Dragonlott
龙彩

DRAGONLOTT ENTERTAINMENT GROUP LIMITED
龍彩娛樂集團有限公司

(Incorporated in Bermuda with limited liability)
(GEM Stock Code: 8078)

Annual Report
2009-2010

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This report, for which the directors of Dragonlott Entertainment Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Corporate Information

Directors

Stephen Shiu Junior
Leung Ge Yau
Tsang Pui Lan, Patrick
Leung Yuk Lun, Ulric*
Wong Tak Ming, Gary**
Chan Chi Ho**
Kam Tik Lun**

* *Non-executive Director*
** *Independent Non-executive Directors*

Company Secretary

Leung Ge Yau

Compliance Officer

Tsang Pui Lan, Patrick

Authorised Representatives

Leung Ge Yau
Tsang Pui Lan, Patrick

Audit Committee

Kam Tik Lun *(Chairman)*
Wong Tak Ming, Gary
Chan Chi Ho

Remuneration Committee

Tsang Pui Lan, Patrick *(Chairman)*
Wong Tak Ming, Gary
Chan Chi Ho

Auditor

Deloitte Touche Tohmatsu

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

Unit 1401, 14/F
Guardian House
32 Oi Kwan Road
Wanchai, Hong Kong

Registrars *(in Bermuda)*

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Registrars *(in Hong Kong)*

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

Bankers

The Hongkong and Shanghai Banking Corporation Limited
Allied Irish Banks plc

Website

http://www.deg8078.com

GEM Stock Code

8078

Management Discussion and Analysis

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the "Group") reported revenue from continuing and discontinued operations of approximately HK$135.2 million for the year ended 30th June, 2010 (the "Year"), compared with approximately HK$204.5 million for the previous fiscal year. A loss of approximately HK$50.6 million was recorded (2009: HK$65.3 million).

During the Year, artiste management contributed revenue of approximately HK$31.8 million (2009: HK$50.0 million) and recorded a profit of approximately HK$17.9 million (2009: HK$20.4 million). In addition, the Group received revenue of approximately HK$61.1 million (2009: HK$107.2 million) from the business segment of film and television programme production and distribution. This business segment recorded a loss of approximately HK$42.9 million (2009: HK$75.6 million).

On 19th March, 2010, the Group disposed of the entire interests of EEG Holdings Limited ("EHL") and its subsidiaries (collectively referred to as the "EHL Group") and the entire shareholder's loan due to the Group by EHL to an indirect wholly-owned subsidiary of a substantial shareholder of the Company at a consideration of approximately HK$7.6 million ("EHL Disposal"). After completion of the EHL Disposal, the Group recorded a gain of approximately HK$1.1 million. The EHL Group carried on the businesses of event production, music production and distribution as well as part of artiste management and film and television programme production, distribution and licensing. After the EHL Disposal, the Group ceased the event production and music production and distribution operations.

During the review period up to the date of the EHL Disposal, event production contributed revenue of approximately HK$12.6 million (2009: HK$12.7 million) and recorded a loss of approximately HK$2.5 million (2009: profit of HK$1.0 million), and music production and distribution contributed revenue of approximately HK$29.7 million (2009: HK$34.6 million) and recorded a loss of approximately HK$0.6 million (2009: profit of HK$1.8 million).

During the Year, the Group subscribed for 10,000,000 new shares of Dragonlott Holdings Limited ("DHL") at a consideration of HK$50.0 million payable in cash of approximately HK$35.8 million and issue of a promissory note by the Company of approximately HK$14.2 million. The Group holds 14.81% equity interests in DHL after the subscription. There was a conditional agreement to further acquire 15,000,000 existing shares of DHL. Because certain conditions were not fulfilled, the agreement lapsed on 31st March, 2010. DHL and its subsidiaries are principally engaged in provision of general administrative services and consultancy services of sports lottery in The People Republic of China (the "PRC").

PROSPECTS

After the recent changes in the members of the board of directors of the Company (the "Board" or the "Directors"), the new management is striving to improve the financial position of the Group including cost cutting, debt reduction and equity placing. The Directors will also look for new business opportunities for the Company to broaden its income sources. On 11th August, 2010, the Company announced the proposed change of name of the Company to "China 3D Digital Entertainment Limited" (Chinese name as "中國3D數碼娛樂有限公司" for identification purpose), and the Directors decided to focus its business on movie production, in particular 3D digital movies.

On 1st September, 2010, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party pursuant to which the Group would dispose of its 100% interests in Speedy Champion Investments Limited together with the holding companies of the copyrights and distribution rights in various films and television programmes which were produced or distributed by the Group.

The disposal enables the Group to reduce its debts and liabilities and at the same time free up its financial and labour resources so as to focus its new 3D movie production business. The Group is now aim at producing high quality movies in the future and at the same time the Group can seek for new business opportunities to broaden its income base.

CAPITAL STRUCTURE

Issuance and Conversion of Convertible Bond

On 21st October, 2009, the Company issued a convertible bond denominated in Hong Kong dollars in the principal amount of HK$100.0 million to Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company, whereupon the same amount of loan due from the Group to Surplus Way was applied to set off against the subscription price of HK$100.0 million of the bond. The bond bears interest from the date of issue at a rate of Hong Kong Interbank Offered Rate plus 2% per annum on the outstanding principal amount and will mature on 20th October, 2014. The bond is transferable and may be converted into ordinary shares of the Company at a conversion price of HK$0.7 per ordinary share, subject to anti-dilutive adjustments. The Company is entitled to redeem the convertible bond at 100% of its aggregated principal amount and contractual interest at any time after six months from the date of issue of the convertible bond until the maturity date.

During the Year, HK$28.0 million of the bond value was converted into 39,999,997 new shares of the Company which led to the Company's issued share capital and share premium increased by approximately HK$0.4 million and HK$29.0 million respectively.

Subscription and Use of Proceeds

On 13th January, 2010, the Company issued and allotted 52,000,000 new shares at a subscription price of HK$0.72 per share ("Subscription") to several independent third parties. This made the Company's issued share capital and share premium further increased by approximately HK$0.5 million and HK$36.9 million respectively. The proceeds of approximately HK$37.4 million from the Subscription had been fully applied to invest in the consultancy business in relation to lottery in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2010, total borrowings of the Group (excluding payables) amounted to approximately HK$274.1 million (2009: HK$191.2 million) and the Group's gearing ratio (expressed as a percentage of total borrowings over total assets) was 83% (2009: 82%). In addition to its share capital and reserves, the Group made use of cash flow generated from operations and the total borrowings, mainly including advances from Surplus Way, convertible bond and promissory note payable, to finance its operation. The advances from Surplus Way are denominated in Hong Kong dollars, unsecured and interest bearing at the Hong Kong prime rate. Surplus Way has agreed not to demand repayment of the advances for at least the next twelve months from the date of this report or until the Group has the ability to do so, whichever is later. The promissory note payable is denominated in Hong Kong dollars, unsecured, interest-free and has a fixed repayment term.

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

In view of the cash flow generated by the operation of the Group in its ordinary course of business and the recent fund raising activities as well as that Surplus Way agreed not to demand repayment of the advances to the Group for at least twelve month from the date of this report or until the Group has the ability to do so, whichever is later, the Directors believed that the Group will have sufficient working capital for its operation.

COMMITMENTS

Total commitments of the Group as at 30th June, 2010 was approximately HK$52.5 million (2009: HK$145.6 million).

CONTINGENT LIABILITIES

The Group has no significant contingent liability at the end of the Year. In the prior year, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the EHL Group's artistes. With the EHL Disposal, the Group was no longer involved in such legal proceedings.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 30th June, 2010 was 27 (2009: 112) and total staff costs for the Year were approximately HK$37.2 million (2009: HK$42.4 million). Employees' remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to retirement benefit scheme, medical insurances and other fringe benefits. To provide incentive or rewards to the employees, the Company has adopted a share option scheme in year 2004. No option was granted or outstanding during the Year.

EVENTS AFTER THE REPORTING PERIOD

Placing of New Shares under General Mandate

On 29th July, 2010, the Company entered into an agreement with a placing agent whereby the Company agreed to place, through the placing agent, a maximum of 70,398,000 new shares of the Company to not less than six placees at a price of HK$0.38 per placing share ("Placement"). The Company intends to use the net proceeds of approximately HK$26.2 million from the Placement for the Group's general working capital and further business development. Up to the date of this report, approximately HK$2.3 million of the net proceeds had been used for the general working capital. The Placement was completed on 6th August, 2010.

Proposed Share Subdivision and Change in Board Lot Size

On 11th August, 2010, the Board announced that a share subdivision was proposed to the shareholders of the Company to subdivide every issued and unissued shares of the Company into two subdivided shares ("Share Subdivision"). The par value of each issued share and unissued share will be adjusted from HK$0.01 to HK$0.005 accordingly. As at the date of this report, the authorised share capital of the Company is HK$100,000,000 divided into 10,000,000,000 shares, among which 422,397,997 shares have been issued and are fully paid or credited as fully paid. Immediately upon the Share Subdivision becoming effective, the authorised share capital of the Company will be HK$100,000,000 divided into 20,000,000,000 subdivided shares, of which 844,795,994 subdivided shares will be in issue assuming that no further shares are issued prior to the Share Subdivision becoming effective. The Share Subdivision is subject to the shareholders' approval at a special general meeting to be held on 20th September, 2010.

The board lots of shares of the Company will be changed from 2,000 shares to 10,000 subdivided shares upon the Share Subdivision becoming effective.

Proposed Change of Company Name

On 11th August, 2010, the Board also announced to propose change of the Company's name from "Dragonlott Entertainment Group Limited" to "China 3D Digital Entertainment Limited" (Chinese name for identification purpose be changed from "龍彩娛樂集團有限公司" to "中國3D數碼娛樂有限公司"), which is subject to the shareholders' approval at a special general meeting to be held on 20th September, 2010.

EVENTS AFTER THE REPORTING PERIOD *(continued)*

Proposed Disposal of Movie and Television Library

On 1st September 2010, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party pursuant to which the Group would dispose of its 100% interests in Speedy Champion Investments Limited together with the holding companies of the copyrights and distribution rights in various films and television programmes which were produced or distributed by the Group. The disposal is subject to the shareholders' approval at a special general meeting to be held in October 2010.

Proposed Placing of New Shares under Specific Mandate

On 10th September, 2010, the Company entered into an agreement with a placing agent whereby the Company agreed to place, through the placing agent, a maximum of 100,000,000 new shares (or 200,000,000 new subdivided shares) of the Company to not less than six placees at a price of HK$0.25 per placing share (or HK$0.125 per placing subdivided share) ("Proposed Placement"). The Company intends to use the net proceeds of approximately HK$24.5 million from the Proposed Placement for the Group's general working capital and business development of the 3D movie production. The Proposed Placement is subject to the shareholder's approval at a special general meeting to be held in October 2010.

Biographies of Directors and Senior Executives

EXECUTIVE DIRECTOR

STEPHEN SHIU JUNIOR, aged 35, joined the Company in July 2010. He has over 10 years' experience in entertainment, advertising, promotion and communication, film distribution and movies production. Mr. Shiu is currently a director of various private companies which are engaged in the business of entertainment and movies production. Mr. Shiu is cousin of Ms. Leung Ge Yau, an Executive Director and Company Secretary of the Company.

