中國3D數碼娛樂有限公司

CHINA 3D DIGITAL ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(GEM Stock Code: 8078)

Annual Report 2010-2011

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This report, for which the directors of China 3D Digital Entertainment 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

Shiu Stephen Junior *(Chairman)*
Tsang Pui Lan, Patrick
Chan Chi Ho*
Kam Tik Lun*
Lee Wing Ho, Albert*

* *Independent Non-executive Directors*

Company Secretary

Lai King Teen

Compliance Officer

Tsang Pui Lan, Patrick

Authorised Representatives

Shiu Stephen Junior
Tsang Pui Lan, Patrick

Audit Committee

Kam Tik Lun *(Chairman)*
Chan Chi Ho
Lee Wing Ho, Albert

Remuneration Committee

Shiu Stephen Junior *(Chairman)*
Chan Chi Ho
Kam Tik Lun

Auditor

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

1/F & 2/F, Morrison Plaza
9 Morrison Hill Road
Wanchai, Hong Kong

Registrar *(in Bermuda)*

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

Registrar *(in Hong Kong)*

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Banker

DBS Bank (Hong Kong) Limited
G/F, The Center
99 Queen's Road Central
Central, Hong Kong

Website

http://www.china3d8078.com

GEM Stock Code

8078

Chairman's Statement

On behalf of the board of directors of the Company (the "Board" or the "Directors"), I am pleased to present to the shareholders the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2011 (the "Year").

REVIEW OF OPERATIONS

In October 2010, the Group acquired New Smart International Creation Limited ("New Smart"), a company engaged in the business of 3D motion pictures production. The acquisition signified the reallocation of our resources to 3D movies production.

To reflect our focus on 3D movies production, in October 2010, the Company has been renamed from "Dragonlott Entertainment Group Limited" to "China 3D Digital Entertainment Limited".

In April 2011, the Group's first 3D movie "3D Sex & Zen: Extreme Ecstasy" ("3D Sex & Zen") produced by New Smart was released. On the first day of release, the box office of the movie scored a record-breaking HK$2.7 million in Hong Kong box office history, exceeding HK$2.6 million maintained by another 3D movie "Avatar" made by international director James Cameron. In addition, for films produced in Hong Kong, it ranked number one in Hong Kong box office in first half year of 2011.

PROSPECTS

The success of the movie 3D Sex & Zen is a reflection of high anticipation of supreme quality 3D movies in the market. As such, the Group is expected to produce two or three more movies in the coming year. The business segment of film production will sure be our main focus business. To be the leader in the movie production, we will explore opportunities to become the pioneer in Hong Kong to produce 4D movies.

To establish itself as the pioneer in the movie industry, taking steps in running the cinemas or at least, getting operation rights of cinemas are necessary. Even at the time of issuing this report, there has been no specific target the Group is currently negotiating with, the Group has been exploring opportunities to acquire cinemas and/or operation rights of cinemas.

On the another note, effort would continually be put into business segment of artiste management to source talented artistes with an aim to achieve satisfactory profit and provides synergy with other operations of the Group.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, clients and staff members for their support in the past years. I would also like to express my personal appreciation to my fellow board members for their continuous valuable contributions.

Shiu Stephen Junior
Chairman

Hong Kong, 19 September 2011

Management Discussion and Analysis

OPERATION REVIEW

The Group reported total revenue of approximately HK$54.0 million for the Year, compared with approximately HK$135.2 million for the previous fiscal year. A loss of approximately HK$36.1 million was recorded. The loss is mainly due to the impairment loss on film rights and operating losses relating to the subsidiaries disposed during the Year and finance cost for convertible bond issued by the Company.

During the Year, the business segment of artiste management contributed revenue of approximately HK$3.0 million (2010: HK$31.8 million) and recorded a profit of approximately HK$1.3 million (2010: HK$17.9 million). As part of the company re-organisation to focus the business into 3D movie production, during the Year, a number of subsidiaries running the artiste management were disposed and making the decrease in both revenue and profit figures in this business segment.

For the year ended 30 June 2011, the business segment of film and television programme production, distribution and licensing brought revenue of HK$51.0 million (2010: HK$61.1 million). As the 3D movie released this Year was new both to the audience and the Group, more than expected advertising and promotion expense was incurred. Together with impairment in film rights held by the companies disposed during the Year, this business segment recorded a loss of HK$18.9 million (2010: HK$42.9 million).

In the previous financial year, the Group disposed certain subsidiaries carrying out event production and music production and distribution operations. After such disposal, the Group ceased the businesses of event production and music production and distribution. For the year ended 30 June 2010, event production contributed revenue of approximately HK$12.6 million and recorded a loss of approximately HK$2.5 million, and music production and distribution contributed revenue of approximately HK$29.7 million and recorded a loss of approximately HK$0.6 million.

PROSPECTS

To continue the success of our 3D movie "3D Sex & Zen: Extreme Ecstasy", two or three 3D movies will be planned to produce in the coming financial year. With more cautious on the control of advertising and promotion expense, satisfactory profit will be expected.

The Board believes that acquisition of cinemas and/or operation rights of cinemas will strengthen the Group's operation by providing the Group with more alternatives to distribute movies. Although at the time of this report, no specific cinema was targeted. Priority may be placed on cinemas or theatres in the PRC to capture people in this largest potential consumption country nowadays.

On the other hand, effort would continually be put into business segment of artiste management to source talented artistes with an aim to achieve satisfactory profit and provide synergy with other operations of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, total borrowing of the Group (excluding payables) amounted to approximately HK$24.6 million (2010: HK$274.1 million). As various fund raisings activities have been conducted during the Year, the Group's gearing ratio (expressed as a percentage of total borrowing over total assets) was largely reduced from 83% last year to 16% current year.

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations and the borrowings, mainly including convertible bond and promissory note payable, to finance its operation. 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 has no other external borrowings. The Group's bank and cash held in hand were mainly denominated in Hong Kong dollars. 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.

Management Discussion and Analysis (Continued)

CHARGES ON GROUP ASSET

As at 30 June 2011, the Group has no asset pledged to bank to secure the bank borrowing granted to the Group (2010: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the Group had 10 (2010: 27) full-time employees. The total employee remuneration, include that of the Directors, for the year ended 30 June 2011 amounted to approximately HK$7.5 million (2010: HK$37.2 million). The Group remunerates its employees based on their performance, experience and the prevailing commercial practice. 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.

CAPITAL STRUCTURE

During the Year, the capital structure of the Company has changed as follows:

Placing of New Shares under General Mandate

On 6 August 2010, the Company completed the placing of 70,398,000 new shares ("Placing Share(s)") of the Company at a price of HK$0.38 per Placing Share ("First Placement"). As a result of the First Placement, the Company's issued share capital and share premium increased by approximately HK$0.7 million and HK$25.5 million respectively.

Share Subdivision

On 21 September 2010, the Company subdivided every issued and unissued share of the Company into two subdivided shares ("Share Subdivision"), under which the par value of each issued and unissued share was adjusted from HK$0.01 to HK$0.005.

Placing of New Shares under Specific Mandate

On 28 October 2010, the Company completed the placing of 200,000,000 new subdivided shares of the Company at a price of HK$0.125 per placing subdivided share ("Second Placement"). Upon completion of the Second Placement, the Company's issued share capital and share premium further increased by approximately HK$1.0 million and HK$23.4 million respectively.

Rights Issue

On 1 February 2011, the Board proposed to raise funds by way of rights issue ("Rights Issue"). On 29 March 2011, the necessary resolutions approving, amongst other things, the Rights Issue, were duly passed by the Independent Shareholders by way of poll at the special general meeting held on that date. The Rights Issue was over-subscribed and the shares certificates for fully-paid Rights Issue were dispatched to shareholders on 21 April 2011. Upon completion of the Rights Issue, the Company's issued share capital and share premium further increased by approximately HK$38.0 million and HK$72.4 million respectively.

Conversion of Convertible Bond

During the Year, HK$14.0 million of bond value was converted into 41,148,036 new shares of the Company which led to the Company's issued share capital and share premium increased by approximately HK$0.2 million and HK$15.2 million respectively.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

The Group has acquired and disposed of certain subsidiaries during the Year, details of which are set out as follows:

Acquisition of new 3D movie business

On 8 October 2010, the Company acquired the entire interests in New Smart at a consideration of approximately HK$12.6 million. New Smart is engaged in production of films. The first 3D film named "3D Sex & Zen: Extreme Ecstasy" was released in April 2011.

Disposal of Speedy Champion Investments Limited

On 19 October 2010, the Group completed the disposal of the entire interests in Speedy Champion Investments Limited together with the companies holding of the copyrights and distribution rights in various films and television programmes which were produced or distributed by the Group. The consideration of such disposal was HK$0.1 million and the Group recorded a gain on disposal of approximately HK$2.5 million.

Disposal of Bright Win Group Limited

On 2 December 2010, the Group completed the disposal of the entire interests in Bright Win Group Limited together with the companies holding of the copyrights and distribution rights in films. The consideration of such disposal was HK$0.1 million and the Group recorded a gain on disposal of approximately HK$0.1 million.

Disposal of Racelead Limited

On 31 January 2011, the Group completed the disposal of the entire interests in Racelead Limited. The consideration of such disposal was approximately HK$0.1 million and the Group recorded a gain on disposal of approximately HK$0.1 million.

COMMITMENTS

Total commitments of the Group as at 30 June 2011 was approximately HK$9.9 million (2010: HK$52.5 million)

CONTINGENT LIABILITIES

As at 30 June 2011, the Group was involved in legal proceedings in relation to the refusal to register a transfer of the promissory note and issue a new promissory note. The outcome of the legal proceeding is uncertain because it is still in early stage and is difficult for the Directors to assess the impact of the litigation on the financial position of the Group.

EVENT AFTER REPORTING PERIOD

On 13 July 2011, an ordinary resolution to appoint Messrs. HLB Hodgson Impey Cheng as the auditor of the Company to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu was passed by the shareholders of the Company.

