granted and options granted must be taken up within 28 days from date of grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee.

The Share Option Scheme became effective for a period of 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

Notes to the Financial Statements

Year ended 31 December 2008

30. SHARE OPTION SCHEME *(continued)*

The following table discloses details of options outstanding and the movements during the year ended 31 December 2008 under the Share Option Scheme adopted by the Company on 5 June 2001:

			Number of shares options		
Name of grantee	**Date of grant**	**Granted**	**Outstanding as at 1 January 2008**	**Lapsed during the year**	**Outstanding as at 31 December 2008**
Total of directors	10 July 2008	7,700,000	–	–	7,700,000
Employees in aggregate	10 July 2008	4,900,000	–	–	4,900,000
Advisors and Consultants	10 July 2008	25,800,000	–	–	25,800,000
Total			–	–	38,400,000

Details of the options granted under the share option scheme are as follows:

Date of grant	**Vesting period**	**Exercise period**	**Exercise price**
			HK$
10 July 2008	10 July 2008 – 09 July 2009	10 July 2009 – 09 July 2013	0.40

If the options remain unexercised after a period of 5 years from the date of grant, the options will be expired. Options are forfeited if the employee leaves the Group before the options vest.

30. SHARE OPTION SCHEME *(continued)*

Details of the share options outstanding during the year are as follows:

	2008	
	Number of share options	Weighted average exercise price HK$
Granted during the year and outstanding at the end of the year	38,400,000	0.40
Exercisable at the end of the year	38,400,000	0.40

These fair values were calculated using the Binomial. The inputs into the model were as follows:

	2008 HK$
Share price	0.39
Exercise price	0.40
Expected volatility *(%)*	54.84
Expected life *(years)*	5
Risk free rate *(%)*	3.191
Expected dividend yield *(%)*	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Notes to the Financial Statements
Year ended 31 December 2008

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

On 1 May 2008, the Group acquired 100% of the issued share capital of IFS Asia-Pacific Limited for a consideration of HK$400,000. IFS Asia-Pacific Limited was engaged in provision of corporate secretarial services during the year.

The fair value of the identifiable assets and liabilities of IFS Asia-Pacific Limited acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

Net assets acquired:	**HK$'000**
Trade receivables	**266**
Prepayments, deposits and other receivables	**248**
Amount due from a related company	**775**
Bank and cash balances	**1,007**
Trade and other payables	**(1,867)**
Amount due to a related company	**(98)**
Current tax liabilities	**(16)**
	315
Goodwill	**85**
Satisfied by:	
Convertible bonds issued by the Company (note 26)	**400**
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	**1,007**

The goodwill arising on the acquisition of IFS Asia-Pacific Limited has been immediate written off to consolidated income statement and included in other operating expenses during this year.

IFS Asia-Pacific Limited contributed approximately HK$882,000 to the Group's other income and approximately HK$2,000 to the Group's loss before tax, for the period between the date of acquisition and the balance sheet date.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of a subsidiary *(continued)*

If the acquisition had been completed on 1 January 2008, total Group other income for the year would have been increased by HK$439,000, and loss for the year would have been decreased by HK$40,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is intended to be a projection of future results.

(b) Disposal of a subsidiary

On 31 December 2008 the Group disposed its subsidiary,北京年恩長影文化傳播有限公司("北京年恩"), the net liabilities position of北京年恩at the date of disposal are as follows:

	HK$'000
Property, plant and equipment	**5**
Prepayments, deposits and other receivables	**276**
Bank and cash balances	**222**
Accruals and other payables	**(1,974)**
Net liabilities disposed of	**(1,471)**
Release of exchange reserve	**(13)**
Gain on disposal of a subsidiary	**1,484**
Total consideration	**–**
Net cash outflow arising on disposal:	
Cash and cash equivalents of	**(222)**

Notes to the Financial Statements
Year ended 31 December 2008

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of a subsidiary *(continued)*

On 31 December 2007, the Group disposed of its wholly owned subsidiary, Era Communications Limited ("Era Communications"), the net assets position of Era Communications at the date of disposal are as follows:

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

32. COMMITMENTS

As at 31 December 2008 the Group had the following commitments:

(a) Operating lease commitments

The Group as Lessee

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008 HK$'000	2007 HK$'000
Within one year	923	34
In the second to fifth years inclusive	269	–
	1,192	34

Operating lease payments represent rentals payable by the Group for its offices and motor vehicles. Leases are negotiated for a term ranging from one to two years and rentals are fixed over the lease terms and do not include contingent rentals.