EXECUTIVE DIRECTOR AND COMPANY SECRETARY

LEUNG GE YAU, aged 32, joined the Company in April 2010 as an Independent Non-executive Director of the Company and re-designated as Executive Director of the Company on 28 June 2010. She is also the Company Secretary of the Company. She was admitted as a solicitor of the High Court of Hong Kong since 2003. Ms. Leung holds the degrees of Master in Laws from King's College London, University of London and Bachelor of Laws (with Honours) from City University of Hong Kong. She has also obtained a Postgraduate Certificate in Laws from the University of Hong Kong. She is currently the in-house legal counsel and an executive director of B.A.L. Holdings Limited (stock code : 8079), the shares of which are listed on the GEM of the Stock Exchange, as well as a consultant of a solicitor firm, Szwina Pang, Edward Li & Co. Ms. Leung has approximately 9 years of legal experience. Ms. Leung is cousin of Mr. Stephen Shiu Junior, an Executive Director of the Company.

EXECUTIVE DIRECTOR AND COMPLIANCE OFFICER

TSANG PUI LAN, PATRICK, aged 34, joined the Company in January 2010. He is the Chairman of the Remuneration Committee of the Company. Mr. Tsang is a qualified solicitor with experience gained in the UK and Hong Kong. He possesses a broad range of expertise and experience in commercial and corporate law. He holds a LLB (Hons.) Degree from Kingston University in England and also completed the Legal Practice Course at the College of Law in England. Mr. Tsang currently is the Managing Director of Global Angels Limited, a company that assists start-up companies within a range of business sectors in emerging markets, with particular emphasis in China.

NON-EXECUTIVE DIRECTOR

LEUNG YUK LUN, ULRIC, aged 46, joined the Company in March 2010. He graduated from the Chinese University of Hong Kong in 1986 with a Bachelor's Degree in Business Administration (Hons). He is a member of the Hong Kong Institute of Certified Public Accountants, a CFA charterholder and a Chartered Alternative Investments Analyst. Mr. Leung has 20 years' experience in the financial markets and has been the Managing Director and Chief Financial Officer of Shikumen Capital Management (HK) Limited since 2007. Prior to that, he had been the Chief Financial Officer of SAIL Advisors Limited, an investment manager of alternative assets. Mr. Leung had also worked previously with Deutsche Bank, NatWest, Lehman Brothers and Ernst & Young.

INDEPENDENT NON-EXECUTIVE DIRECTOR

WONG TAK MING, GARY, aged 34, joined the Company in September 2004. He is a member of the Audit Committee and the Remuneration Committee of the Company. He is a certified public accountant (practising) and a fellow member of both the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He obtained a Bachelor's Degree in Applied Accounting (Hons) in the United Kingdom. He now runs a professional accountancy firm in Hong Kong and has over 10 years' experience in the field of auditing and accounting. Mr. Wong is also an independent non-executive director of Century Legend (Holdings) Limited (stock code: 00079), the shares of which are listed on the Main Board of the Stock Exchange.

Biographies of Directors and Senior Executives (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTOR

CHAN CHI HO, aged 34, joined the Company in July 2010. He is a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Chan holds a Bachelor of Engineer in Civil Engineering from The University of Hong Kong and a Bachelor of Law from The University of London. He is a member of Hong Kong Institute of Engineers. Mr. Chan was a project engineer of Maunsell AECOM and has more than 10 years experience in the planning, design and project management of infrastructure facilities in Hong Kong, Mainland China and overseas. Mr. Chan is currently a managing director of EDM Construction Ltd with vast experience in managing interior fitting out and decoration construction projects in different aspects such as residential, commercial, hotel and institutional.

INDEPENDENT NON-EXECUTIVE DIRECTOR

KAM TIK LUN, aged 34, joined the Company in July 2010. He is the Chairman of the Audit Committee of the Company. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Master of Business Administration from The University of Newcastle. He also obtained a Postgraduate Diploma in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom. He is a member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Canadian Institute of Mining, Metallurgy and Petroleum. Mr. Kam has over 8 years' experience in the financial markets. He is currently an associate director of Norton Appraisals Limited with vast experience in providing pre-IPO consultancy, business valuation services, financial analysis and corporate advisory.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

TSANG PUI LAM, PATRICK
(Executive Director since 22nd January, 2010)
On 2nd July, 2010, the directors' fee of Mr. Tsang was adjusted from HK$100,000 per annum to HK$150,000 per annum as determined by the Remuneration Committee of the Company.

KAM TIK LUN
(Independent Non-executive Director since 13th July, 2010)
On 15th September, 2010, Mr. Kam was nominated as the Chairman of the Audit Committee.

Directors' Report

The Board presents their annual report and the audited consolidated financial statements of the Group for the year ended 30th June, 2010.

CHANGE OF COMPANY NAME

Pursuant to the special resolution passed by the shareholders of the Company on 19th March, 2010, the name of the Company was changed from "Emperor Entertainment Group Limited" to "Dragonlott Entertainment Group Limited" with effect from 7th April, 2010; whilst the Chinese name for identification purpose was changed from "英皇娛樂集團有限公司" to "龍彩娛樂集團有限公司" with effect from 22nd April, 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 23.

The Directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

In order to finance the Group's acquisition of 14.81% interests in DHL, the Company issued 52,000,000 ordinary shares of HK$0.01 each, at a subscription price of HK$0.72 per share. The new shares rank pari passu with the existing shares in all respects.

During the Year, the Company also issued 39,999,997 additional ordinary shares of HK$0.01 each in respect of the following convertible bond:

Convertible bond

During the Year, convertible bond in an aggregate principal amount of HK$100,000,000 was issued by the Company to Surplus Way, the substantial shareholder of the Company. The convertible bond is transferable and entitles its holders to convert the whole or any part(s) of the principal amount into fully-paid ordinary shares at a conversion price of HK$0.7 per share with a par value of HK$0.01 each of the Company, at any time from the date of issue to 20th October, 2014.

During the Year, the holders of the convertible bond exercised their right to convert HK$28,000,000 of the principal amount of the convertible bond into 39,999,997 additional fully-paid ordinary shares of the Company. The new shares rank pari passu with the existing shares in all respects.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 30th June, 2010, the Company had no reserves available for distribution.

DIRECTORS

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

Non-executive Director:

Mr. Leung Yuk Lun, Ulric	(appointed on 26th March, 2010)
Ms. Luk Siu Man, Semon ("Ms. Semon Luk")	(resigned on 22nd March, 2010)

Executive Directors:

Mr. Tsang Pui Lan, Patrick	(appointed on 22nd January, 2010)
Ms. Leung Ge Yau	(appointed as Independent Non-executive Director on 20th April, 2010 and re-designated as Executive Director on 28th June, 2010)
Mr. Stephen Shiu Junior	(appointed on 2nd July, 2010)
Mr. Wong Chi Fai	(resigned on 22nd January, 2010)
Mr. Ng Sui Wan (alias Ng Yu)	(resigned on 22nd March, 2010)
Ms. Fan Man Seung, Vanessa	(resigned on 28th June, 2010)

Independent Non-executive Directors:

Mr. Wong Tak Ming, Gary	
Mr. Chan Chi Ho	(appointed on 2nd July, 2010)
Mr. Kam Tik Lun	(appointed on 13th July, 2010)
Mr. Wong Ching Yue	(resigned on 26th March, 2010)
Mr. Chu Kar Wing	(resigned on 30th April, 2010)

Subject to the service contracts hereinafter mentioned, the term of office of each Director, including the Independent Non-executive Directors, is the period up to his/her retirement by rotation in accordance with the Bye-laws of the Company.

In accordance with Bye-laws 86(2) of the Company's Bye-laws, Mr. Leung Yuk Lun, Ulric ("Mr. Leung"), Mr. Tsang Pui Lan, Patrick, Ms. Leung Ge Yau, Mr. Stephen Shiu Junior, Mr. Chan Chi Ho and Mr. Kam Tik Lun shall retire at the forthcoming annual general meeting ("AGM") and, being eligible, offer themselves for re-election, save for Mr. Leung who does not offer himself for re-election.

Mr. Tsang Pui Lan, Patrick entered into a service agreement with the Company to serve as an executive Director for an initial term of two years commencing from 22nd January, 2010, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Ms. Leung Ge Yau (re-designated as an executive Director of the Company on 28th June, 2010) entered into a service agreement with the Company to serve as an executive Director for an initial term of two years commencing from 28th June, 2010, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Mr. Stephen Shiu Junior entered into a service agreement with the Company to serve as an executive Director for an initial term of two years commencing from 2nd July, 2010, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

In accordance with Bye-law 87(1) and 87(2) of the Company's Bye-Laws, Mr. Wong Tak Ming, Gary shall retire at the forthcoming AGM but does not offer himself for re-election at the AGM.

DIRECTORS *(continued)*

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

Name of director	Commencing date
Mr. Wong Tak Ming, Gary	30th September, 2004
Mr. Leung Yuk Lun, Ulric	26th March, 2010
Mr. Chan Chi Ho	2nd July, 2010
Mr. Kam Tik Lun	13th July, 2010

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the Year, the Group has the following transactions with the Directors or companies in which certain Directors have beneficial interests:

(a) On 21st October, 2009, the Company entered into a subscription agreement with Surplus Way to issue the convertible bond in the principal amount of HK$100,000,000. The convertible bond is convertible into the Company's shares at the conversion price of HK$0.7 per ordinary share. Surplus Way is indirectly wholly-owned by The Albert Yeung Discretionary Trust (the "AY Trust"). Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung") is the founder of the AY Trust, a deemed substantial shareholder of the Company, and was deemed to be interested in the above transaction. By virtue of being the spouse of Dr. Albert Yeung, Ms. Semon Luk, the then Director who resigned on 22nd March, 2010, was also deemed to have interest in the said transaction.

(b) On 16th December, 2009, Mile Oak Profits Limited ("Mile Oak"), a direct wholly-owned subsidiary of the Company, entered into a disposal agreement with Gain Wealth Investments Limited, a company indirectly owned by the AY Trust, the founder of which is Dr. Albert Yeung who is a deemed substantial shareholder of the Company, to dispose of the entire issued share capital of and the shareholder's loan due to Mile Oak by EHL at a consideration of approximately HK$7,591,000. The transaction constituted a major and connected transaction of the Company under the GEM Listing Rules and the Company obtained the approval from the independent shareholders of the Company at the special general meeting held on 19th March, 2010. The transaction was also completed on 19th March, 2010. By virtue of being the spouse of Dr. Albert Yeung, Ms. Semon Luk, the then Director, was also deemed to have interest in the said transaction.

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

(c) During the Year, the Group had the following transactions with connected persons of the Company:

Operating lease rentals paid

Name of counterparty		Date of transaction	Terms	Amount for the year ended 30th June, 2010 HK$'000
(a)	Very Sound Investments Limited (Note)	26th May, 2008	1st April, 2008 to 31st March, 2010 (monthly rental: HK$233,075, exclusive of rates, management fees and other outgoing charges)	**2,098**
(b)	Golden Pegasus Investment Limited (Note)	26th May, 2008	1st April, 2008 to 31st March, 2011 (monthly rental: HK$15,248, inclusive of rates and management fees)	**183**
(c)	Headwise Investment Limited (Note)	5th February, 2009	1st February, 2009 to 31st January, 2011 (monthly rental: HK$62,719, exclusive of rates and management fees and other outgoing charges)	**753**

The "Operating lease rental expenses" as shown in note 42(a) – "Related Party Transactions" to the consolidated financial statements, included the total amount of HK$3,034,000 of the above continuing connected transactions.

Note: The counterparties are all indirect wholly-owned subsidiaries of Emperor International Holdings Limited ("Emperor International"). Emperor International is a listed company, 70.64% of the shares of which were held by Charron Holdings Limited ("Charron") as at 30th June, 2010. The entire issued share capital of Charron was indirectly held by STC International Limited ("STC International"), the trustee of the AY Trust. The founder of the AY Trust is Dr. Albert Yeung who is a deemed substantial shareholder of the Company.