Biographies of Directors and Senior Executives

EXECUTIVE DIRECTOR (CHAIRMAN)

SHIU STEPHEN JUNIOR, aged 36, joined the Company in July 2010. He is the Chairman of the Company and the Remuneration Committee of the Company. He has over 10 years' experience in entertainment, advertising, promotion and communication, film distribution and movies production. Currently, Mr. Shiu is also a director of various private companies which are engaged in the business of entertainment and movies production.

EXECUTIVE DIRECTOR AND COMPLIANCE OFFICER

TSANG PUI LAN, PATRICK, aged 35, joined the Company in January 2010. 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. Currently, Mr. Tsang is also 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.

INDEPENDENT NON-EXECUTIVE DIRECTOR

CHAN CHI HO, aged 35, 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. Currently, Mr. Chan is also a managing director of EDM Construction Limited 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 35, joined the Company in July 2010. He is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Postgraduate Diploma in International Corporate and Financial Law from The University of Wolverhampton, UK and a Master of Laws in International Corporate and Financial Law from The University of Wolverhampton, UK. 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 9 years of experience in the financial markets. He has vast experience in providing pre-IPO consultancy, business valuation services, financial analysis and corporate advisory.

INDEPENDENT NON-EXECUTIVE DIRECTOR

LEE WING HO, ALBERT, aged 41, joined the Company in February 2011. He is a member of the Audit Committee of the Company. Mr. Lee holds a Bachelor of Arts from Trinity Western University, Canada, and a Master of Business Administration from South Eastern University, United States of America. He is a Certified Facility Manager and is a member of International Facility Management Association and The Hong Kong Institute of Real Estate. Mr. Lee has over 18 years of experience in real estate and leasing management, cinemas consultancy as well as in the fields of movie production and distribution in Hong Kong and the PRC.

Directors' Report

The Board presents their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2011.

CHANGE OF COMPANY NAME

Pursuant to the special resolution passed by the shareholders of the Company on 20 September 2010, the name of the Company was changed from “Dragonlott Entertainment Group Limited” to “China 3D Digital Entertainment Limited” with effect from 22 September 2010; whilst the Chinese name for identification purpose was changed from “龍彩娛樂集團有限公司” to “中國3D數碼娛樂有限公司” with effect from 19 October 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 20 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 18 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 35 to the consolidated financial statements.

CONVERTIBLE BOND

During the Year, the holders of the convertible bond exercised their right to convert HK$14,000,000 of the principal amount of the convertible bond into 41,148,036 additional fully-paid ordinary shares of the Company. The new shares rank pari passu with the existing shares in all respects.

During the Year, the Company had exercised its early redemption right under the convertible bond to redeem a total principal sum of HK$41,000,000 and the outstanding principal sum of the bond as at 30 June 2011 was HK$17,000,000.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the movements in reserves of the Group and the Company during the period are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements respectively.

As at 30 June 2011, the Company had no reserves available for distribution.

DIRECTORS

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

Executive Directors:

Mr. Shiu Stephen Junior *(Chairman)*	(appointed on 2 July 2010)
Mr. Tsang Pui Lan, Patrick	
Ms. Leung Ge Yau	(resigned on 3 January 2011)

Non-executive Director:

Mr. Leung Yuk Lun, Ulric	(retired on 2 November 2010)

Independent Non-executive Directors:

Mr. Chan Chi Ho	(appointed on 2 July 2010)
Mr. Kam Tik Lun	(appointed on 13 July 2010)
Mr. Lee Wing Ho, Albert	(appointed on 22 February 2011)
Mr. Wong Tak Ming, Gary	(retired on 2 November 2010)

Subject to the service agreements/letters of appointment 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. Lee Wing Ho, Albert ("Mr. Lee") shall retire at the forthcoming annual general meeting ("AGM") and, being eligible, offer himself for re-election.

In accordance with Bye-law 87(1) and 87(2) of the Company's Bye-Laws, Mr. Tsang Pui Lan, Patrick shall retire at the forthcoming AGM and, being eligible, offer himself for re-election at the AGM.

Each of Mr. Shiu Stephen Junior and Mr. Tsang Pui Lan, Patrick has entered into a service agreement with the Company to serve as an Executive Director for an initial term of two years commencing from their date of appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party. Mr. Shiu Stephen Junior was nominated as the Chairman of the Company with effect from 3 January 2011.

Each of the current Independent 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 Directors	Commencing date
Mr. Chan Chi Ho	2 July 2010
Mr. Kam Tik Lun	13 July 2010
Mr. Lee Wing Ho, Albert	22 February 2011

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 had the following transactions with connected persons of the Company:

(a) Operating lease rentals paid

Name of counterparty	Date of agreement	Terms	Approximate amount for the year ended 30 June 2011 HK$'000
(a) Golden Pegasus Investment Limited (Note)	26 May 2008	1 April 2008 to 31 March 2011 (monthly rental: HK$15,248, inclusive of rates and management fees)	68
(b) Headwise Investment Limited (Note)	5 February 2009	1 February 2009 to 31 January 2011 (monthly rental: HK$62,719, exclusive of rates and management fees and other outgoing charges)	280

The "Operating lease rental expenses" as shown in note 43 – "Related Party Transactions" to the consolidated financial statements, included the total amount of HK$348,000 of the above continuing connected transactions.

Note: The counterparties were indirectly controlled by Dr. Yeung Sau Shing, Albert ("Dr. Yeung") who was a deemed substantial shareholder of the Company. Dr. Yeung ceased to be a substantial shareholder of the Company from 31 December 2010 and the counterparties were therefore no longer to be connected parties of the Company thereafter.

(b) Agency commission received

Name of counterparty	Date of agreement	Terms	Nature of Transaction	Approximate amount for the year ended 30 June 2011 HK$'000
Emperor Entertainment (Hong Kong) Limited (Note)	16 June 2008	16 June 2008 to 30 June 2013/ 19 July 2015	Appointment as the artistes' agent in worldwide and to carry out all the functions of personal representation on the artistes' behalf in respect of all kind of performances in movies and/or television series.	2,748

Note: The counterparty was indirectly controlled by Dr. Yeung who was a deemed substantial shareholder of the Company. Dr. Yeung ceased to be a substantial shareholder of the Company from 31 December 2010 and the counterparties were therefore no longer to be connected parties of the Company thereafter.

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)*

Agreed upon procedures performed by the Auditor of the Company

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board of Directors has engaged the auditor of the Company to report the continuing connected transactions for the Year ("Disclosed CCTs") of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and the auditor has reported to the Directors and concluded that the Disclosed CCTs:

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

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

(c) have not exceeded the relevant cap amount of the financial year ended 30 June 2011 disclosed in previous announcements made by the Company; and

(d) were in accordance with the pricing policies of the Group (for transactions involving provision of goods and services by the Group).

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.

There being 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Shiu Stephen Junior	Beneficial owner	224,000,000	2.58%

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

At the annual general meeting of the Company held on 26 August 2004, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 11 November 2004. Details of the share option scheme are set out in note 42 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 52,000,000 shares of HK$0.005 each, 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 arrangement 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.

OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SECURITIES

So far as known to the Directors, as at 30 June 2011, the persons or corporations (other than the Directors or chief executive 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/ underlying shares held	Approximate percentage holding
Be Cool Limited (Note)	Beneficial owner	482,094,000	5.55%
Unlimited Creativity Holdings Limited (Note)	Beneficial owner and interest in a controlled corporation	969,332,000	11.16%

Note: Be Cool Limited is indirectly wholly-owned by Unlimited Creativity Holdings Limited.

Save as disclosed above, as at 30 June 2011, 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

In the financial year under review, the percentage of turnover attributable by the Group's five largest customers to the total turnover was 90.2%. The percentage of turnover attributable to the Group's largest customer to the total turnover was 74.3%.

In the financial year under review, the percentage of purchase attributable by the Group's five suppliers to the total purchase was 51.8%. The percentage of purchase attributable to the Group's largest supplier to the total purchase was 38.9%

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers stated above.

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

One Dollar Productions Limited ("ODP") is a company principally engaged in artiste management. Mr. Shiu Stephen Junior ("Mr. Shiu"), the Chairman and Executive Director of the Company, is a director of ODP and together with his associate hold as to 100% equity interests in ODP. Mr. Shiu also holds directorship in One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold indirectly as to 59.4% equity interests in ODMP. He is also a director of One Dollar Distribution Limited ("ODD"), a company engaged in the distribution of movies, and together with his associate(s) hold indirectly as to 25% equity interests in ODD. The businesses of ODP, ODMP and ODD 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.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period are set out in the Management Discussion and Analysis on pages 4 to 6.

AUDITOR

Messrs. Deloitte Touche Tohmatsu had been the auditor of the Company for the 15-month ended 30 June 2008 and the financial years ended 30 June 2009 and 2010.

During the special general meeting held on 13 July 2011, an ordinary resolution has been passed by the shareholders for the appointment of Messrs. HLB Hodgson Impey Cheng as the auditor of the Company in order to fill the casual vacancy caused by the resignation of Messrs. Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Messrs. HLB Hodgson Impey Cheng as auditor of the Company.

On behalf of the Board
China 3D Digital Entertainment Limited

Shiu Stephen Junior
Chairman

Hong Kong
19 September 2011

Corporate Governance Report

The Board has adopted various policies to ensure compliance with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") under Appendix 15 of the GEM Listing Rules. For the Year, the Board is pleased to confirm that the Company has complied fully with the Code Provisions except with the deviation from code provision A.2.1 which requires the role of chairman and chief executive officer be separate and not be performed by the same individual. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

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 30 June 2011, the Board comprised five Directors (two Executive Directors and three Independent Non-executive Directors). The biographies of the current Directors are set out on page 7 of this report under the "Biographies of Directors and Senior Executives" section.