32. COMMITMENTS *(continued)*

(a) Operating lease commitments *(continued)*

The Group as Lessor

The Group's total future minimum lease payments under non-cancellable sub-leases are receivable as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**720**	–
In the second to fifth years inclusive	**240**	–
	960	–

(b) Capital and other commitments

	2008 HK$'000	2007 HK$'000
PC game		
Contracted but not provided for	**1,764**	1,764
Film rights		
Contracted but not provided for	**367**	5,710
Property, plant and equipment		
Authorised but not contracted for	**–**	199

33. RELATED PARTY TRANSACTIONS

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

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

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

Notes to the Financial Statements
Year ended 31 December 2008

33. RELATED PARTY TRANSACTIONS *(continued)*

(b)

	2008 HK$'000	2007 HK$'000
China Healthcare Holdings Limited *(note i)*		
Rental income	**231**	–
Era International (HK) Limited *(note ii)*		
Distribution fee income	**8**	19
Accountancy fee income	**236**	–
Management fee income	**150**	150

(i) On 24 April 2008, the Group entered into a tenancy agreement with China Healthcare Holdings Limited ("CHC") to lease an office area to CHC for a period of two years, commencing from 24 April 2008. The rental charged to CHC was determined by reference to open market rentals at HK$30,000 per month. Mr. Lee Jong Dae, a chairman and executive director of the Company, is also an executive director of CHC.

(ii) Era Films (HK) Limited ("EFHK"), a wholly owned subsidiary of the Company, received distribution fee income, management fee income and accountancy fee income from Era International (HK) Limited ("EIHK") on the rates agreed by both parties. Mr. Leung Chung Chu, Andrew, being a director of EFHK, was also a director of EIHK.

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

(c) At 31 December 2008, Vasky Inc, a substantial shareholder of the Company with approximate 27% equity interest in the Company, has agreed to provide financial support to the Group to meet its liabilities as they fall due.

(d) The remuneration of the Group's directors and other members of key management during the year was as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	**3,115**	2,984
Post-employment benefits	**34**	28
Share-based payments	**615**	–
	3,764	3,012

34. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company Direct	Indirect	Principal activities
Era Information & Entertainment (BVI) Limited	British Virgin Islands	26,200 ordinary shares of US$0.1 each	100%	–	Investment holding
Era Home Entertainment Limited	Hong Kong	24,000,000 ordinary shares of HK$1 each	–	100%	Distribution of home video products
Era Films (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Distribution of films in various formats and sub-licensing of film rights
Era Digital Media Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Games distribution and operation of entertainment related portals
Red River Agents Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Inactive
Vasky Energy Ltd.	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
IFS Asia-Pacific Limited *	Hong Kong	100,000 ordinary shares of HK$1 each	100%	–	Provision of corporate secretarial services
Vasky Korea Inc.	South Korea	400,000 common stocks of KRW5,000 each	100%	–	Development and distribution of computer software and provision of service for information process

* Not audited by RSM International member firms.

Notes to the Financial Statements
Year ended 31 December 2008

35. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 2 March 2009, the Company entered into a Termination Agreement with Dean Management Limited (the "vendor"). Pursuant to the Termination Agreement, as agreed to the MOU 1 which announcement was made by the Company on 17 July 2008, the possible acquisition of 51% equity interest in Tusunchovan Kebar Joint Venture Company Limited was terminated (note 23(a)).

(b) On 29 December 2008, the Company entered into the subscription agreements with three subscribers for the aggregate subscription of 14,724,000 subscription shares at an aggregate consideration of HK$1,766,880, representing a subscription price of HK$0.12 per subscription share. The subscription was completed on 2 February 2009. The Company received net proceeds from the subscription of approximately HK$1,600,000 for the purpose of general working capital.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2009.