The Directors confirmed that in respect of the above continuing connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

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

(c) *(continued)*

Agreed upon procedures performed by the Auditor of the Company

The Directors engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The procedures, where applicable, were performed solely to assist the Directors to evaluate, in accordance with Rule 20.38 of the GEM Listing Rules, whether the continuing connected transactions entered into by the Group for the year ended 30th June, 2010:

(a) have received the approval of the Directors of the Company;

(b) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and

(c) have not exceeded the relevant cap amount of the financial year ended 30th June, 2010 disclosed in previous announcements.

Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

As at 30th June, 2010, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

At the annual general meeting of the Company held on 26th August, 2004, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 11th November, 2004. Details of the share option scheme are set out in note 38 to the consolidated financial statements.

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

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30th June, 2010, the persons or corporations (other than the Directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares/ underlying shares held	Approximate percentage holding
Surplus Way (Note)	Beneficial owner	102,919,714	29.24%
Million Way Holdings Limited ("Million Way") (Note)	Interest in a controlled corporation	102,919,714	29.24%
STC International (Note)	Trustee	102,919,714	29.24%
Dr. Albert Yeung (Note)	Founder of the AY Trust	102,919,714	29.24%
Ms. Semon Luk (Note)	Family interest	102,919,714	29.24%

Note: The shares comprised 78,634,000 shares held by Surplus Way and 24,285,714 shares to be held by Surplus Way upon its full exercise of the outstanding principal amount of the convertible bond due in 2014. The entire issued share capital of Surplus Way was held by Million Way which is in turn owned by STC International being the trustee of the AY Trust. Dr. Albert Yeung, as founder of the AY Trust, was deemed to be interested in the 102,919,714 shares held by Surplus Way. By virtue of being the spouse of Dr. Albert Yeung, Ms. Semon Luk, the then Director, was also deemed to have interest in the said shares.

Save as disclosed above, as at 30th June, 2010, the Directors were not aware of any other person or corporation (other than the Directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 30% of the total revenue of the Group.

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

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

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

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

The AY Trust, a discretionary trust set up by Dr. Albert Yeung, a substantial shareholder of the Company (as defined in the GEM Listing Rules), indirectly held 50% of the shareholding of JCE Movies Limited ("JCE"), a company engaged in the production and distribution of movies. The AY Trust also indirectly held 100% interest in Prime Time (International) Entertainment Limited ("Prime Time"), a company engaged in the business of television programme production and artiste management. The businesses of JCE and Prime Time may constitute competition with the business of the Group.

One Dollar Productions Limited ("ODP") is a company principally engaged in artiste management. Mr. Stephen Shiu Junior ("Mr. Shiu"), an Executive Director of the Company, is the director of ODP and holds as to 25% equity interests in ODP. Mr. Shiu also holds directorship in One Dollar Movie Productions Limited ("ODMP"), a company engaged in the production of movies. Mr. Shiu is also the director of One Dollar Entertainment Group Limited ("ODEG"), a company engaged in the distribution of movies and holds as to 49% equity interests in ODEG. The businesses of ODP, ODMP and ODEG may constitute competition with the business of the Group.

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 16 to 20.

SUFFICIENCY OF PUBLIC FLOAT

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 40 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Stephen Shiu Junior
Executive Director

Hong Kong
15th September, 2010

Corporate Governance Report

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

THE BOARD

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

As at 30th June, 2010, the Board comprised four Directors (one Non-executive Director, two Executive Directors and one Independent Non-executive Director). As at the date of this report, the Board comprised seven Directors (one Non-executive Director, three Executive Directors and three Independent Non-executive Directors). The biographies of the current Directors are set out on pages 7 and 8 of this report under the "Biographies of Directors and Senior Executives" section.

Ms. Fan Man Seung, Vanessa ("Ms. Fan") has been acting the role of Chairperson upon the resignation of Ms. Semon Luk on 22nd March, 2010. With the assistance the Company Secretary, she would ensure all Board members work effectively and discharge his/her responsibility by providing timely, reliable and sufficient information on issues to be discussed at Board meetings. She is also responsible for setting the agenda for each Board meeting, taking into account any matters proposed by the Directors. The Board members are properly briefed of the issues discussed and the meeting material is dispatched to the Directors before the meetings. Following the resignation of Ms. Fan on 28th June, 2010, Ms. Leung Ge Yau has been acting the role of Chairperson until the appointment of Mr. Stephen Shiu Junior as Executive Director on 2nd July, 2010.

The Independent Non-executive Directors who bring in strong expertise, contribute a more impartial view and make independent judgement on issues to be discussed at Board meetings.

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

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

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

The Board has set up the Audit Committee and Remuneration Committee on 30th September, 2004 and 20th June, 2005 respectively. The Committees comprise a majority of Independent Non-executive Directors and have clear written terms of reference. Details of these two Committees are set out in the paragraphs "Audit Committee" and "Remuneration Committee" below. The Company has not established a nomination committee.

THE BOARD *(continued)*

The Board held eight meetings during the Year with the attendance of each Director as follows:

Name of Committee member	Number of meeting attended/ Number of meeting held before resignation or after appointment	Attendance rate
Executive Directors:		
Tsang Pui Lan, Patrick *(appointed 22nd January, 2010)*	4/4	100%
Leung Ge Yau *(re-designated as Executive Director on 28th June, 2010)*	2/2	100%
Wong Chi Fai *(resigned on 22nd January, 2010)*	4/4	100%
Ng Sui Wan (alias Ng Yu) *(resigned on 22nd March, 2010)*	4/5	80%
Fan Man Seung, Vanessa *(resigned on 28th June, 2010)*	8/8	100%
Non-executive Director:		
Leung Yuk Lun, Ulric *(appointed on 26th March, 2010)*	3/3	100%
Luk Siu Man, Semon *(resigned on 22nd March, 2010)*	5/5	100%
Independent Non-executive directors:		
Wong Tak Ming, Gary	8/8	100%
Wong Ching Yue *(resigned on 26th March, 2010)*	4/5	80%
Chu Kar Wing *(resigned on 30th April, 2010)*	6/6	100%

Remark : Mr. Chan Chi Ho and Mr. Kam Tik Lun have been appointed as Independent Non-executive Directors of the Company on 2nd July, 2010 and 13th July, 2010 respectively to fill the casual vacancy caused by the resignation of Mr. Wong Ching Yue and Mr. Chu Kar Wing respectively.

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

The Company has adopted a revised code of conduct regarding securities transactions by directors and senior executives on no less terms than the required standard of dealings set out in Rules 5.48 to Rules 5.68 of the GEM Listing Rules. Having made specific enquiry to all Directors, all the Directors confirmed that they have complied with the required standard of dealings and the code of conduct.

AUDIT COMMITTEE

The Audit Committee now consists of three Independent Non-executive Directors, namely Mr. Wong Tak Ming, Gary, Mr. Chan Chi Ho (since 2nd July, 2010) and Mr. Kam Tik Lun (since 13th July, 2010). They possess accounting and other professional expertise. The Board has adopted a revised terms of reference on 11th February, 2009 as to conform to the amended GEM Listing Rules. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the external auditor, to approve the remuneration and terms of engagement of external auditor, review financial information and oversight of the financial reporting system and internal control procedures.

AUDIT COMMITTEE *(continued)*

The Audit Committee convened five meetings during the Year with the attendance as follows:

Name of Committee member	Number of meeting attended/ Number of meeting held before resignation or after appointment	Attendance rate
Wong Tak Ming, Gary	5/5	100%
Leung Ge Yau *(appointed on 20th April, 2010 as Independent Non-executive Director and re-designated as Executive Director on 28th June, 2010)*	1/1	100%
Wong Ching Yue (resigned on 26th March, 2010)	3/4	75%
Chu Kar Wing (resigned on 30th April, 2010)	4/4	100%

The summary of work performed by the Audit Committee during the Year is set out below:

i. Discussed with the external auditor, the senior management and the finance-in-charge the audit plan for the year ended 30th June, 2009 and the impact to the Group in respect of the amendments to the accounting principles and standards and the development of corporate governance;

ii. Reviewed the external auditor's independence and approved the engagement of the external auditor;

iii. Reviewed the effectiveness of the audit process and met with the external auditor for reviewing their work and findings relating to the annual audit for the year ended 30th June, 2009;

iv. Reviewed with the senior management, finance-in-charge and/or the external auditor the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual financial statements for the year ended 30th June, 2009 and the quarterly and interim financial statements;

v. Reviewed with the senior management and the finance-in-charge the effectiveness of the internal control system of the Group;

vi. Annual review of the non-exempt continuing connected transactions of the Group for the year ended 30th June, 2009; and

vii. Approved the audit fee for the year ended 30th June, 2009 and recommended to the Board on the re-appointment of external auditor.

REMUNERATION COMMITTEE

The Remuneration Committee now consists of three members, namely Mr. Tsang Pui Lan, Patrick (since 22nd January, 2010), an Executive Director of the Company, Mr. Wong Tak Ming, Gary and Mr. Chan Chi Ho (since 2nd July, 2010). The Remuneration Committee is chaired by Mr. Tsang Pui Lan, Patrick. The major responsibility of the Remuneration Committee is assisting the Board to attract, retain and motivate the high calibre executives, and making recommendations on the establishment of a formal and transparent procedure for developing remuneration policy.

Details of the remuneration of each of the Directors for the Year are set out in note 12(a) to the consolidated financial statements.

REMUNERATION COMMITTEE *(continued)*

The Remuneration Committee convened two meetings during the Year with the attendance as follows:

Name of Committee member	Number of meeting attended/ Number of meeting held before resignation or after appointment	Attendance rate
Tsang Pui Lan, Patrick *(appointed on 22nd January, 2010)*	2/2	100%
Wong Tak Ming, Gary	2/2	100%
Leung Ge Yau *(appointed on 20th April, 2010 as Independent Non-executive Director and re-designated as Executive Director on 28th June, 2010)*	1/1	100%
Chu Kar Wing *(resigned on 30th April, 2010)*	1/1	100%

The summary of work performed by the Remuneration Committee during the Year is set out as follows:

i. Assessed the performance of the Executive Directors, reviewed the remuneration structure/package of the Executive Directors and determined their remuneration; and

ii. Reviewed the remuneration of Non-executive Directors and made recommendation to the Board on their remuneration.

ACCOUNTABILITY AND AUDIT

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

INTERNAL CONTROL

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

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

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

COMMUNICATION WITH SHAREHOLDERS

The Company communicated with the shareholders in the following ways: (i) the holding of annual general meeting which provide an opportunity for the shareholders to communicate directly with the Board; (ii) the publication of announcements, quarterly reports, interim reports, annual report and/or circular as required under the GEM Listing Rules providing up-dated information of the Group; and (iii) the availability of latest information of the Group in our website. Separate resolutions are proposed at the annual general meeting on each substantial separate issue, including the election of individual directors as required under the GEM Listing Rules.

The Chairperson of the annual general meeting and chairman/members of the Audit Committee and Remuneration Committee were available at the annual general meeting held on 20th October, 2009 to answer questions from the shareholders.

The forthcoming AGM of the Company will be held on 2nd November, 2010 which will be conducted by way of poll.

AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the consolidated financial statements. Members of the Committee are of the view that the Company's auditor, Deloitte Touche Tohmatsu is independent and recommended to the Board to re-appoint it as the Company's external auditor at the forthcoming annual general meeting.