Mr. Shiu Stephen Junior ("Mr. Shiu") has been acting the role of Chairman since 2 July 2010 and was nominated as the Chairman of the Company on 3 January 2011. With the assistance of the Company Secretary, he would ensure all Board members work effectively and discharge his responsibility by providing timely, reliable and sufficient information on issues to be discussed at Board meetings. He 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 about the issues discussed and the meeting material is dispatched to the Directors before the 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 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 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 Provisions.

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 30 September 2004 and 20 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.

Corporate Governance Report (Continued)

THE BOARD *(CONTINUED)*

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

Name of Directors	Meetings attended/ No. of meetings held during his/ her tenure of service	Attendance rate
Executive Directors:		
Shiu Stephen Junior *(appointed on 2 July 2010)*	15/17	88%
Tsang Pui Lan, Patrick	16/18	89%
Leung Ge Yau *(resigned on 3 January 2011)*	12/14	86%
Non-executive Director:		
Leung Yuk Lun, Ulric *(retired on 2 November 2010)*	12/12	100%
Independent Non-executive directors:		
Chan Chi Ho *(appointed on 2 July 2010)*	17/17	100%
Kam Tik Lun *(appointed on 13 July 2010)*	16/16	100%
Lee Wing Ho, Albert *(appointed on 22 February 2011)*	2/2	100%
Wong Tak Ming, Gary *(retired on 2 November 2010)*	12/12	100%

Board meeting notices were 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 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. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Lee Wing Ho, Albert. They possess accounting and other professional expertise. The Board has adopted a revised terms of reference on 11 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.

The Audit Committee convened six meetings during the Year with the attendance of each member as follows:

Name of Committee members	Date of Nomination	Date of Cessation	Meetings attended/ No. of meetings held during his tenure of service	Attendance rate
Kam Tik Lun *(Chairman)* *(as Chairman of the Committee since 15 September 2010)*	13 July 2010		6/6	100%
Chan Chi Ho	2 July 2010		5/6	83%
Lee Wing Ho, Albert	22 February 2011		2/2	100%
Wong Tak Ming, Gary		2 November 2010	2/2	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 30 June 2010 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. Met with the external auditor for reviewing their work and findings relating to the annual audit for the year ended 30 June 2010;

iv. Reviewed with the senior management, finance-in-charge and/or the external auditor the audit process, the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual financial statements for the year ended 30 June 2010 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 30 June 2010;

vii. Recommended the Board on the re-appointment of external auditor; and

viii. Recommended the Board to give recommendation to the shareholders on the change of external auditor.

REMUNERATION COMMITTEE

The Remuneration Committee now consists of three members, namely Mr. Shiu Stephen Junior, an Executive Director and the Chairman of the Company, Mr. Chan Chi Ho and Mr. Kam Tik Lun. The Remuneration Committee is chaired by Mr. Shiu Stephen Junior. 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.

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

Name of Committee members	**Date of Nomination**	**Date of Cessation**	**Meetings attended/ No. of meetings held during his tenure of service**	**Attendance rate**
Shiu Stephen Junior *(Chairman)*	2 November 2010		1/1	100%
Kam Tik Lun	2 November 2010		1/1	100%
Chan Chi Ho	2 July 2010		1/1	100%
Tsang Pui Lan, Patrick		2 November 2010	1/1	100%
Wong Tak Ming, Gary		2 November 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 reports and/or circulars 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 chairman/members of the Audit Committee and Remuneration Committee were available at the annual general meeting held on 2 November 2010 to answer questions from the shareholders.

The forthcoming AGM of the Company will be held on 8 November 2011 which will be conducted by way of poll.

AUDITORS' 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, HLB Hodgson Impey Cheng is independent and recommended to the Board to re-appoint it as the Company's external auditor at the forthcoming annual general meeting.

HLB Hodgson Impey Cheng has rendered audit services and certain non-audit services to the Company for the Year and the remuneration paid/payable to it by the Company is set out as follows:

Service rendered	**Fee paid/payable** HK$'000
Audit services	700
Non-audit services	
– Review of continuing connected transactions	50
– Reporting accountants on rights issues	150

Independent Auditors' Report

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA 3D DIGITAL ENTERTAINMENT LIMITED
(FORMERLY KNOWN AS DRAGONLOTT ENTERTAINMENT GROUP LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China 3D Digital Entertainment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 81, which comprise the consolidated and Company statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and true and fair view 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 qualified audit opinion.

Independent Auditors' Report (Continued)

BASIS FOR QUALIFIED OPINION

(a) *Available-for-sale investments*

Included in the Group's available-for-sale investments of approximately HK$48,222,000 as at 30 June 2011 was an aggregate amount of approximately HK$46,674,000 investment in Dragonlott Holdings Limited ("DHL") in which the Group holds 13.28% equity interests. As explained in note 19, the directors of the Company have not been provided with any financial or other relevant information of DHL as at 30 June 2011 from the management of DHL and therefore it was unable to determine of any impairment in respect of the investment in DHL was necessary at the end of the reporting period. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the carrying amount of the investment in DHL was free from material misstatement as at 30 June 2011. Any adjustments found to be necessary would affect the state of the Group and of the Company's affair as at 30 June 2011 and the loss for the year then ended.

(b) *Opening balances and corresponding figures*

The consolidated financial statements of the Group for the year ended 30 June 2010, which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified by the preceding auditor because of the significance of the possible effect of the limitation on the scope of the audit in relation to the investment in DHL. Details of the qualified audit opinions were set out in the independent auditor's report dated 15 September 2010 issued by the preceding auditor and included in the Company's annual report for the year ended 30 June 2010.

We were not able to obtain sufficient appropriate audit evidence to enable us to assess the limitation of scope for the year ended 30 June 2010. Any adjustments found to be necessary to the opening balances as at 1 July 2010 may affect the balance of accumulated loss as at 1 July 2010 and the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 30 June 2011. The comparative figures showed in the consolidated financial statements may not be comparable with the figures for the current period.

Any adjustments found to be necessary in respect of the matters set out in points (a) and (b) above would have a significant and consequential effect on the financial position of the Company and of the Group as at 30 June 2011 and 2010 and the results and cash flows of the Group for the years then ended, and the related disclosures thereof in the consolidated financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects on the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 30 June 2010 were audited by another auditor who expressed a qualified opinion on those statements on 15 September 2010.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 19 September 2011

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	7	**53,977**	92,947
Other income	9	**969**	4,525
Cost of film and television programme production and distribution		**(53,379)**	(78,657)
Selling and distribution costs		**(10,774)**	(9,557)
Administrative expenses		**(18,661)**	(41,715)
Gain on disposal of subsidiaries	38	**2,644**	–
Finance costs	10	**(9,342)**	(17,452)
Share of results of a jointly controlled entity		**(1,538)**	2,530
Loss before taxation	11	**(36,104)**	(47,379)
Taxation	13	**–**	(1,231)
Loss for the year from continuing operations		**(36,104)**	(48,610)
Discontinued operations			
Loss for the year from discontinued operations	16	**–**	(2,016)
Loss for the year attributable to owners of the Company		**(36,104)**	(50,626)
Other comprehensive income, net of income tax			
Exchange differences on translation of foreign operations		**4**	655
Net loss arising on revaluation of available-for-sale investments during the year		**(17)**	–
Reclassification adjustment relating to foreign operations disposed of during the year		**(2,545)**	–
Share of translation reserve of jointly controlled entities		**–**	44
Other comprehensive loss for the year, net of income tax		**(2,558)**	699
Total comprehensive loss for the year attributable to owners of the Company		**(38,662)**	(49,927)
Dividend	15	**–**	–
Loss per share attributable to owners of the Company	17		
From continuing and discontinued operations Basic and diluted (2010: Restated)		**HK cents 0.59**	HK cents 1.48
From continuing operations Basic and diluted (2010: Restated)		**HK cents 0.59**	HK cents 1.42

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	18	**596**	604
Available-for-sale investments	19	**48,222**	46,674
Interests in a jointly controlled entity	21	**–**	5,280
Prepayments, deposits and other receivables	25	**3,531**	–
Film rights	22	**8,728**	185,597
		61,077	238,155
Current assets			
Inventories and record masters	23	**–**	30
Trade receivables	24	**13,360**	35,706
Prepayments, deposits and other receivables	25	**3,441**	26,166
Loan to a jointly controlled entity	26	**–**	12,466
Bank balances and cash	27	**72,881**	16,625
		89,682	90,993
Total assets		**150,759**	329,148
Current liabilities			
Trade payables	28	**–**	13,566
Accruals, deposits received and other payables	29	**3,055**	44,113
Loan from a non-controlling shareholder of a subsidiary	30	**–**	2,000
Other loan	31	**–**	3,000
		3,055	62,679
Net current assets		**86,627**	28,314
Total assets less current liabilities		**147,704**	266,469
Non-current liabilities			
Convertible bond	32	**12,851**	50,099
Promissory note payable	33	**11,712**	11,102
Amount due to a substantial shareholder of the Company/former immediate holding company	34	**–**	207,882
		24,563	269,083
Net assets/(liabilities)		**123,141**	(2,614)

Consolidated Statement of Financial Position (Continued)

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserve attributable to owners of the Company			
Share capital	35	**43,438**	3,520
Reserves		**79,703**	(4,193)
		123,141	(673)
Non-controlling interests		**–**	(1,941)
Total equity		**123,141**	(2,614)

Approved by the Board of Directors on 19 September 2011 and signed on its behalf by:

Shiu Stephen Junior
Director

Tsang Pui Lan, Patrick
Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Available-for-sales investments	19	**1,548**	–
Prepayments, deposits and other receivables	25	**2,000**	–
Interests in subsidiaries	20	**–**	–
		3,548	–
Current assets			
Prepayments, deposits and other receivables	25	**1,962**	153
Amounts due from subsidiaries	20	**38,597**	143,004
Bank balances and cash	27	**64,823**	490
		105,382	143,647
Total assets		**108,930**	143,647
Current liabilities			
Accruals, deposits received and others payables	29	**1,514**	1,466
Net current assets		**103,868**	142,181
Total assets less current liabilities		**107,416**	142,181
Non-current liabilities			
Convertible bond	32	**12,851**	50,099
Promissory note payable	33	**11,712**	11,102
		24,563	61,201
Net assets		**82,853**	80,980
Capital and reserve attributable to owners of the Company			
Share capital	35	**43,438**	3,520
Reserves	36	**39,415**	77,460
Total equity		**82,853**	80,980