During the Year, Deloitte Touche Tohmatsu has rendered audit services and certain non-audit services to the Company and the remuneration paid/payable to it by the Company is set out as follows:

Service rendered	**Fee paid/payable HK$'000**
Audit services	2,176
Non-audit services	1,030

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF DRAGONLOTT ENTERTAINMENT GROUP LIMITED
(FORMERLY KNOWN AS EMPEROR ENTERTAINMENT GROUP LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Dragonlott Entertainment Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 73, which comprise the consolidated statement of financial position as at 30th June, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Independent Auditor's Report (Continued)

Basis for qualified opinion

Included in the consolidated statement of financial position as at 30th June, 2010 is an available-for-sale investment in Dragonlott Holdings Limited in which the Group holds 14.81% equity interests stated at a carrying amount of approximately HK$46,674,000. As explained in note 17, the directors of the Company considered that no impairment in respect of the investment was necessary at the end of the reporting period. However, no financial and other relevant information about Dragonlott Holdings Limited as at 30th June, 2010 has been provided to us. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the carrying amount of this available-for-sale investment was free from material misstatement as at 30th June, 2010. Any adjustments found to be necessary would affect the net liabilities of the Group as at 30th June, 2010 and the loss for the year then ended.

Qualified opinion arising from limitation of scope

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the available-for-sale investment as at 30th June, 2010, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30th June, 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15th September, 2010

Consolidated Statement of Comprehensive Income

For the year ended 30th June, 2010

	Notes	**2010 HK$'000**	2009 HK$'000 (Restated)
Continuing operations			
Revenue	8	**92,947**	157,178
Other income		**4,525**	3,600
Cost of film and television programme production and distribution		**(78,657)**	(161,697)
Selling and distribution costs		**(9,557)**	(18,797)
Administrative expenses		**(41,715)**	(39,297)
Finance costs	10	**(17,452)**	(9,067)
Share of results of a jointly controlled entity		**2,530**	504
Loss before taxation	11	**(47,379)**	(67,576)
Taxation	13	**(1,231)**	(562)
Loss for the year from continuing operations		**(48,610)**	(68,138)
Discontinued operations			
(Loss) profit for the year from discontinued operations	14	**(2,016)**	2,853
Loss for the year attributable to owners of the Company		**(50,626)**	(65,285)
Other comprehensive income			
Exchange differences arising on translation of foreign subsidiaries		**655**	1,351
Share of translation reserve of jointly controlled entities		**44**	231
Other comprehensive income for the year (net of tax)		**699**	1,582
Total comprehensive expense attributable to owners of the Company		**(49,927)**	(63,703)
Loss per share	15		
From continuing and discontinued operations Basic and diluted		**HK cents 16.83**	HK cents 25.11
From continuing operations Basic and diluted		**HK cents 16.16**	HK cents 26.21

Consolidated Statement of Financial Position

At 30th June, 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	16	**604**	1,994
Available-for-sale investment	17	**46,674**	–
Interests in jointly controlled entities	18	**5,280**	4,981
Prepayments and other receivables	19	**–**	10,933
Film rights	20	**185,597**	63,120
		238,155	81,028
Current assets			
Inventories and record masters	21	**30**	2,702
Trade receivables	22	**35,706**	27,019
Prepayments and other receivables	19	**26,166**	59,039
Loan to a jointly controlled entity	23	**12,466**	10,817
Bank balances and cash	24	**16,625**	51,288
		90,993	150,865
Current liabilities			
Trade payables	25	**13,566**	20,518
Other payables and accrued charges	26	**44,113**	65,499
Loan from a non-controlling shareholder of a subsidiary	27	**2,000**	2,000
Other loan	28	**3,000**	–
Taxation payable		**–**	568
		62,679	88,585
Net current assets		**28,314**	62,280
Total assets less current liabilities		**266,469**	143,308
Non-current liabilities			
Convertible bond	29	**50,099**	–
Promissory note payable	30	**11,102**	–
Amount due to a substantial shareholder of the Company/former immediate holding company	31	**207,882**	189,223
		269,083	189,223
		(2,614)	(45,915)

Consolidated Statement of Financial Position (Continued)

At 30th June, 2010

	Note	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	32	**3,520**	2,600
Reserves		**(4,193)**	(46,574)
Equity attributable to owners of the Company		**(673)**	(43,974)
Non-controlling interests		**(1,941)**	(1,941)
		(2,614)	(45,915)

The consolidated financial statements on pages 23 to 73 were approved and authorised for issue by the Board of Directors on 15th September, 2010 and are signed on its behalf by:

Stephen Shiu Junior
Director

Leung Ge Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 30th June, 2010

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note 33(a))	Convertible bond equity reserve HK$'000	Special reserve HK$'000 (note 33(b))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
	Attributable to owners of the Company									
At 1st July, 2008	2,600	105,614	83,783	–	75,000	1,389	(248,657)	19,729	(1,941)	17,788
Exchange differences on translation of foreign operations	–	–	–	–	–	1,351	–	1,351	–	1,351
Share of translation reserve of jointly controlled entities	–	–	–	–	–	231	–	231	–	231
Loss for the year	–	–	–	–	–	–	(65,285)	(65,285)	–	(65,285)
Total comprehensive income (expense) for the year	–	–	–	–	–	1,582	(65,285)	(63,703)	–	(63,703)
At 30th June, 2009	2,600	105,614	83,783	–	75,000	2,971	(313,942)	(43,974)	(1,941)	(45,915)
Exchange differences on translation of foreign operations	–	–	–	–	–	655	–	655	–	655
Share of translation reserve of jointly controlled entities	–	–	–	–	–	44	–	44	–	44
Loss for the year	–	–	–	–	–	–	(50,626)	(50,626)	–	(50,626)
Total comprehensive income (expense) for the year	–	–	–	–	–	699	(50,626)	(49,927)	–	(49,927)
Issue of shares	520	36,920	–	–	–	–	–	37,440	–	37,440
Recognition of equity component of convertible bond (note 29)	–	–	–	38,280	–	–	–	38,280	–	38,280
Issue of shares upon conversion of convertible bond (note 29)	400	28,955	–	(10,718)	–	–	–	18,637	–	18,637
Reserve realised upon disposal of subsidiaries (note 35)	–	–	–	–	–	(1,129)	–	(1,129)	–	(1,129)
At 30th June, 2010	**3,520**	**171,489**	**83,783**	**27,562**	**75,000**	**2,541**	**(364,568)**	**(673)**	**(1,941)**	**(2,614)**

Consolidated Statement of Cash Flows

For the year ended 30th June, 2010

	Note	2010 HK$'000	2009 HK$'000 (Restated)
Cash flows from operating activities			
Loss for the year		**(50,626)**	(65,285)
Adjustments for:			
Taxation for the year		**1,231**	562
(Write back of) allowance for bad and doubtful debts		**(157)**	975
Amortisation of film rights		**34,064**	85,685
Depreciation of property, plant and equipment		**1,081**	1,311
Finance costs		**17,452**	9,067
Impairment loss on film rights recognised		**41,208**	73,850
Impairment loss on loans to artistes		**–**	3,677
Impairment loss on prepaid artiste fees		**–**	5,211
Loss on disposal of property, plant and equipment		**19**	186
Interest income		**(802)**	(1,169)
Gain on disposal of subsidiaries		**(1,129)**	–
Share of results of a jointly controlled entity		**(2,530)**	(504)
Operating cash flows before movements in working capital		**39,811**	113,566
Increase in inventories and record masters		**(480)**	(845)
(Increase) decrease in trade receivables		**(24,234)**	3,626
Decrease (increase) in prepayments and other receivables		**20,096**	(27,406)
Increase in trade payables		**67**	47
Increase (decrease) in other payables and accrued charges		**49,892**	(21,498)
Cash generated from operations		**85,152**	67,490
Hong Kong Profits Tax refunded (paid)		**6**	(13)
Net cash generated from operating activities		**85,158**	67,477
Cash flows from investing activities			
Additional costs incurred in film rights		**(222,741)**	(33,146)
Purchase of property, plant and equipment		**(256)**	(1,313)
Advances to jointly controlled entities		**(7,639)**	(7,413)
Disposal of subsidiaries	35	**(2,732)**	–
Acquisition of an available-for-sale investment		**(35,840)**	–
Interest received		**342**	567
Proceeds from disposal of property, plant and equipment		**–**	2
Net cash used in investing activities		**(268,866)**	(41,303)

Consolidated Statement of Cash Flows (Continued)

For the year ended 30th June, 2010

	2010 HK$'000	2009 HK$'000 (Restated)
Cash flows from financing activities		
Advances from a substantial shareholder of the Company/ former immediate holding company	**408,792**	113,106
Other loan raised	**3,000**	–
Proceeds from issue of shares	**37,440**	–
Repayment of advances from a substantial shareholder of the Company/former immediate holding company	**(298,940)**	(111,700)
Interest paid	**(1,303)**	(9,067)
Net cash generated from (used in) financing activities	**148,989**	(7,661)
Net (decrease) increase in cash and cash equivalents	**(34,719)**	18,513
Cash and cash equivalents at beginning of the year	**51,288**	32,545
Effect of foreign exchange rates changes	**56**	230
Cash and cash equivalents at end of the year, representing bank balances and cash	**16,625**	51,288

Notes to the Consolidated Financial Statements

For the year ended 30th June, 2010

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ultimate holding company of the Company is Million Way Holdings Limited ("Million Way"), a company incorporated in the British Virgin Islands. The address of the registered office and its principal place of business of the Company are disclosed in the Corporate Information of the annual report.

Pursuant to the special resolution passed by the shareholders of the Company on 19th March, 2010, the name of the Company was changed from "Emperor Entertainment Group Limited" to "Dragonlott Entertainment Group Limited" with effect from 7th April, 2010.

The Company is an investment holding company. The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of its principal subsidiaries are set out in note 43.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net liabilities of HK$2,614,000 as at 30th June, 2010. A substantial shareholder of the Company agreed not to demand for the repayment of the amount due to it for at least the next twelve months from the date of this report or until the Group has the ability to repay the amount, whichever is later. On 6th August, 2010, the Company completed a placement to place 70,398,000 new shares of the Company to six placees at a price of HK$0.38 per placing share. The Company intends to use the net proceeds of approximately HK$26,180,000 from this placement for the Group's general working capital and further business development. Based on the above, the directors believe that the Group will have sufficient cash resources to satisfy its future working capital. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("New and Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS 2, HKAS 38, paragraph 80 of HKAS 39, HK(IFRIC*) – INT 9 and HK(IFRIC) – INT 16
HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives

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

HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK(IFRIC) – INT 18	Transfers of assets from customers

* IFRIC represents the International Financial Reporting Interpretations Committee.

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1st July, 2009. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st July, 2009.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs are applicable.

Except as described below, the adoption of other New and Revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and Revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating segments

In the current year, the Group has adopted HKFRS 8 "Operating segments". HKFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group's chief operating decision maker. HKFRS 8 replaces HKAS 14 "Segment reporting" which required an entity to identify two sets of segments (business and geographical). The adoption of HKFRS 8 has not resulted in redesignation of the Group's reportable segments (see note 9 for details).

Improving disclosures about financial instruments (Amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following New and Revised HKFRSs that have been issued but are not yet effective.