Approved by the Board of Directors on 19 September 2011 and signed on its behalf by:

Shiu Stephen Junior	**Tsang Pui Lan, Patrick**
Director	*Director*

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

As at 30 June 2011

	Equity attributable to owners of the Company										
The Group	**Share capital** HK$'000	**Share premium** HK$'000	**Special reserve** HK$'000	**Investment revaluation reserve** HK$'000	**Contributed surplus** HK$'000	**Translation reserve** HK$'000	**Convertible bond equity reserve** HK$'000	**Accumulated losses** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 July 2009	2,600	105,614	75,000	–	83,783	2,971	–	(313,942)	(43,974)	(1,941)	(45,915)
Exchange difference 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/(loss) 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	–	–	–	–	–	–	38,280	–	38,280	–	38,280
Issue of shares upon conversion of convertible bond	400	28,955	–	–	–	–	(10,718)	–	18,637	–	18,637
Reserve realised upon disposal of subsidiaries	–	–	–	–	–	(1,129)	–	–	(1,129)	–	(1,129)
At 30 June 2010 and 1 July 2010	3,520	171,489	75,000	–	83,783	2,541	27,562	(364,568)	(673)	(1,941)	(2,614)
Exchange differences on translation of foreign operations	–	–	–	–	–	4	–	–	4	–	4
Net loss arising on revaluation of available–for-sales investments during the year	–	–	–	(17)	–	–	–	–	(17)	–	(17)
Reclassification adjustment relating to foreign operations disposed of during the year	–	–	–	–	–	(2,545)	–	–	(2,545)	–	(2,545)
Loss for the year	–	–	–	–	–	–	–	(36,104)	(36,104)	–	(36,104)
Total comprehensive loss for the year	–	–	–	(17)	–	(2,541)	–	(36,104)	(38,662)	–	(38,662)
Issue of shares upon placing	1,704	50,047	–	–	–	–	–	–	51,751	–	51,751
Issue of shares upon rights issue	38,008	76,016	–	–	–	–	–	–	114,024	–	114,024
Transaction cost attributable to issue of shares	–	(4,735)	–	–	–	–	–	–	(4,735)	–	(4,735)
Issue of shares upon conversion of convertible bond	206	15,147	–	–	–	–	(5,359)	–	9,994	–	9,994
Early redemption of convertible bond	–	–	–	–	–	–	(15,695)	7,137	(8,558)	–	(8,558)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	1,941	1,941
Transfer to accumulated losses	–	–	(75,000)	–	(79,831)	–	–	154,831	–	–	–
At 30 June 2011	**43,438**	**307,964***	**–***	**(17)***	**3,952***	**–***	**6,508***	**(238,704)***	**123,141**	**–**	**123,141**

* These reserve accounts comprise the consolidated reserve of HK$79,703,000 (2010: deficit of HK$4,193,000) in the consolidated statement of financial position.

Consolidated Statement of Changes In Equity (Continued)

As at 30 June 2011

Share premium

The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

Special reserve

The special reserve of the Group represented 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.

Following disposal of Mile Oak Limited ("Mile Oak") in March 2011, the special reserve was transferred to accumulated loss accordingly. Details of the disposals were set out in note 38(d).

Investment revaluation reserve

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investments have been disposed of or determined to be impaired.

Contributed surplus

The contributed surplus of the Group represented 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.

The contributed surplus of the Company represents the difference between the consolidated net assets of the Company's subsidiaries and the nominal value of the Company's shares issued pursuant to the group reorganisation effective on 30 November 2000.

Following disposal of those subsidiaries which were acquired by the Group in previous years, the contributed surplus of the Group was transferred to accumulated loss accordingly. Details of the disposal were set out in note 38.

Translation reserve

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (ie Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. The reserve is dealt with in accordance with the accounting policy of foreign currencies set out in note 3.

Convertible bond equity reserve

Under Hong Kong Accounting Standard 32, convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bond equity reserve until the bonds are either converted (in which case it is transferred to share premium) or the bonds are redeemed (in which case it is released directly to accumulated losses.)

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	2011 HK$'000	2010 HK$'000
Cash flows from operating activities		
Loss for the year	**(36,104)**	(50,626)
Adjustments for:		
Taxation for the year	**–**	1,231
Written back of allowance for bad and doubtful debts	**–**	(157)
Amortisation of film rights	**21,164**	34,064
Depreciation of property, plant and equipment	**401**	1,081
Finance costs	**9,342**	17,452
Impairment loss on film rights recognised	**9,029**	41,208
Impairment loss on prepaid artiste fees	**111**	–
Loss on disposal of property, plant and equipment	**–**	19
Loss on early redemption of convertible bond	**1,660**	–
Written down on inventories and record masters	**90**	–
Interest income	**(66)**	(802)
Gain arising on change in fair value of financial assets designated as fair value through profit or loss	**(55)**	–
Gain on disposal of subsidiaries	**(2,644)**	(1,129)
Share of results of a jointly controlled entity	**1,538**	(2,530)
Operating cash flows before movements in working capital	**4,466**	39,811
Increase in inventories and record masters	**(92)**	(480)
Decrease/(increase) in trade receivables	**7,520**	(24,234)
(Increase)/decrease in prepayments, deposit and other receivables	**(16,721)**	20,096
(Decrease)/increase in trade payables	**(2,924)**	67
Increase in accruals, deposits received and other payables	**38,240**	49,892
Cash generated from operations	**30,489**	85,152
Hong Kong profits tax paid	**–**	6
Net cash generated from operating activities	**30,489**	85,158

Consolidated Statement of Cash Flows (Continued)

For the year ended 30 June 2011

	2011 HK$'000	2010 HK$'000
Cash flows from investing activities		
Addition costs incurred in film rights	**(39,471)**	(222,741)
Purchase of property, plant and equipment	**(661)**	(256)
Advances to jointly controlled entities	**–**	(7,639)
Net cash flow arising from disposal of subsidiaries	**(24,754)**	(2,732)
Net cash flow arising from acquisition of subsidiaries	**(12,558)**	–
Acquisition of available-for-sale investments	**(1,565)**	(35,840)
Acquisition of financial assets designated as fair value through profit or loss	**(2,063)**	–
Proceeds on disposal of financial assets designated as fair value through profit or loss	**2,118**	–
Interest received	**66**	342
Net cash used in investing activities	**(78,888)**	(268,866)
Cash flows from financing activities		
Advances from a substantial shareholder of the Company/ former immediate holding company	**4,000**	408,792
Other loan (repaid)/raised	**(3,000)**	3,000
Proceeds from issue of shares, net of transaction cost	**161,040**	37,440
Repayment of advances from a substantial shareholder of the Company/former immediate holding company	**(14,834)**	(298,940)
Early redemption of convertible bond	**(41,000)**	–
Interest paid	**(1,551)**	(1,303)
Net cash generated from financing activities	**104,655**	148,989
Net increase/(decrease) in cash and cash equivalents	**56,256**	(34,719)
Cash and cash equivalents at the beginning of the year	**16,625**	51,288
Effect of foreign exchange rate changes	**–**	56
Cash and cash equivalents at the end of the year	**72,881**	16,625
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**72,881**	16,625

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2011

1. GENERAL

The Company is incorporated as an exempted company incorporated 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 address of the register 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 20 September 2010, the name of the Company was changed from "Dragonlott Entertainment Group Limited" to "China 3D Digital Entertainment Limited" with effect from 22 September 2010; whilst the Chinese name for identification purpose was changed from "龍彩娛樂集團有限公司" to "中國3D數碼娛樂有限公司" with effect from 19 October 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 20.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(i) New and amended standards and interpretation adopted by the Group

In the current year, the Group has applied, the following Hong Kong Financial Reporting Standards (which includes all Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("HK(IFRIC)-Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemption for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HKAS 32 (Amendments)	Amendments to HKAS 32 Financial Instruments: Presentation-Classification of Right issues
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrow of a term loan that contains a Repayment on Demand Clause

The application of new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted

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

HKFRSs (Amendments)	Improvement to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[2]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[5]
HKFRS 11	Joint Arrangements[5]
HKFRS 12	Disclosure of Involvement with Other Entities[5]
HKFRS 13	Fair Value Measurement[5]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[5]
HKAS 24 (Revised)	Related party Disclosures[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[5]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[1]

1 Effective for annual periods beginning on or after 1 January 2011
2 Effective for annual periods beginning on or after 1 July 2011
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted *(continued)*

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

HKFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard replaces HK(SIC) – 12 Consolidation — Special Purpose Entities and replaces parts of HKAS 27 Consolidated and Separate Financial Statements.

HKFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. HKFRS 11 supersedes HKAS 31 Interests in Joint Ventures and HK(SIC) – 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted *(continued)*

HKFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13 Fair Value Measurement improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

The directors of the Company are in the process of assessing the impact of these new or revised HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of performance and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of consolidation *(continued)*

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 1 July 2010, 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 on or after 1 July 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of 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 and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 July 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For 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 adjustment to the non-controlling interests was recognised in profit or loss.

(c) Business combinations

Business combinations that took place on or after 1 July 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Business combinations *(continued)*

Business combinations that took place on or after 1 July 2010 (continued)

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits respectively*;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Business combinations *(continued)*

Business combinations that took place on or after 1 July 2010 (continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 July 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional shares are 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 transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

(f) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Revenue recognition *(continued)*

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.

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.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation or amortisation and any identified 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, 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%

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

(h) Film rights and film royalty deposits

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 film 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 realised is reviewed on a regular basis.

(i) 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial instruments *(continued)*

Financial assets

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

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 losses at each reporting date subsequent to initial recognition. An impairment loss is recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

Impairment of financial assets

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or breach of contract, such as default or delinquency in interest or principal payments; or it becomes probable that the borrower will enter bankruptcy or financial reorganisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial instruments *(continued)*

Impairment of financial assets (continued)

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

For financial assets carried at amortised cost, the amount of impairment loss is 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through the consolidated statement of comprehensive income 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 instruments

Debts and equity instruments issued by a group entity are classified as financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank and other borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial instruments *(continued)*

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 of 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.

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.

Other financial liabilities

Other financial liabilities including trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

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 any cumulative gain or loss that had been recognised directly in equity is recognised in consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income.

(j) Inventories and record masters

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated cost to completion and selling expenses. Provision is made for inventories when they became obsolete. The cost of finished goods is calculated using the first-in, first-out method.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) 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 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 amount 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 if the temporary difference arises from goodwill of 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 liabilities 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.

(l) Foreign currencies

(i) Functional and presentation currency

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Foreign currencies *(continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges. Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of reporting period;

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

(3) all resulting exchange differences are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(m) Employee benefits

(i) Retirement benefits scheme

Payments to defined contribution retirement benefits scheme and mandatory provident fund scheme are charged as an expense as they fall due.

(ii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each reporting date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the statement of financial position will be made over the remaining vesting periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Employee benefits *(continued)*

(ii) Share-based compensation (continued)

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated statement of comprehensive income.

(o) Impairment of assets other than goodwill

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

Where an impairment loss subsequently reverses, the carrying amount of the tangible and intangible assets 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.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the statement of financial position date of the expenditures expected to be required to settle the obligation.

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement.

(u) Operating segment

Operating segment is reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. The Group evaluates performance on the basis of profit or loss from operations after tax expenses and non-controlling interest.

(v) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they subject to common control or common significant influences.

A transaction is considered to be a related party transaction where there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing the consolidated financial statements, accounting estimates and judgements need to be made. The Group evaluates these based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate the related actual results. Estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group test annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

(b) 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.

For the year ended 30 June 2011

5. FINANCIAL RISK MANAGEMENT

5.1 Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loan and receivables		
Trade receivables	**13,360**	35,706
Other receivables	**182**	12,531
Loan to a jointly controlled entity	**–**	12,466
Bank balances and cash	**72,881**	16,625
	86,423	77,328
Available-for-sale investments	**48,222**	46,674
Financial liabilities		
At amortised cost		
Trade payables	**–**	13,566
Accrued charges and other payables	**1,792**	1,801
Amount due to a substantial shareholder of the Company/former immediate holding company	**–**	207,882
Loan from a non-controlling shareholder of a subsidiary	**–**	2,000
Other loan	**–**	3,000
Convertible bond	**12,851**	50,099
Promissory note payable	**11,712**	11,102
	26,355	289,450

5.2 Financial risk factors

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk, interest rate risk, credit risk) and liquidity risk, which result from both its operating and investing activities. The Group has not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to these financial risks. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

(a) 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 the 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.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Financial risk factors *(continued)*

(b) *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 risk relating primarily to variable-rate bank balances and convertible bonds. The Group currently does not have 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 risk is mainly concentrated on the fluctuation of the 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 of variable rate financial assets 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 as not material.

If interest rates had been increased or decreased by 100 basis points (2010: 100 basis points) with all other variables held constant, the Group's loss for the year would increase or decrease by approximately HK$170,000 (2010: HK$2,799,000).

(c) *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30 June 2011 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 majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

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.

(d) *Liquidity risk*

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. The Group consistently measures and maintains a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The following table details the Group's remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates) and the earliest date the Group can be required to pay:

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Financial risk factors *(continued)*

(d) Liquidity risk (continued)

	Less than 1 month or repayable on demand HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
At 30 June 2011						
Accruals and other payables	**1,792**	**–**	**–**	**–**	**1,792**	**1,792**
Convertible bond	**–**	**–**	**432**	**17,996**	**18,428**	**12,851**
Promissory note payable	**–**	**–**	**–**	**14,160**	**14,160**	**11,712**
	1,792	**–**	**432**	**32,156**	**34,380**	**26,355**

	Less than 1 month or repayable on demand HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
At 30 June 2010						
Trade payables	13,566	–	–	–	13,566	13,566
Accruals and other payables	1,801	–	–	–	1,801	1,801
Amount due to a substantial shareholder of the Company	–	–	–	228,670	228,670	207,882
Loan from a non-controlling shareholder of a subsidiary	2,000	–	–	–	2,000	2,000
Other loan	–	3,112	–	–	3,112	3,000
Convertible bond	–	–	1,645	77,440	79,085	50,099
Promissory note payables	–	–	–	14,160	14,160	11,102
	17,367	3,112	1,645	320,270	342,394	289,450

5.3 Fair value estimation

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.3 Fair value estimation *(continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are derived from valuation techniques and inputs are not based on observable market data (that is, unobservable inputs) (level 3).

The following table shows an analysis of financial instruments recorded at fair value by the fair value hierarchy:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sales investment				
Listed debt securities				
At 30 June 2011	**1,548**	**–**	**–**	**1,548**
At 30 June 2010	–	–	–	–

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

The directors of the Company consider that the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position at the end of the reporting period are approximately to their corresponding carrying amount.

6. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain with industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including loan from a non-controlling shareholder of a subsidiary, other loans, convertible bond, promissory note payable and amount due to a substantial shareholder of the Company/former immediate holding company) and total capital comprised of share capital and reserves as shown in the consolidated statement of financial position.

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. TURNOVER

	The Group	
	2011	2010
	HK$'000	HK$'000
An analysis of the Group's turnover for the year from continuing operations is as follow:		
Artiste management fee income	**3,030**	31,804
Films and television programmes production and licensing of the corresponding rights	**50,720**	59,976
Distribution of films and television programmes	**227**	1,167
	50,947	61,143
	53,977	92,947

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar products. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has two reportable segments, (i) artiste management and (ii) films and television programme production, distribution and licensing. The segmentations are based on the information about the operation of the Group that Chief Operating Decision Maker uses to make decisions.

8. SEGMENT INFORMATION *(CONTINUED)*

Segment revenue and results

The following is an analysis of the Group's revenues and results by reportable segment for the current and prior years:

Continuing operations	Artiste management HK$'000		Film and television programme production, distribution and licensing HK$'000		Total HK$'000	
	2011	2010	**2011**	2010	**2011**	2010
Segment revenue						
Revenue from external customers	**3,030**	31,804	**50,947**	61,143	**53,977**	92,947
Segment results	**1,341**	17,911	**(18,930)**	(42,883)	**(17,589)**	(24,972)
Interest income					**66**	802
Unallocated corporate expenses					**(10,345)**	(8,287)
Gain on disposal of subsidiaries					**2,644**	–
Finance costs					**(9,342)**	(17,452)
Share of results of a jointly controlled entity					**(1,538)**	2,530
Loss before taxation					**(36,104)**	(47,379)
Taxation					**–**	(1,231)
					(36,104)	(48,610)

The accounting policies on segment reporting are the same as the Group's accounting policies described in note 3. 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 Chief Operating Decision Maker for the purpose of resource allocation and performance assessment.

No analysis of the Group's assets and liabilities by reportable segment is disclosed as they are not regularly provided to the Chief Operating Decision Maker for review.

For the year ended 30 June 2011

8. SEGMENT INFORMATION *(CONTINUED)*

Other information

The following is an analysis of the Group's other segment information for the current and prior years:

	Artiste management HK$'000		Film and television programme production, distribution and licensing HK$'000		Total HK$'000	
	2011	2010	**2011**	2010	**2011**	2010
Capital expenditure	**596**	88	**–**	168	**596**	256
Depreciation of property, plant and equipment	**292**	186	**55**	696	**347**	882
Loss on disposal of property, plant and equipment	**–**	–	**–**	19	**–**	19
Amortisation of film rights	**–**	–	**21,164**	34,064	**21,164**	34,064
Impairment loss on film rights recognised	**–**	–	**9,030**	41,208	**9,030**	41,208

Reconciliation of other segment information

	Segment total HK$'000		Adjustment (note) HK$'000		Total HK$'000	
	2011	2010	**2011**	2010	**2011**	2010
Depreciation of property, plant and equipment	**347**	882	**54**	64	**401**	946

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

Information about major customers

Revenue of HK$41,524,000 (2010: HK$15,571,000) from film and television programme production, distribution and licensing is contributed from customers who contributed over 10% of the total revenue of the Group.

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 investments at costs by geographical location of the assets at the end of the reporting period are detailed below:

8. SEGMENT INFORMATION *(CONTINUED)*

Geographical information *(continued)*

	Revenue from customers		Non-current assets	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Hong Kong	**42,031**	28,700	**14,403**	145,316
The PRC	**2,519**	35,425	**–**	5,395
Taiwan	**2,825**	3,286	**–**	–
Japan	**24**	591	**–**	–
Other Asian countries (note (a))	**4,987**	16,201	**–**	39,770
North America (note (b))	**–**	49	**–**	1,000
European countries (note (c))	**972**	4,143	**–**	–
Other areas	**619**	4,552	**–**	–

Notes:

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

(b) North America included the United States and Canada.