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

New and Revised HKFRSs affecting presentation and disclosure only *(continued)*

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendments)	Group cash-settled share-based payments transactions[3]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments to a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

[1] Amendments that are effective for annual periods beginning on or after 1st January, 2010.
[2] Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.
[3] Effective for annual periods beginning on or after 1st January, 2010.
[4] Effective for annual periods beginning on or after 1st February, 2010.
[5] Effective for annual periods beginning on or after 1st July, 2010.
[6] Effective for annual periods beginning on or after 1st January, 2011.
[7] Effective for annual periods beginning on or after 1st January, 2013.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from the Group's annual reporting period beginning 1st July, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other New and Revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st July, 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries prior to 1st July, 2009

Decreases in interests in subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Changes in the Group's ownership interests in existing subsidiaries after 1st July, 2009

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Jointly controlled entities

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly controlled entities *(continued)*

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

When a group entity has transactions with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

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

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

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

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

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

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

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

Assignment income is recognised on the completion of the relevant assignment contract and when the Group's entitlement to such payments has been estimated.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Film rights

Film rights include the unamortised cost of completed theatrical films and television episodes, theatrical films and television services in production, rights acquired or licensed from outsiders for exhibition and other exploitation of the films and films under production.

Film rights are stated at cost less subsequent accumulated amortisation and accumulated impairment loss.

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

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

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

Record masters

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount due to a substantial shareholder of the Company/former immediate holding company, loan from a non-controlling shareholder of a subsidiary, other loan and promissory note payable are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

Convertible bond issued by the Company contain liability, conversion option and early redemption option. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is classified as an equity instrument. Early redemption option embedded in non-derivative host liability component with risks and characteristics that are closely related to the liability component is not separated from the liability component.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible bond (continued)

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

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

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

Equity instruments

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

Derecognition

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

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

Foreign currencies

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 30th June, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the translation reserve.

Retirement benefit costs

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, the management has made judgements that has significant effect on the amount recognised in the consolidated financial statements. The key assumption concerning the future, and other key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, are discussed below.

Amortisation and impairment on film rights

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

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes loan from a non-controlling shareholder of a subsidiary as disclosed in note 27, other loan as disclosed in note 28, convertible bond as disclosed in note 29, promissory note payable as disclosed in note 30, amount due to a substantial shareholder of the Company/former immediate holding company as disclosed in note 31 and equity attributable to others of the Company, comprising issued share capital and reserves.

6. CAPITAL RISK MANAGEMENT *(continued)*

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

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables		
Trade receivables	**35,706**	27,019
Other receivables	**12,531**	25,601
Loan to a jointly controlled entity	**12,466**	10,817
Bank balances and cash	**16,625**	51,288
	77,328	114,725
Available-for-sale investment	**46,674**	–
Financial liabilities		
At amortised cost		
Trade payables	**13,566**	20,518
Other payables	**1,801**	9,285
Amount due to a substantial shareholder of the Company/ former immediate holding company	**207,882**	189,223
Loan from a non-controlling shareholder of a subsidiary	**2,000**	2,000
Other loan	**3,000**	–
Convertible bond	**50,099**	–
Promissory note payable	**11,102**	–
	289,450	221,026

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, loan to a jointly controlled entity, bank balances and cash, trade payables, other payables, amount due to a substantial shareholder of the Company/former immediate holding company, loan from a non-controlling shareholder of a subsidiary, other loan, convertible bond and promissory note payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cashflows. The Group has sales and production costs denominated in foreign currencies, which exposes the Group to foreign currency risk. Some of the Group's sales and production costs incurred are denominated in United States dollars ("USD"). Expenses incurred are generally denominated in group entity's functional currency.

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other loan. The Group is also exposed to cash flow interest rate risk relating primarily to variable-rate bank balances, amount due to a substantial shareholder of the Company/former immediate holding company and convertible bond. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Prime Rate arising from the Group's advances from a substantial shareholder of the Company/former immediate holding company and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's convertible bond.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the variable-rate financial asset and financial liabilities at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the respective year. No sensitivity analysis is presented for bank balances as the fluctuation and impact of interest rate on bank balances is considered immaterial.

If interest rates had been 100 basis points (2009: 100 basis points) higher and all other variables were held constant, the potential effect on post-tax loss for the years is as follows:

	2010 **HK$'000**	2009 HK$'000
(Increase) decrease in post-tax loss for the year		
– other receivables	**–**	86
– amount due to a substantial shareholder of the Company/ former immediate holding company	**(2,079)**	(1,892)
– convertible bond	**(720)**	–
	(2,799)	(1,806)

If interest rates had been lower in an opposite magnitude and all other variables were held constants, the potential effect on post-tax loss would be equal and opposite.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Other price risk

The Group is exposed to equity price risk through its investment in available-for-sale investment. The amount is measured at cost less any identified impairment loss at the end of the reporting period as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30th June, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

In addition, the management has considered the strong financial background of the jointly controlled entity, and consider that there is no significant credit risk on the loan to the jointly controlled entity.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The substantial shareholder of the Company agreed not to demand the repayment of the amount due to it for at least the next twelve months from the date of this report or until the Group has the ability to repay the amount, whichever is later. As at 30th June, 2010, the Group will be able to meet its future cashflow requirements on the assumption that the substantial shareholder of the Company would not demand for repayment for at least the next twelve months from the end of the reporting period.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is based on interest rate curves at the end of the reporting period.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

Liquidity tables

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1 – 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amounts
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 30th June, 2010							
Trade payables	**–**	**13,566**	**–**	**–**	**–**	**13,566**	**13,566**
Other payables	**–**	**1,801**	**–**	**–**	**–**	**1,801**	**1,801**
Amount due to a substantial shareholder of the Company	**5.00%**	**–**	**–**	**–**	**228,670**	**228,670**	**207,882**
Loan from a non-controlling shareholder of a subsidiary	**–**	**2,000**	**–**	**–**	**–**	**2,000**	**2,000**
Other loan	**7.25%**	**–**	**3,112**	**–**	**–**	**3,112**	**3,000**
Convertible bond	**12.74%**	**–**	**–**	**1,645**	**77,440**	**79,085**	**50,099**
Promissory note payable	**5.50%**	**–**	**–**	**–**	**14,160**	**14,160**	**11,102**
		17,367	**3,112**	**1,645**	**320,270**	**342,394**	**289,450**
As at 30th June, 2009							
Trade payables	–	20,518	–	–	–	20,518	20,518
Other payables	–	9,285	–	–	–	9,285	9,285
Amount due to former immediate holding company	5.10%	–	–	–	208,533	208,533	189,223
Loan from a non-controlling shareholder of a subsidiary	–	2,000	–	–	–	2,000	2,000
		31,803	–	–	208,533	240,336	221,026

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

8. REVENUE

	2010 **HK$'000**	2009 HK$'000
An analysis of the Group's revenue for the year from continuing operations is as follows:		
Artiste management fee income	**31,804**	50,028
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	**59,976**	105,429
– distribution of films and television programmes	**1,167**	1,721
	61,143	107,150
	92,947	157,178

9. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st July, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segment. The adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of segment profit or loss.

The executive directors of the Company (the "Executive Directors") have been identified as the chief operating decision maker. Information reported to the Executive Directors is analysed on the basis of the nature of business.

Under HKFRS 8, the Group's operating segments are therefore as follows: (a) artiste management and (b) film and television programme production, distribution and licensing. They are strategic business units and are managed separately as each business require different expertise and marketing strategies. In prior years, the Group's primary reporting format was business segments comprising the four main operating activities – (a) artiste management, (b) event production, (c) music production and distribution and (d) film, television programme production, distribution and licensing. The Group's operations relating to event production and music production and distribution were discontinued during the year. Information about the discontinued operating segments is presented in note 14.

Principal activities are as follows:

Artiste management	–	provision of management services to artistes
Film and television programme production, distribution and licensing	–	production and distribution of films and television programmes and licensing of distribution rights over films and television programmes

9. SEGMENT INFORMATION *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, interest income, finance costs and share of results of a jointly controlled entity. This is the measure reported to the Executive Directors for the purpose of resource allocation and performance assessment.

Information regarding the above segments reported to the Executive Directors is as below.

For the year ended 30th June, 2010

Continuing operations

Segment revenue and results

	Artiste management HK$'000	Film and television programme production, distribution and licensing HK$'000	Total HK$'000
Segment revenue	31,804	61,143	92,947
Segment results	17,911	(42,883)	(24,972)
Interest income			802
Unallocated corporate expenses			(8,287)
Finance costs			(17,452)
Share of results of a jointly controlled entity			2,530
Loss before taxation			(47,379)

9. SEGMENT INFORMATION *(continued)*

For the year ended 30th June, 2010 *(continued)*

Continuing operations *(continued)*

Other segment information

	Artiste management HK$'000	Film and television programme production, distribution and licensing HK$'000	Segment total HK$'000
Amounts included in the measure of segment results:			
Depreciation of property, plant and equipment	186	696	882
Loss on disposal of property, plant and equipment	–	19	19
Amortisation of film rights	–	34,064	34,064
Impairment loss on film rights recognised	–	41,208	41,208

Reconciliation of other segment information

	Segment total HK$'000	Adjustment HK$'000 (note)	Total HK$'000
Depreciation of property, plant and equipment	882	64	946

Note: The amount represents the item included in unallocated corporate expenses.

9. SEGMENT INFORMATION *(continued)*

For the year ended 30th June, 2009

Continuing operations

Segment revenue and results

	Artiste management HK$'000	Film and television programme production, distribution and licensing HK$'000	Total HK$'000
Segment revenue	50,028	107,150	157,178
Segment results	20,354	(75,604)	(55,250)
Interest income			1,169
Unallocated corporate expenses			(4,932)
Finance cost			(9,067)
Share of results of a jointly controlled entity			504
Loss before taxation			(67,576)

Other segment information

	Artiste management HK$'000	Film and television programme production, distribution and licensing HK$'000	Segment total HK$'000
Amounts included in the measure of segment results:			
Depreciation of property, plant and equipment	330	415	745
Loss on disposal of property, plant and equipment	3	174	177
Amortisation of film rights	–	85,685	85,685
Impairment loss on film rights recognised	–	73,850	73,850
Impairment loss on loans to artistes	3,677	–	3,677
Impairment loss on prepaid artiste fees	5,211	–	5,211
Allowance for bad and doubtful debts	–	75	75

9. SEGMENT INFORMATION *(continued)*

For the year ended 30th June, 2009 *(continued)*

Continuing operations *(continued)*

Reconciliation of other segment information

	Segment total HK$'000	Adjustment HK$'000 (note)	Total HK$'000
Depreciation of property, plant and equipment	745	196	941
Loss on disposal of property, plant and equipment	177	3	180

Note: The amounts represent the items included in unallocated corporate expenses

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the Executive Directors for review.

Geographical information

The Group's operations are located in Hong Kong, The People's Republic of China (the "PRC"), Taiwan, Japan, Other Asian countries, North America, European countries and other areas.

The Group's revenue from continuing operations from external customers by geographical location of customers during the year and information about the non-current assets other than available-for-sale investment and other receivables by geographical location of the assets at the end of the reporting period are detailed below:

	Revenue from customers		**Non-current assets**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Hong Kong	**28,700**	54,067	**145,316**	29,683
The PRC	**35,425**	31,591	**5,395**	27,684
Taiwan	**3,286**	2,568	**–**	–
Japan	**591**	10,813	**–**	–
Other Asian countries (note (a))	**16,201**	33,630	**39,770**	5,209
North America (note (b))	**49**	4,079	**1,000**	8,700
European countries (note (c))	**4,143**	11,733	**–**	–
Other areas	**4,552**	8,697	**–**	–
	92,947	157,178	**191,481**	71,276

Notes:

(a) Other Asian countries mainly included Brunei, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand.

(b) North America included United States and Canada.

(c) European countries mainly included Italy, United Kingdom, Germany, France, Switzerland, Poland, Netherland and Belgium.