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

9. OTHER INCOME

	The Group	
	2011 HK$'000	2010 HK$'000
Bank interest income	**30**	21
Exchange gains	**314**	–
Gain arising on change in fair value of financial assets designated as fair value through profit or loss	**55**	–
Other interest income	**36**	781
Project income	**–**	1,767
Recouped artiste fee	**296**	433
Sales of film materials	**61**	437
Others	**177**	1,086
	969	4,525

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2011

10. FINANCE COSTS

	The Group	
	2011	2010
	HK$'000	HK$'000
Interest on other loan wholly repayable within one year	**56**	58
Interest on amount due to a substantial shareholder of the Company/former immediate holding company	**3,653**	8,807
Interest on convertible bond (Note 32)	**5,023**	8,319
Imputed interest on promissory note payable	**610**	268
	9,342	17,452

11. LOSS BEFORE TAXATION

	The Group	
	2011	2010
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**7,333**	22,482
– Retirement benefits scheme contributions	**163**	528
Total staff costs	**7,496**	23,010
Auditors' remuneration		
– Current year	**700**	2,063
– Under provision in prior year	**250**	113
Amortisation of film rights*	**21,164**	34,064
Cost of inventories recognised as expenses*	**10**	217
Depreciation of property, plant and equipment	**401**	946
Exchange loss	**–**	669
Impairment loss on film rights recognised*	**9,029**	41,208
Impairment loss on prepaid artiste fees	**111**	–
Loss on disposal of property, plant and equipment	**–**	19
Loss on early redemption of convertible bond	**1,660**	–
Minimum lease payments under operating leases:		
– Land and building	**657**	3,279
Written down on inventories and record masters*	**90**	–

* Included in "Cost of film and television programme production and distribution" of the consolidated statement of comprehensive income.

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 30 June 2011, the emoluments paid or payable to each of the eight (2010: ten) directors was as follow:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Shiu Stephen Junior[1]	**150**	–	**–**	–	**–**	–	**–**	–	**150**	–
Tsang Pui Lan, Patrick[2]	**150**	44	**–**	–	**–**	–	**–**	–	**150**	44
Leung Ge Yau[3]	**76**	30	**–**	–	**–**	–	**–**	–	**76**	30
Wong Chi Fai[4]	**–**	56	**–**	–	**–**	–	**–**	–	**–**	56
Fan Man Seung, Vanessa[5]	**–**	100	**–**	–	**–**	–	**–**	–	**–**	100
Ng Sui Wan (alia Ng Yu)[6]	**–**	72	**–**	2,265	**–**	250	**–**	126	**–**	2,713
Leung Yuk Lun, Ulric[7]	**63**	27	**–**	–	**–**	–	**–**	–	**63**	27
Wong Tak Ming,Gary[8]	**51**	150	**–**	–	**–**	–	**–**	–	**51**	150
Wong Ching Yue[9]	**–**	110	**–**	–	**–**	–	**–**	–	**–**	110
Chu Kar Wing[10]	**–**	125	**–**	–	**–**	–	**–**	–	**–**	125
Kam Tik Lun[11]	**145**	–	**–**	–	**–**	–	**–**	–	**145**	–
Chan Chi Ho[12]	**150**	–	**–**	–	**–**	–	**–**	–	**150**	–
Lee Wing Ho, Albert[13]	**53**	–	**–**	–	**–**	–	**–**	–	**53**	–
	838	714	**–**	2,265	**–**	250	**–**	126	**838**	3,355

Notes:

1. Mr. Shiu Stephen Junior was appointed as executive director and chairman of the Company on 2 July 2010 and 3 January 2011 respectively
2. Mr. Tsang Pui Lan, Patrick was appointed as executive director of the Company on 22 January 2010.
3. Ms. Leung Ge Yau was appointed as independent non-executive director of the Company on 20 April 2010, redesigned as executive director of the Company on 28 June 2010 and resigned as executive director of the Company on 3 January 2011.
4. Mr. Wong Chi Fai resigned as executive director of the Company on 22 January 2010.
5. Ms. Fan Man Seung, Vanessa resigned as executive director of the Company on 28 June 2010.
6. Mr. Ng Sui Wan (alias Ng Yu) resigned as executive director of the Company on 22 March 2010.
7. Mr. Leung Yuk Lun, Ulric was appointed and resigned as non-executive director of the Company on 26 March 2010 and 2 November 2010 respectively.
8. Mr. Wong Tak Ming, Gary retired as independent non-executive director of the Company on 2 November 2010.
9. Mr. Wong Ching Yue resigned as independent non-executive director of the Company on 26 March 2010.
10. Mr. Chu Kar Wing resigned as independent non-executive director of the Company on 30 April 2010.
11. Mr. Kam Tik Lun was appointed as independent non-executive director of the Company on 13 July 2010.
12. Mr. Chan Chi Ho was appointed as independent non-executive director of the Company on 2 July 2010.
13. Mr. Lee Wing Ho, Albert was appointed as independent non-executive director of the Company on 22 February 2011.

For the year ended 30 June 2011

12. DIRECTORS' AND EMPLOYEES' REMUNERATION *(CONTINUED)*

(b) Employees' emoluments

The five highest paid individuals for the year included one director in 2010 whose emoluments are set out in (a) above. The emoluments of the five (2010: four) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	**2,411**	5,629
Bonus	**9**	300
Retirement benefits scheme contribution	**27**	129
	2,447	6,058

Emolument of the employees were within the following bands:

	2011 Number of employees	2010 Number of employees
Nil- HK$1,000,000	**5**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
	5	4

During the year, no emoluments were paid by the Group to the five highest paid individuals of the Group 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

	2011 HK$'000	2010 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current tax	–	1,237
– Overprovision in prior years	–	(9)
	–	1,228
Taxation arising in other jurisdiction		
– Current year	–	3
	–	1,231

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group and the Company has no assessable profit derived from Hong Kong for the year.

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

As at 30 June 2011, the Group had unused tax losses of approximately HK$23,816,000 (2010: HK$237,054,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The loss may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the end of the reporting period.

A reconciliation of the tax expenses applicable to loss before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	2011 HK$'000	2010 HK$'000
Loss before taxation (from continuing operations)	(36,104)	(47,379)
Tax credit of Hong Kong Profits Tax at 16.5% (2010: 16.5%)	(5,957)	(7,818)
Tax effect of share of results of a jointly controlled entity	254	(417)
Tax effect of expenses non deductible for tax purpose	1,925	7,278
Tax effect of income not taxable for tax purpose	(889)	(2,147)
Tax effect of tax losses not recognised	5,116	4,759
Tax effect of utilisation of tax losses previously not recognised	(481)	(275)
Effect of different tax rates of subsidiaries operating in other jurisdictions	102	(162)
Overprovision in prior years	–	(9)
Others	(70)	22
Taxation charge for the year	–	1,231

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's consolidated loss for the year of HK$36,104,000 (2010: loss of HK$50,626,000) of which net loss attributable to owners of the Company for the year of HK$160,586,000 (2010: loss of HK$9,661,000) is dealt with in the financial statements of the Company.

15. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the years ended 30 June 2011 and 2010.

16. DISCONTINUED OPERATIONS

On 16 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 19 March 2010, on which date control of event production and music production and distribution operations passed to Gain Wealth Investments Limited, an indirectly wholly-owned subsidiary of a substantial shareholder of the Company.

The loss for the years from discontinued operations is analysed as follows:

	2011 HK$'000	2010 HK$'000
Loss for the year from discontinued operations	–	(3,145)
Gain on disposal of subsidiaries (note 38 (e))	–	1,129
	–	(2,016)

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

	2011 HK$'000	2010 HK$'000
Revenue from:		
– Event production	–	12,587
– Music production and distribution	–	29,679
	–	42,266
Other income	–	3,115
Cost of self-organised events	–	(3,779)
Cost of provision of event production services	–	(8,511)
Cost of music production and distribution	–	(17,521)
Selling and distribution costs	–	(901)
Administrative expenses	–	(17,814)
Loss for the year from discontinued operations	–	(3,145)

16. DISCONTINUED OPERATIONS *(CONTINUED)*

The loss for the year from the discontinued operations included the following:

	2011 HK$'000	2010 HK$'000
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments	–	1,532
Retirement benefit scheme contributions for other staff	–	393
Other staff costs	–	12,287
Total staff costs	–	14,212
Cost of inventories recognised as expenses	–	6,402
Depreciation of property, plant and equipment	–	135
Minimum lease payments under operating leases:		
– Land and building	–	1,245
Written back of allowance for bad and doubtful debts	–	(157)

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

For the year ended 30 June 2010, the event production and music production and distribution operations contributed HK$6,568,000 to the Group's net operating cash flows and paid HK$70,000 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 38(e).

17. 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 approximately HK$36,104,000 (2010: HK$50,626,000) and the weighted average number of 6,132,475,017 (2010: 3,411,249,040 (restated)) ordinary shares of the Company in issue during the year.

The weighted average number of shares for the purposes of calculating basis and diluted earnings per share for both years has been adjusted to reflect the share subdivision and the rights issue occurred 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.

17. LOSS PER SHARE *(CONTINUED)*

From continuing operations

Loss is calculated as follows:

	2011 HK$'000	2010 HK$'000
Loss for the year attributable to owners of the Company	**36,104**	50,626
Less: Loss for the year from discontinued operations	**–**	2,016
Loss for the purpose of basic and diluted loss per share from continuing operations	**36,104**	48,610

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 HK$Nil per share (2010: basic and diluted loss per share of HK0.06 cent per share (restated)) based on the loss for the year from the discontinued operations of HK$Nil (2010: HK$2,016,000) and the denominators as detailed above for both basic and diluted loss per share.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvement HK$'000	Computer equipment HK$'000	Furniture, and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 July 2009	4,748	4,967	1,702	1,825	1,286	14,528
Exchange alignment	2	1	–	–	2	5
Additions	40	192	5	19	–	256
Disposal of subsidiaries	(2,763)	(2,764)	(790)	(1,810)	(1,288)	(9,415)
Disposals	(50)	–	–	(1)	–	(51)
At 30 June 2010 and 1 July 2010	1,977	2,396	917	33	–	5,323
Exchange alignment	4	–	–	–	–	4
Additions	–	44	–	–	617	661
Disposal of subsidiaries	(1,981)	(2,440)	(917)	(33)	–	(5,371)
At 30 June 2011	**–**	**–**	**–**	**–**	**617**	**617**
Depreciation and impairment:						
At 1 July 2009	3,794	4,521	1,555	1,546	1,118	12,534
Exchange alignment	–	3	–	1	1	5
Charge for the year	541	306	57	105	72	1,081
Elimination on disposal of subsidiaries	(2,762)	(2,585)	(713)	(1,618)	(1,191)	(8,869)
Elimination upon disposals	(31)	–	–	(1)	–	(32)
At 30 June 2010 and 1 July 2010	1,542	2,245	899	33	–	4,719
Exchange alignment	1	–	–	–	–	1
Charge for the year	304	73	3	–	21	401
Elimination on disposal of subsidiaries	(1,847)	(2,318)	(902)	(33)	–	(5,100)
At 30 June 2011	**–**	**–**	**–**	**–**	**21**	**21**
Net book value:						
At 30 June 2011	**–**	**–**	**–**	**–**	**596**	**596**
At 30 June 2010	435	151	18	–	–	604

19. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Company	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Available-for-sale investments comprised of:				
Unlisted shares, at cost (Note 1)	**46,674**	46,674	**–**	–
Fixed rate notes – listed (Note 2)	**1,548**	–	**1,548**	–
	48,222	46,674	**1,548**	–

Notes:

1) The amount represents 13.28% 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 it cannot be measured reliably. The fair value on initial recognition during the year ended 30 June 2010 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 33). The directors of the Company have not been provided financial or other relevant information from the management of DHL in order to determine of any impairment in respect of the investment in DHL was necessary at the end of the reporting period and therefore no impairment was recognised in the consolidated statements of comprehensive income for the year ended 30 June 2011 accordingly.

2) The listed fixed rate notes with perpetual maturity term was carried at fixed interest rate 7.25% per annum. The Company has the right on 9 May 2016 or every 5 years after 9 May 2016 to redeem and it was therefore classified as non-current asset. At the end of the reporting period, its fair value is reference with quoted market price.

20. INTERESTS IN SUBSIDIARIES

	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**88,215**	143,004
Impairment loss recognised	**(49,618)**	–
	38,597	143,004

The amount due is unsecured, interest free and recoverable on demand. In the opinion of the directors of the Company, the carrying amount of the amount due from subsidiaries approximates their fair value.

20. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's principal subsidiaries at 30 June 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital	Proportion of equity interest held by the Company 2011 Direct	2011 Indirect	2010 Direct	2010 Indirect	Principal activities
New Smart International Creation Limited	Hong Kong	HK$1	**100%**	**–**	–	–	Production and distribution of film and investment holding
Glow Plus Limited	The British Virgin Islands	USD 1	**100%**	**–**	100%	–	Investment holding
First Digital Group Limited	The British Virgin Islands	HK$1	**100%**	**–**	–	–	Investment holding
New Pioneer Corporation Limited	Hong Kong	HK$1	**–**	**100%**	–	–	Production of film
Markwin Investment Limited	Hong Kong	HK$1	**–**	**100%**	–	–	Artiste management

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

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	The Group 2011 HK$'000	The Group 2010 HK$'000
Cost of unlisted investments in a jointly controlled entity	**2,500**	2,500
Share of post-acquisition profits	**907**	2,445
Share of translation reserve	**335**	335
Disposal of a jointly controlled entity through disposal of subsidiaries	**(3,742)**	–
	–	5,280

On 19 October 2010, the Group disposed the jointly controlled entity via disposal of Speedy Champion Investments Limited ("Speedy Champion"). Details of the disposal were set out in note 38(a). Following disposal of Speedy Champion, the Group did not have interest in any jointly controlled entity.

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(CONTINUED)*

As at 30 June 2010, the Group had interests in the following jointly controlled entity:

Name of entity	Place of incorporation/ registration and operation	Registered capital	Proportion of equity interest held by the Company 2011	2010	Principal activities
上海上影英皇文化發展有限公司	The PRC	Capital contribution – HK$5,000,000	–	50%	Distribution of film and television programmes rights

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

	The Group 2011 HK$'000	2010 HK$'000
Current assets	–	10,415
Non-current assets	–	15,860
Current liabilities	–	20,995
Income	**1,531**	18,645
Expenses	**3,069**	16,115
Other comprehensive income	–	44

22. FILM RIGHTS

	HK$'000
Cost	
At 1 July 2009	834,862
Additions	222,741
Disposal of subsidiaries (note 38 (e))	(167,940)
At 30 June 2010 and 1 July 2010	889,663
Additions	39,471
Acquisition of a subsidiary (note 37)	12,554
Disposal of subsidiaries (note 38 (a) and (b))	(917,384)
At 30 June 2011	**24,304**
Amortisaiton and impairment	
At 1 July 2009	771,742
Charge for the year	34,064
Impairment loss recognised for the year	41,208
Eliminated upon disposal of subsidiaries (note 38 (e))	(142,948)
At 30 June 2010 and 1 July 2010	704,066
Charge for the year	21,164
Impairment loss recognised for the year	9,029
Eliminated upon disposal of subsidiaries (note 38 (a) and (b))	(718,683)
At 30 June 2011	**15,576**
Carrying values	
At 30 June 2011	**8,728**
At 30 June 2010	185,597

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 as at the years ended 30 June 2010 and 2011. The directors of the Company determined that a number of these film rights were impaired due to worsen marketability of respective film rights and an impairment loss of approximately HK$9,029,000 (2010: HK$41,208,000) was recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011. 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.

23. INVENTORIES AND RECORD MASTER

	The Group	
	2011 **HK$'000**	2010 HK$'000
Finished goods	–	30

The amount of record masters written down for the year ended 30 June 2011 was approximately HK$90,000 (2010: HK$Nil) (Note 11).

24. 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$Nil (2010: HK$7,959,000) 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:

	The Group	
	2011	2010
	HK$'000	HK$'000
Current	**13,360**	27,747
Overdue		
0 – 30 days	**–**	993
31 – 60 days	**–**	23
61 – 90 days	**–**	–
Over 90 days	**–**	6,943
	–	7,959
	13,360	35,706

Movement in the allowance for bad and doubtful debts

	The Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**2,036**	2,925
Exchange alignment	**–**	11
Written back for bad and doubtful debts	**–**	(157)
Eliminated upon disposal of subsidiaries	**(2,036)**	(743)
	–	2,036

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.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Prepayments (note)	**6,693**	16,359	**3,884**	153
Deposits and other receivables	**279**	9,807	**78**	–
	6,972	26,166	**3,962**	153
The amount of prepayments, deposits and other receivables is analysed for reporting purpose as follow:				
– Non-current portion	**3,531**	–	**2,000**	–
– Current portion	**3,441**	26,166	**1,962**	153
	6,972	26,166	**3,962**	153

Note:

Prepayments mainly represent upfront payments for film productions, distribution rights and prepaid administrative expenses. As at 30 June 2011, the amount of prepayments, deposits and other receivables that were expected to be recovered within twelve months from the end of the reporting period was classified as current asset. The remaining balances were classified as non-current assets.

The amount of prepayments at the end of the reporting period is analysed for reporting purpose as follow:

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Prepayments for:				
– Acquisition of film distribution rights	**2,663**	1,571	**–**	–
– Film production costs	**2,002**	12,558	**2,000**	–
– Film promotion costs	**1,899**	1,264	**1,884**	–
– Others	**129**	966	**–**	153
	6,693	16,359	**3,884**	153
Less: Non-current portion	**(3,531)**	–	**(2,000)**	–
Current portion	**3,162**	16,359	**1,884**	153

Non-current portion mainly comprised of prepayments for acquisition of film distribution rights and film production costs.

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of prepayments, deposits and other receivables mentioned above. The Group does not hold any collateral over these balances.

26. LOAN TO A JOINTLY CONTROLLED ENTITY

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

27. BANK BALANCES AND CASH

As at 30 June 2011, bank balances and cash comprise cash held by the Group. Bank balances carry interest at market rates approximately at 0.01% per annum.

As at 30 June 2010, 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 approximately at 0.01% to 0.72% per annum.

28. TRADE PAYABLES

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Current	**–**	2,492
Overdue		
0 – 30 days	**–**	2,471
31 – 60 days	**–**	596
61 – 90 days	**–**	496
over 90 days	**–**	7,511
	–	13,566

29. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued charges	**1,517**	1,116	**1,239**	685
Deposits received from customer	**1,263**	31,396	**–**	–
Artiste payable	**–**	138	**–**	–
Others	**275**	11,463	**275**	781
	3,055	44,113	**1,514**	1,466

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

As at 30 June 2010, 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.

31. OTHER LOAN

As at 30 June 2010, the amount is unsecured, bears fixed interest at 7.25% per annum and repayable within one year.

32. CONVERTIBLE BOND

On 21 October 2009, the Company issued convertible bond with a nominal value of HK$100,000,000 to Surplus Way Profits Limited as at 30 June 2010, the then 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 20 October 2014. It is transferable and may be converted into ordinary shares of the Company at an initial conversion price of HK$0.70 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 accrued contractual interest at any time after six months from the date of issue of the convertible bond until the maturity date.

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 initial effective interest of the liability component is 12.74% per annum.

The conversion price of the convertible bond has been adjusted from HK$0.70 per ordinary share to HK$0.35 ordinary share as a result of share subdivision effective from 21 September 2010.

The conversion price of the convertible bond has been adjusted from HK$0.35 per ordinary share to HK$0.331 ordinary share as a result of placing of shares effective from 28 October 2010.

The conversion price of the convertible bond has been adjusted from HK$0.331 per ordinary share to HK$0.055 ordinary share as a result of rights issue effective from 19 April 2011.

The movement of the liability component of the convertible bond for the years ended 30 June 2010 and 2011 is set out below:

	The Group and the Company	
	2011	2010
	HK$'000	HK$'000
At the beginning of the year	**50,099**	–
Issue during the year	**–**	61,720
Interest charge (note 10)	**5,023**	8,319
Interest paid	**(1,495)**	(1,303)
Conversion during the year	**(9,994)**	(18,637)
Early redemption during the year	**(30,782)**	–
	12,851	50,099

During the year ended 30 June 2010, the convertible bond with principal amount of HK$28,000,000 was converted at conversion price of HK$0.70 per ordinary share.