9. SEGMENT INFORMATION *(continued)*

Information about major customer

Revenue of HK$15,571,000 from film and television programme production, distribution and licensing is contributed from a customer who contributed over 10% of the total revenue of the Group. No customer contributed over 10% of the total revenue of the Group in prior year.

10. FINANCE COSTS

Continuing operations

	2010 **HK$'000**	2009 HK$'000
Interest on other loan wholly repayable within one year	**58**	–
Interest on amount due to a substantial shareholder of the Company/former immediate holding company	**8,807**	9,067
Interest on convertible bond (note 29)	**8,319**	–
Imputed interest on promissory note payable	**268**	–
	17,452	9,067

11. LOSS BEFORE TAXATION

Continuing operations

	2010 HK$'000	2009 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments	**1,823**	2,454
Retirement benefit scheme contributions for other staff	**528**	526
Other staff costs	**20,659**	22,744
Total staff costs	**23,010**	25,724
Allowance for bad and doubtful debts	**–**	75
Amortisation of film rights (included in cost of film and television programme production and distribution)	**34,064**	85,685
Auditor's remuneration		
– current year	**2,063**	1,984
– under(over)provision in prior years	**113**	(378)
	2,176	1,606
Cost of inventories recognised as expense	**217**	1,075
Depreciation of property, plant and equipment	**946**	941
Impairment loss on film rights recognised (included in cost of film and television programme production and distribution)	**41,208**	73,850
Impairment loss on loans to artistes (included in selling and distribution costs)	**–**	3,677
Impairment loss on prepaid artiste fees (included in selling and distribution costs)	**–**	5,211
Loss on disposal of property, plant and equipment	**19**	180
Operating lease rentals in respect of rented premises	**3,279**	4,001
and after crediting:		
Imputed interest income on interest-free loans to artistes	**460**	602
Interest income from		
– bank deposits	**21**	73
– loans to artistes	**249**	356
– others	**72**	138
Total interest income	**802**	1,169

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the ten (2009: seven) directors as follows:

	Mr. Tsang Pui Lan, Patrick HK$'000	Ms. Leung Ge Yau HK$'000	Mr. Wong Chi Fai HK$'000	Ms. Fan Man Seung, Vanessa HK$'000	Mr. Ng Sui Wan (alias Ng Yu) HK$'000	Mr. Leung Yuk Lun, Ulric HK$'000	Ms. Luk Siu Man, Semon HK$'000	Mr. Wong Tak Ming, Gary HK$'000	Mr. Wong Ching Yue HK$'000	Mr. Chu Kar Wing HK$'000	2010 Total HK$'000
Fees	44	30	56	100	72	27	–	150	110	125	714
Other emoluments											
Salaries and other benefits	–	–	–	–	2,265	–	–	–	–	–	2,265
Performance related incentive payment (note)	–	–	–	–	250	–	–	–	–	–	250
Contributions to retirement benefit schemes	–	–	–	–	126	–	–	–	–	–	126
	44	30	56	100	2,713	27	–	150	110	125	3,355

	Mr. Tsang Pui Lan, Patrick HK$'000	Ms. Leung Ge Yau HK$'000	Mr. Wong Chi Fai HK$'000	Ms. Fan Man Seung, Vanessa HK$'000	Mr. Ng Sui Wan (alias Ng Yu) HK$'000	Mr. Leung Yuk Lun, Ulric HK$'000	Ms. Luk Siu Man, Semon HK$'000	Mr. Wong Tak Ming, Gary HK$'000	Mr. Wong Ching Yue HK$'000	Mr. Chu Kar Wing HK$'000	2009 Total HK$'000
Fees	–	–	101	101	101	–	–	194	194	194	885
Other emoluments											
Salaries and other benefits	–	–	–	–	2,950	–	–	–	–	–	2,950
Contributions to retirement benefit schemes	–	–	–	–	147	–	–	–	–	–	147
	–	–	101	101	3,198	–	–	194	194	194	3,982

Note: The performance related incentive payment was determined with reference to the operating results, individual performance and comparable market statistics for the year ended 30th June, 2010.

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

(b) Employees

During the year, the five highest paid individuals included one director (2009: one director). The total emoluments of the remaining four (2009: four) highest paid individuals were as follows:

	2010	2009
	HK$'000	HK$'000
Salaries and other benefits	**5,629**	6,018
Bonuses	**300**	–
Retirement benefit scheme contributions	**129**	162
	6,058	6,180

	Number of individuals	
	2010	2009
Emoluments of the employees were within the following bands:		
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$3,000,000	**1**	1

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

13. TAXATION

Continuing operations

	2010	2009
	HK$'000	HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	**1,237**	–
Overprovision in prior years	**(9)**	(6)
	1,228	(6)
Taxation arising in other jurisdiction		
Current year	**3**	568
	1,231	562

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the year.

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

13. TAXATION *(continued)*

The taxation charge for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2010 **HK$'000**	2009 HK$'000
Loss before taxation (from continuing operations)	**(47,379)**	(67,576)
Tax credit of Hong Kong Profits Tax at 16.5% (2009: 16.5%)	**(7,818)**	(11,150)
Tax effect of share of results of a jointly controlled entity	**(417)**	(83)
Tax effect of expenses not deductible for tax purpose	**7,278**	9,073
Tax effect of income not taxable for tax purpose	**(2,147)**	(3,459)
Tax effect of tax losses not recognised	**4,759**	8,537
Tax effect of utilisation of tax losses previously not recognised	**(275)**	(1,930)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(162)**	(441)
Overprovision in prior years	**(9)**	(6)
Others	**22**	21
Taxation charge for the year	**1,231**	562

As at 30th June, 2010, the Group has unused tax losses of HK$237,054,000 (2009: HK$296,897,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the end of the reporting period.

14. DISCONTINUED OPERATIONS

On 16th December, 2009, the Group entered into a sale and purchase agreement to dispose of a subsidiary, EEG Holdings Limited ("EHL"). EHL and its subsidiaries (collectively referred to as the "EHL Group") carried out event production and music production and distribution operations. The disposal was effected in order to focus the resources for the expansion of the Group's other businesses. The disposal was completed on 19th March, 2010, on which date control of event production and music production and distribution operations passed to Gain Wealth Investments Limited, an indirect wholly-owned subsidiary of a substantial shareholder of the Company.

The (loss) profit for the year from discontinued operations is analysed as follows:

	2010 **HK$'000**	2009 HK$'000
(Loss) profit for the year from discontinued operations	**(3,145)**	2,853
Gain on disposal of subsidiaries (note 35)	**1,129**	–
	(2,016)	2,853

14. DISCONTINUED OPERATIONS *(continued)*

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income, are as follows:

	2010 HK$'000	2009 HK$'000
Revenue from:		
– Event production	**12,587**	12,713
– Music production and distribution	**29,679**	34,603
	42,266	47,316
Other income	**3,115**	5,260
Cost of self-organised events	**(3,779)**	(5,239)
Cost of provision of event production services	**(8,511)**	(3,114)
Cost of music production and distribution	**(17,521)**	(17,472)
Selling and distribution costs	**(901)**	(1,266)
Administrative expenses	**(17,814)**	(22,632)
(Loss) profit for the year from discontinued operations	**(3,145)**	2,853

The (loss) profit for the year from the discontinued operations include the following:

	2010 HK$'000	2009 HK$'000
Directors' emoluments	**1,532**	1,528
Retirement benefit scheme contributions for other staff	**393**	343
Other staff costs	**12,287**	14,842
Total staff costs	**14,212**	16,713
Allowance for bad and doubtful debts	**–**	900
Cost of inventories recognised as expenses	**6,402**	9,692
Depreciation of property, plant and equipment	**135**	370
Loss on disposal of property, plant and equipment	**–**	6
Operating lease rentals in respect of rented premises	**1,245**	1,926
Write back of allowance for bad and doubtful debts	**157**	–

No tax charge or credit arose on gain on discontinuance of the operations.

During the period up to the date of disposal, the event production and music production and distribution operations contributed HK$6,568,000 (2009: HK$3,425,000) to the Group's net operating cash flows and paid HK$70,000 (2009: HK$24,000) in respect of investing activities.

The carrying amounts of the consolidated assets and liabilities of EHL at the date of disposal are disclosed in note 35.

As a result of the discontinuance of the event production and music production and distribution operations, certain comparative figures were restated so as to reflect the results for the discontinued operations.

15. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations is based on the loss for the year attributable to owners of the Company of HK$50,626,000 (2009: HK$65,285,000) and the weighted average number of 300,740,508 (2009: 260,000,000) ordinary shares of the Company in issue during the year.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bond since their exercise would result in an anti-dilutive effect on loss per share from continuing and discontinued operations.

From continuing operations

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

Loss is calculated as follows:

	2010 **HK$'000**	2009 HK$'000
Loss for the year attributable to owners of the Company	**50,626**	65,285
Less: Loss (profit) for the year from discontinued operations	**2,016**	(2,853)
Loss for the purpose of basic and diluted loss per share from continuing operations	**48,610**	68,138

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

From discontinued operations

Basic and diluted loss per share from discontinued operations is HK0.67 cent per share (2009: basic and diluted earning per share of HK1.10 cent per share) based on the loss for the year from the discontinued operations of HK$2,016,000 (2009: profit of HK$2,853,000) and the denominators detailed above for both basic and diluted loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1st July, 2008	4,680	4,966	1,748	1,854	1,287	14,535
Currency realignment	–	1	–	–	(1)	–
Additions	1,137	154	15	7	–	1,313
Disposals	(1,069)	(154)	(61)	(36)	–	(1,320)
At 30th June, 2009	4,748	4,967	1,702	1,825	1,286	14,528
Currency realignment	2	1	–	–	2	5
Additions	40	192	5	19	–	256
Disposal of subsidiaries (note 35)	(2,763)	(2,764)	(790)	(1,810)	(1,288)	(9,415)
Disposals	(50)	–	–	(1)	–	(51)
At 30th June, 2010	**1,977**	**2,396**	**917**	**33**	**–**	**5,323**
DEPRECIATION						
At 1st July, 2008	4,357	4,137	1,518	1,444	899	12,355
Currency realignment	–	–	–	–	–	–
Provided for the year	333	536	87	136	219	1,311
Eliminated on disposal	(896)	(152)	(50)	(34)	–	(1,132)
At 30th June, 2009	3,794	4,521	1,555	1,546	1,118	12,534
Currency realignment	–	3	–	1	1	5
Provided for the year	541	306	57	105	72	1,081
Eliminated on disposal of subsidiaries (note 35)	(2,762)	(2,585)	(713)	(1,618)	(1,191)	(8,869)
Eliminated on disposal	(31)	–	–	(1)	–	(32)
At 30th June, 2010	**1,542**	**2,245**	**899**	**33**	**–**	**4,719**
CARRYING VALUES						
At 30th June, 2010	**435**	**151**	**18**	**–**	**–**	**604**
At 30th June, 2009	954	446	147	279	168	1,994

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

Leasehold improvements	Over the shorter of unexpired lease term or 20%
Computer equipment	$33^1/_3$%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

17. AVAILABLE-FOR-SALE INVESTMENT

The amount represents 14.81% equity interests in the issued ordinary shares of Dragonlott Holdings Limited ("DHL"), a private entity incorporated in Jersey, the Channel Islands, with limited liability. The principal activities of DHL and its subsidiaries are provision of general management services and consultancy services of sports lottery in the PRC.

The amount is measured at cost less any identified impairment loss at the end of the reporting period as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably. The fair value on initial recognition is measured by an aggregation of (1) cash consideration of HK$35,840,000 and (2) fair value of a promissory note of HK$10,834,000 (note 30). The directors of the Company have not been provided with any financial information of DHL as at 30th June, 2010 from the management of DHL. However, no impairment is made as there were no significant changes in the business in DHL between the date of acquisition and the end of reporting period.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 30th June, 2010 and 2009, the Group had interests in the following jointly controlled entities:

Name of entity	**Place of incorporation or registration/ operation**	**Issued and fully paid share/ registered capital**	**Proportion of nominal value of issued capital/ registered capital held by the Group**		**Principal activities**
			2010	2009	
上海上影英皇文化發展有限公司	Mainland China	Capital contribution – HK$5,000,000	**50%**	50%	Distribution of film and television programme rights
北京博納英龍演藝經紀有限公司*	Mainland China	Capital contribution – RMB5,000,000	**–**	40%	Artiste management
Wisdom Sea Group Limited*	British Virgin Islands	Ordinary – US$10	**–**	40%	Investment holding

* The companies were disposed of through the disposal of EHL by the Group on 19th March, 2010 (note 35).

	2010 HK$'000	2009 HK$'000
Cost of unlisted investments in jointly controlled entities	**2,500**	4,770
Share of post-acquisition profits (losses)	**2,445**	(85)
Share of translation reserve	**335**	296
	5,280	4,981

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

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

	2010 **HK$'000**	2009 HK$'000
Current assets	**10,415**	12,990
Non-current assets	**15,860**	11,465
Current liabilities	**20,995**	19,474
Income	**18,645**	5,474
Expenses	**16,115**	4,970
Other comprehensive income	**44**	231

19. PREPAYMENTS AND OTHER RECEIVABLES

	2010 **HK$'000**	2009 HK$'000
Prepaid artiste fees (note (a))	**–**	4,398
Loans to artistes (note (b))	**–**	12,187
Other prepayments (note (c))	**16,359**	50,532
Other receivables	**9,807**	2,855
	26,166	69,972
The amount of prepayments and other receivables is analysed for reporting purpose as follows:		
– Non-current portion	**–**	10,933
– Current portion	**26,166**	59,039
	26,166	69,972

Notes:

(a) As at 30th June, 2009, the amount of prepaid artiste fees that was expected to be recouped within twelve months from the end of the reporting period was classified as current asset. The remaining balance was classified as non-current asset. Should the directors of the Company considered that the future recoupable amount of a particular artiste was less than the balance of the artiste fees prepaid to that artiste, the extent of shortfall would be charged to the consolidated statement of comprehensive income immediately. The amount of prepaid artiste fees at the end of the reporting period is analysed for reporting purpose as follows:

	2010 **HK$'000**	2009 HK$'000
Non-current portion	**–**	1,181
Current portion	**–**	3,217
	–	4,398

19. PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

Notes: *(continued)*

(b) As at 30th June, 2009, the loans to artistes included an amount of HK$8,190,000 (2010: Nil) which was secured, borne prevailing market interest rates ranging from 4% to 4.25% per annum and had fixed repayment terms. It also included an amount of HK$396,000 (2010: Nil) borne prevailing market interest rates ranging from 5% to 5.25% per annum and was repayable by fixed monthly instalment with reference to the terms of respective agreements. Other amounts were interest-free and had no fixed repayment terms. The amount of loans to artistes that was expected to be repaid within twelve months from the end of the reporting period was classified as current asset. The remaining balance was classified as non-current asset. Effective interest rate of the interest-free loans to artistes for the year ended 30th June, 2009 was 10% per annum. The amount of the loans to artistes at the end of the reporting period is analysed for reporting purpose as follows:

	2010 **HK$'000**	2009 HK$'000
Non-current portion	–	9,752
Current portion	–	2,435
	–	12,187

Included in the loans to artistes was a provision of HK$3,677,000 during the year ended 30th June, 2009 (2010: Nil) which was individually impaired loans that were not expected to be recovered.

(c) Other prepayments mainly represent upfront payments for film productions and prepaid administrative expenses.

20. FILM RIGHTS

	HK$'000
COST	
At 1st July, 2008	801,716
Additions	33,146
At 30th June, 2009	834,862
Additions	222,741
Disposal of subsidiaries (note 35)	(167,940)
At 30th June, 2010	**889,663**
AMORTISATION AND IMPAIRMENT	
At 1st July, 2008	612,207
Provided for the year	85,685
Impairment loss recognised in the year	73,850
At 30th June, 2009	771,742
Provided for the year	34,064
Impairment loss recognised in the year	41,208
Eliminated on disposal of subsidiaries (note 35)	(142,948)
At 30th June, 2010	**704,066**
CARRYING VALUES	
At 30th June, 2010	**185,597**
At 30th June, 2009	63,120

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts during the year ended 30th June, 2009 and 2010. The directors of the Company determined that a number of these film rights were impaired due to worsen marketability of respective film rights. The recoverable amount of the relevant assets had been determined on the basis of the present value of expected future revenue net of the relevant expenses arising from distribution and licensing of distribution rights of each of the films, by reference to the recent market information of the film industry. The carrying amount of certain of the film rights amounting to HK$41,208,000 (2009: HK$73,850,000) was written off to the profit or loss.

21. INVENTORIES AND RECORD MASTERS

	2010 HK$'000	2009 HK$'000
Record masters	**–**	2,587
Finished goods	**30**	115
	30	2,702

22. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$7,959,000 (2009: HK$9,237,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the repayment pattern of the customers of the Group, debtors which are past due but not impaired are eventually recoverable. The Group's management closely monitors the credit quality of debtors and considers the debtors that are neither past due nor impaired to be of a good credit quality with reference to their repayment history. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the due date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Current	**27,747**	17,782
Overdue		
0 – 30 days	**993**	1,018
31 – 60 days	**23**	3,217
61 – 90 days	**–**	958
over 90 days	**6,943**	4,044
	7,959	9,237
	35,706	27,019

Movement in the allowance for bad and doubtful debts

	2010 HK$'000	2009 HK$'000
At beginning of the year	**2,925**	3,217
Currency realignment	**11**	13
(Write back of) allowance for bad and doubtful debts	**(157)**	975
Amounts written off	**–**	(1,280)
Eliminated on disposal of subsidiaries	**(743)**	–
At end of the year	**2,036**	2,925

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

23. LOAN TO A JOINTLY CONTROLLED ENTITY

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

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of seven days at prevailing market interests rates ranging from 0.01% to 0.72% (2009: 0.01% to 0.72%) per annum.

25. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the due date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Current	**2,492**	7,209
Overdue		
0 – 30 days	**2,471**	3,479
31 – 60 days	**596**	726
61 – 90 days	**496**	1,429
over 90 days	**7,511**	7,675
	13,566	20,518

26. OTHER PAYABLES AND ACCRUED CHARGES

	2010 HK$'000	2009 HK$'000
Deposits from customers	**31,396**	28,809
Accrued charges	**1,116**	19,908
Artiste payables	**138**	7,055
Others	**11,463**	9,727
	44,113	65,499

27. LOAN FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

At the end of the reporting period, the loan from a non-controlling shareholder of a subsidiary is unsecured, non-interest bearing and repayable on demand. The non-controlling shareholder was entitled to repayment only after its share of losses in the relevant subsidiary was made good.

28. OTHER LOAN

The amount is unsecured, bears fixed interest at 7.25% per annum and repayable within one year.

29. CONVERTIBLE BOND

On 21st October, 2009, the Company issued convertible bond with a nominal value of HK$100,000,000 to Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company. The bond bears interest from the date of issue at a rate of the HIBOR plus 2% per annum and will mature on 20th October, 2014. It is transferable and may be converted into ordinary shares of the Company at a conversion price of HK$0.70 per ordinary share, subject to anti-dilutive adjustments. Upon full conversion, the convertible bond shall be converted into 142,857,142 ordinary shares of the Company. The Company is entitled to redeem the convertible bond at 100% of its aggregated principal amount and accrued contractual interest at any time after six months from the date of issue of the convertible bond until the maturity date.

The consideration for the subscription of convertible bond was settled through the current account of Surplus Way.

The convertible bond was split into liability (including the value of closely-related early redemption option held by the Company) and equity components of HK$61,720,000 and HK$38,280,000 respectively upon initial recognition by recognising the liability component at its fair value and attributing the residual amount to the equity component. The liability component is subsequently carried at amortised cost and the equity component is recognised in the convertible bond equity reserve. The effective interest of the liability component is 12.74% per annum.

The movement of the liability component of the convertible bond for the year is set out below:

	2010 **HK$'000**
Issue during the year	**61,720**
Interest charge (note 10)	**8,319**
Interest paid	**(1,303)**
Conversion during the year	**(18,637)**
Carrying amount at the end of the year	**50,099**

30. PROMISSORY NOTE PAYABLE

During the year, the Company issued a promissory note to settle part of the consideration in the acquisition of the available-for-sale investment (note 17).

The amount is unsecured and non-interest bearing. The principal sum of HK$14,160,000 is to be repaid on the date falling five years from 18th January, 2010. The fair value of HK$10,834,000 on initial recognition is measured by computing the present value of estimated future cash flows at the effective interest rate of 5.5%.

During the year, imputed interest of HK$268,000 (2009: Nil) was charged to the profit or loss.

31. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER OF THE COMPANY/ FORMER IMMEDIATE HOLDING COMPANY

The amount is unsecured and bears interest at prime rate of 5% (2009: 5% to 5.25%) per annum. The carrying amount of HK$207,882,000 (2009: HK$189,223,000) is expected to be settled after next twelve months from the end of the reporting period, and accordingly, such amount is classified as non-current. The substantial shareholder of the Company agreed not to demand for the repayment of such amount for at least the next twelve months from the date of this report or until the Group has the ability to repay the amount, whichever is later (note 2).

32. SHARE CAPITAL

	Number of shares	Amount HK$'000
Shares of HK$0.01 each		
Authorised:		
At 1st July, 2008, 30th June, 2009 and 30th June, 2010	10,000,000,000	100,000
Issued and fully paid:		
At 1st July, 2008, 30th June, 2009 and 1st July, 2009	260,000,000	2,600
Increase in shares upon the allotment (note (a))	52,000,000	520
Increase in shares upon the conversion of convertible bond (note (b))	39,999,997	400
At 30th June, 2010	**351,999,997**	**3,520**

Notes:

(a) Pursuant to the completion of the subscription agreement on 13th January, 2010, the Company issued and allotted 52,000,000 shares at HK$0.72 per share to Everleap Limited, Sirenity Investments Limited and Shikumen Special Situations Fund which are independent third parties. HK$35,840,000 out of the total proceeds from issue of shares, had been used up to settle part of the consideration in the acquisition of the available-for-sale investment (note 17).

(b) During the year, the holders of the convertible bond exercised their right to convert HK$28,000,000 of the principal amount of the convertible bond into fully-paid ordinary shares. Exercise in such convertible bond resulted in the issue of 39,999,997 additional shares.

The new shares issued rank pari passu in all respects with the existing shares of the Company.

33. RESERVES

(a) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

(b) The special reserve of the Group represents advances of HK$75,000,000 from Questrel Holdings Limited ("Questrel"), a former substantial shareholder of the Company, which were waived by Questrel as part of the group reorganisation in November 2000.

34. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") for employees joining the Group before 1st December, 2000. The assets of the ORSO Scheme are held separately from those of the Group in funds under the control of the independent trustees.

In light of the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme"), all the employees were granted a one-off option to elect to switch to the MPF Scheme or stay with the ORSO Scheme.

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

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

35. DISPOSAL OF SUBSIDIARIES

As referred to in note 14, on 19th March, 2010, the Group discontinued the event production and music production and distribution operations at the time of disposal of EHL. The consolidated net assets of EHL at the date of disposal were as follows:

	19.3.2010 HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	546
Interests in a jointly controlled entity	2,275
Prepayments and other receivables	24,645
Film rights	24,992
Inventories and record masters	3,153
Trade receivables	15,710
Loan to a jointly controlled entity	6,138
Bank balances and cash	10,323
Trade payables	(7,019)
Other payables and accrued charges	(71,367)
Taxation payable	(1,805)
	7,591
Translation reserve realised	(1,129)
Gain on disposal of subsidiaries	1,129
Total consideration, satisfied by cash	7,591
Net cash inflow (outflow) arising on disposal:	
Cash consideration	7,591
Bank balances and cash disposed of	(10,323)
	(2,732)

The impact of the EHL Group on the Group's results and cash flows in the current and prior periods is disclosed in note 14.

36. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 HK$'000	2009 HK$'000
In respect of:		
Rented premises		
Within one year	**783**	3,946
In the second to fifth year inclusive	**–**	576
	783	4,522
Broadcasting service		
Within one year	**–**	225

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

37. OTHER COMMITMENTS

	2010 HK$'000	2009 HK$'000
Amounts contracted for but not provided in the consolidated financial statements in respect of:		
Artiste fees	**1,000**	15,926
Film production costs	**50,748**	124,937
	51,748	140,863

38. SHARE OPTION SCHEME

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

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

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

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

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

39. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Company issued convertible bond with a nominal value of HK$100,000,000 to a substantial shareholder of the Company. The consideration for the subscription of convertible bond was settled through the current account of the substantial shareholder of the Company.

(b) During the year, the Group acquired the available-for-sale investment of 14.81% equity interests in the issued ordinary shares of DHL and part of the consideration was settled by issuance of a promissory note at fair value on date of issue of HK$10,834,000 (note 30).

40. EVENTS AFTER THE REPORTING PERIOD

(a) On 29th July, 2010, the Company entered into an agreement with a placing agent whereby the Company agreed to place, through the placing agent, 70,398,000 new shares of the Company to six placees at a price of HK$0.38 per placing share ("Placement"). The Company intends to use the net proceeds of approximately HK$26,180,000 from the Placement for the Group's general working capital and further business development. The Placement was completed on 6th August, 2010.

(b) On 11th August, 2010, the directors of the Company announced that a share subdivision was proposed to the shareholders of the Company to subdivide every issued and unissued shares of the Company into two subdivided shares ("Share Subdivision"). The par value of each issued share and unissued share will be adjusted from HK$0.01 to HK$0.005 accordingly. The Share Subdivision is subject to the shareholders' approval at a special general meeting to be held on 20th September, 2010.

(c) On 11th August, 2010, the directors of the Company also announced to propose to change the name of the Company from "Dragonlott Entertainment Group Limited" to "China 3D Digital Entertainment Limited" and to adopt "中國3D數碼娛樂有限公司" as its new Chinese name for identification purpose. The change of Company name is subject to the shareholders' approval at a special general meeting to be held on 20th September, 2010.

(d) On 1st September, 2010, the Group entered into a sale and purchase agreement (the "Agreement") pursuant to which the Company has conditionally agreed to dispose of the entire interests of Speedy Champion Investments Limited ("SCI") and its subsidiaries (collectively referred to as the "SCI Group") and the entire shareholder's loan due to the Group by SCI to an independent third party ("SCI Disposal"). The consideration of the SCI Disposal will be equivalent to the consolidated net asset value/deficit of SCI plus the face value of the shareholder's loan due to the Group by SCI as at completion or HK$100,000, whichever is higher. The SCI Group carried out part of the film production, distribution and licensing business. The SCI Disposal is subject to the shareholders' approval of the Company in a special general meeting to be held in October 2010.

(e) On 10th September, 2010, the Company entered into an agreement with a placing agent whereby the Company agreed to place, through the placing agent, a maximum of 100,000,000 new shares (or 200,000,000 new subdivided shares) of the Company to not less than six placees at a price of HK$0.25 per placing share (or HK$0.125 per placing subdivided share) ("Proposed Placement"). The Company intends to use the net proceeds of approximately HK$24,460,000 from the Proposed Placement for the Group's general working capital and business development of the 3D movie production. The Proposed Placement is subject to the shareholder's approval at a special general meeting in October 2010.

41. CONTINGENT LIABILITIES

In the prior year, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the artistes of the EHL Group. With the disposal of the EHL Group, the Group was no longer involved in such legal proceedings.

42. RELATED PARTY TRANSACTIONS

(a) Other than disclosed in notes 14, 23, 27, 29, 31 and 35, the Group also had the following significant transactions with related parties:

	2010 HK$'000	2009 HK$'000
Transaction with a substantial shareholder of the Company/former immediate holding company		
Interest expense (note 1)	**9,074**	9,067
Transactions with related companies		
Distribution and promotion income (note 3)	**364**	1,735
Income from sales of goods (note 3)	**409**	420
Sponsorship fee income (note 3)	**113**	284
Advertising and promotion expenses (note 3)	**293**	184
Car park rental expenses (note 3)	**78**	120
Corporate secretarial fee (note 3)	**80**	173
Operating lease rental expenses (note 2)	**3,094**	4,039
Professional fee (note 3)	**887**	300
Sharing of administrative expenses (note 3)	**3,407**	3,473

The related companies are companies ultimately owned by The Albert Yeung Discretionary Trust, of which Dr. Yeung Sau Shing, Albert is the founder and substantial shareholder of the Company, and/or by certain directors of the Company.

Notes:

1. This transaction involved the payment of interest to the substantial shareholder of the Company/former immediate holding company, a connected person of the Company, which provided financial assistance to the Group on normal commercial terms and no security over the assets of the Group was granted in respect of the financial assistance. The transaction is an exempted continuing connected transaction fall under Chapter 20.65(4) of the GEM Listing Rules.

2. The transaction is a continuing connected transaction as defined under Chapter 20.14 of the GEM Listing Rules, details of which are set out in the section headed "Directors' Interest in Contracts of Significance and Connected Transactions" of the Directors' Report.

3. These transactions are connected transactions exempted from reporting, announcement and independent shareholders' approval requirements under Chapter 20.31 of the GEM Listing Rules.

(b) The key management personnel of the Company are directors of the Company. Details of the remunerations are set out in note 12(a).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30th June, 2010

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company, all of which are limited liability companies, as at 30th June, 2009 and 30th June, 2010 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010	2009	Principal activities
Directly held					
Emperor Entertainment Group (China) Limited*	British Virgin Islands/ Mainland China and Macau	Ordinary – US$1	**–**	100%	Investment holding and distribution of films
Glow Plus Limited	British Virgin Islands	Ordinary – US$1	**100%**	–	Investment holding
Mile Oak Profits Limited	British Virgin Islands	Ordinary – US$6	**100%**	100%	Investment holding
Music Icon Entertainment Limited*	British Virgin Islands	Ordinary – US$1	**–**	100%	Investment holding
Indirectly held					
Artlanda Limited	Hong Kong	Ordinary – HK$2	**100%**	100%	Production of films and provision of agency services to group companies
EEG Music Publishing Limited*	Hong Kong	Ordinary – HK$2	**–**	100%	Licensing of musical works
Emperor Classic Films Company Limited	Hong Kong	Ordinary – HK$10	**100%**	100%	Production and distribution of films and performances and licensing of distribution rights
Emperor Connection Limited*	Hong Kong	Ordinary – HK$2	**–**	100%	Provision of paid television programmes and tenancy signing agency services to group companies
Emperor Dragon Movies Limited*	Hong Kong	Ordinary – HK$2	**–**	100%	Production and distribution of films and licensing of distribution rights
Emperor Entertainment Development Limited*	Hong Kong	Ordinary – HK$200	**–**	100%	Concert management and organisation
Emperor Entertainment Group (International) Limited*	Mauritius	Ordinary – US$1,000	**–**	100%	Licensing of musical and multimedia works

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010	2009	Principal activities
Indirectly held (continued)					
Emperor Entertainment Group (Taiwan) Limited*	British Virgin Islands/ Taiwan	Ordinary – US$1	–	100%	Licensing of musical and multimedia works
Emperor Entertainment (Hong Kong) Limited*	Hong Kong	Ordinary – HK$10,000,000	–	100%	Trading, distribution and production of audio-visual products and films, licensing of musical works, provision of management services to artistes, and concert management and organisation
Emperor Entertainment Limited	Hong Kong	Ordinary – HK$2	**100%**	100%	Investment holding
Emperor Motion Picture (HK) Limited	Hong Kong	Ordinary – HK$10,000	**100%**	100%	Investment holding, production and distribution of films, licensing of distribution rights and provision of management services to artistes
Emperor Motion Picture (International) Limited	British Virgin Islands/Japan and Macau	Ordinary – US$1	**100%**	100%	Production and distribution of films and licensing of distribution rights
Emperor Motion Picture Limited	Hong Kong	Ordinary – HK$2	**100%**	100%	Provision of film distribution services
Emperor Production Limited*	Hong Kong	Ordinary – HK$2	–	100%	Investment holding, concert management and organisation, and provision of event production services
Emperor Stage Limited*	Hong Kong	Ordinary – HK$1	–	100%	Event organisation
Golden Port Productions Limited	Ireland	Ordinary – Euro 4	**100%**	100%	Production and distribution of films, licensing of distribution rights, and provision of distribution services

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010	2009	Principal activities
Indirectly held (continued)					
Goldpeak Corporation Limited	Hong Kong	Ordinary – HK$2	**100%**	100%	Production and distribution of films and licensing of distribution rights
Music Icon Records Limited*	Hong Kong	Ordinary – HK$2	**–**	100%	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes and concert management and organisation
Rex Films Productions Company Limited	Hong Kong	Ordinary – HK$2	**100%**	100%	Production and distribution of films and licensing of distribution rights
英皇星藝（北京）文化發展有限公司*	Mainland China	Capital contribution – HK$5,000,000	**–**	100%	Trading, distribution and production of audio-visual products and films, licensing of musical works, provision of management services to artistes, and concert management and organisation
上海威通投資咨詢有限公司*	Mainland China	Capital contribution – RMB4,500,000	**–**	100%	Investment holding

* The companies were disposed of through the disposal of EHL by the Group on 19th March, 2010 (note 35).

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

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

Financial Summary

	Year ended 30th June,		Period from 1st April, 2007 to 30th June,	Year ended 31st March,	
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**135,213**	204,494	156,229	183,915	196,917
(Loss) profit before taxation	**(49,395)**	(64,723)	(78,256)	20,068	(32,078)
Taxation	**(1,231)**	(562)	(219)	(2,976)	(2,383)
(Loss) profit for the year	**(50,626)**	(65,285)	(78,475)	17,092	(34,461)
Attributable to:					
Owners of the Company	**(50,626)**	(65,285)	(78,469)	17,280	(32,549)
Non-controlling interests	**–**	–	(6)	(188)	(1,912)
	(50,626)	(65,285)	(78,475)	17,092	(34,461)

	At 30th June,			At 31st March,	
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**329,148**	231,893	315,307	206,319	200,267
Total liabilities	**(331,762)**	(277,808)	(297,519)	(111,562)	(122,151)
Total equity	**(2,614)**	(45,915)	17,788	94,757	78,116
Attributable to:					
Owners of the Company	**(673)**	(43,974)	19,729	96,445	78,830
Non-controlling interests	**(1,941)**	(1,941)	(1,941)	(1,688)	(714)
	(2,614)	(45,915)	17,788	94,757	78,116