During the year ended 30 June 2011, the convertible bond with principal amount of HK$7,000,000 was converted at adjusted conversion price of HK$0.35 per ordinary share and HK$7,000,000 was converted at adjusted conversion price of HK$0.331 per ordinary share.

During the year ended 30 June 2011, the convertible bond with principal amount of HK$41,000,000 was early redeemed at HK$41,000,000. The excess of the fair value of the consideration to settle the convertible bond over the carrying value of the liability portion of the redeemed portion of the convertible bond of approximately HK$1,660,000 was recognised by the Group as a redemption loss of convertible bond and charged to the consolidated statement of comprehensive income for the year ended 30 June 2011.

For the year ended 30 June 2011

33. PROMISSORY NOTE PAYABLE

During the year ended 30 June 2010, the Company issued a promissory note (the "Note") to settle part of the consideration in the acquisition of the available-for-sale investment (note 19).

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 18 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$610,000 (2010: HK$268,000) was charged to the consolidated statement of comprehensive income.

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

As at 30 June 2010, the amount is unsecured and bears interest at prime rate of 5%per annum. The carrying amount of HK$207,882,000 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.

35. SHARE CAPITAL

	Number of shares		Par value	
	2011	2010	**2011**	2010
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary share of HK$0.01 each	**10,000,000**	10,000,000	**100,000**	100,000
Subdivision of shares (note (a))	**10,000,000**	–	**–**	–
Ordinary share of HK$0.005 each	**20,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At the beginning of the year	**352,000**	260,000	**3,520**	2,600
Subdivision of shares (note (a))	**422,398**	–	**–**	–
Issue of share upon placing (note (b))	**270,398**	–	**1,704**	–
Issue of shares upon conversion of convertible bond (note (c))	**41,148**	40,000	**206**	400
Issue of shares upon rights issue (Note (d))	**7,601,608**	–	**38,008**	–
Issue of shares upon allotment (note (e))	**–**	52,000	**–**	520
At the end of the year	**8,687,552**	352,000	**43,438**	3,520

35. SHARE CAPITAL *(CONTINUED)*

Notes:

(a) Pursuant to approval in a special general meeting of the Company held on 20 September 2010, the Company subdivided each issued or unissued share at HK$0.01 each into two subdivided shares of HK$0.005 each.

(b) Pursuant to a placing agreement dated 29 July 2010, the Company issued and allotted 70,398,000 ordinary shares of HK$0.01 each to independent third parties at placing price of HK$0.38 each. The net proceeds of approximately HK$26,151,000 were used as the Company's general working capital and future business development. Details of the placing were set out in the Company's announcement dated 29 July 2010.

Pursuant to a placing agreement dated 10 September 2010, the Company issued and allotted 200,000,000 ordinary shares of HK$0.005 each to independent third parties at placing price of HK$0.125 each. The net proceeds of approximately HK$24,427,000 were used as the Company's general working capital and future business development of 3D movie production. Details of the placing were set out in the Company's announcement dated 10 September 2010.

(c) In October and November 2010, convertible bond with principal amount of HK$7,000,000 was converted into 20,000,000 ordinary share of the Company and HK$7,000,000 was converted into 21,148,036 ordinary share of the Company at adjusted conversion price of HK$0.35 and HK$0.331 per ordinary share respectively. An aggregate of 41,148,036 ordinary shares were issued upon conversion of convertible bond.

During the year ended 30 June 2010, convertible bond with principal amount of HK$28,000,000 was converted into 39,999,997 ordinary share of the Company at initial conversion price of HK$0.70 each.

(d) In April 2011, the Company issued and allotted 7,601,608,210 ordinary shares of HK$0.005 each to the then existing qualifying shareholders on the basis of 7 rights shares for every 1 share held (the "Rights Issue") at a subscription price of HK$0.015 per rights share. The net proceeds of approximately HK$110,462,000 will be used by the Company in production of 3D movie and acquisition of cinema in Hong Kong and/or in the PRC. The new shares issued rank pari passu in all respects with the existing shares. Details of the rights issue were set out in a prospectus of the Company dated 30 March 2011

(e) Pursuant to the completion of the subscription agreement dated 13 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 19).

For the year ended 30 June 2011

36. RESERVES

(a) The Group

Movement of the Group's reserves for the current and prior years is presented in the consolidated statement of changes in equity on pages 27 to 28 of the consolidated financial statements.

(b) The Company

	Share premium HK$'000	**Investment revaluation reserve** HK$'000	**Contributed surplus** HK$'000	**Convertible bond equity reserve** HK$'000	**Accumulated loss** HK$'000	**Total** HK$'000
At 1 July 2009	105,614	–	3,952	–	(115,882)	(6,316)
Loss for the year	–	–	–	–	(9,661)	(9,661)
Total comprehensive loss for year	–	–	–	–	(9,661)	(9,661)
Recognition of equity component of convertible bond	–	–	–	38,280	–	38,280
Issue of shares upon conversion of convertible bond	28,955	–	–	(10,718)	–	18,237
Issue of share	36,920	–	–	–	–	36,920
At 30 June 2010 and 1 July 2010	171,489	–	3,952	27,562	(125,543)	77,460
Net loss arising on revaluation of available for sales investments during the year	–	(17)	–	–	–	(17)
Loss for the year	–	–	–	–	(160,586)	(160,586)
Total comprehensive loss for year	–	(17)	–	–	(160,586)	(160,603)
Issue of shares upon placing	50,047	–	–	–	–	50,047
Issue of shares upon rights issues	76,016	–	–	–	–	76,016
Transaction cost attributable to issue of shares	(4,735)	–	–	–	–	(4,735)
Issue of shares upon conversion of convertible bond	15,147	–	–	(5,359)	–	9,788
Early redemption of convertible bond	–	–	–	(15,695)	7,137	(8,558)
At 30 June 2011	**307,964**	**(17)**	**3,952**	**6,508**	**(278,992)**	**39,415**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2011

37. ACQUISITION OF A SUBSIDIARY

On 8 October 2010, the Group acquired the entire issued share capital and the outstanding shareholder's loan ("Sale Loan") of New Smart International Creation Limited for total consideration of approximately HK$12,558,000. New Smart International Creation Limited is a company engaged in the business of 3D motion picture production and investment holding. Completion of the transaction was taken place on the same date.

	Assets acquired and liabilities recognised at the date of acquisition HK$'000
Film rights (note 22)	12,554
Prepayment and other receivables	117
Other payables and accrued charges	(113)
Amount due to a shareholder	(12,557)
Net asset acquired	1
Assignment of the Sale Loan	12,557
	12,558
Satisfied by:	
Cash consideration	12,558
Net cash outflow arising on acquisition	
Cash consideration paid	12,558

The acquired subsidiary contributed approximately HK$42,144,000 to the Group's turnover and HK$7,073,000 to the Group's loss for the period between the date of acquisition and 30 June 2011.

Had the acquisition been completed on 1 July 2010, the total group revenue for the year would have been HK$53,977,000 and loss for the year would have been HK$36,104,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is it intended to be a projection of future results.

38. DISPOSAL OF SUBSIDIARIES

For the year ended 30 June 2011

Gain on disposal of subsidiaries:

	Speedy Champion Group HK$'000	Bright Win Group HK$'000	Racelead Group HK$'000	Mile Oak HK$'000	Total HK$'000
Cash consideration	100	100	50	15	265
Net liabilities /(assets) disposed of	1,882	(89)	(18)	–	1,775
Non-controlling interest	(1,941)	–	–	–	(1,941)
Release of translation reserve upon disposal of subsidiaries	2,509	2	34	–	2,545
Gain on disposal of subsidiaries	2,550	13	66	15	2,644

Net cash inflow/(outflow) arising from disposal of subsidiaries:

	Speedy Champion Group HK$'000	Bright Win Group HK$'000	Racelead Group HK$'000	Mile Oak HK$'000	Total HK$'000
Cash consideration received	100	100	50	15	265
Less: Bank and cash balances	(23,215)	(1,048)	(756)	–	(25,019)
	(23,115)	(948)	(706)	15	(24,754)

Analysis of the assets and liabilities of the disposed subsidiaries:

(a) Disposal of Speedy Champion and its subsidiaries (the "Speedy Champion Group")

On 1 September 2010, the Group entered into an agreement to dispose of 100% equity interest in Speedy Champion, a wholly owned subsidiary of the Group immediate before the transaction, and its subsidiaries at a consideration of HK$100,000. The transaction was completed on 19 October 2010. Details of the assets and liabilities of the Speedy Champion Group were set out as follow:

	HK$'000
Property, plant and equipment	2
Interest in jointly controlled entities	3,742
Film rights	83,854
Inventories	32
Trade receivables	8,606
Prepayment and other receivables	32,567
Loan to a jointly controlled entity	12,466
Bank balance and cash	23,215
Trade payables	(9,945)
Accruals, deposit received and other payables	(40,512)
Loan from a non-controlling shareholder of a subsidiary	(2,000)
Amount due to a substantial shareholder of the Company/ former immediate holding company	(113,909)
	(1,882)

38. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

For the year ended 30 June 2011 *(continued)*

Analysis of the assets and liabilities of the disposed subsidiaries: *(continued)*

(b) Disposal of Bright Win Group Limited ("Bright Win") and its subsidiaries (the "Bright Win Group")

On 26 October 2010, the Group entered into an agreement to dispose of 100% equity interest in Bright Win, a wholly owned subsidiary of the Group immediate before the transaction, and its subsidiaries at a consideration of HK$100,000. The transaction was completed on 2 December 2010. Details of the assets and liabilities of the Bright Win Group were set out as follow:

	HK$'000
Property, plant and equipment	1
Film rights	114,847
Trade receivables	6,220
Prepayment and other receivables	292
Bank balance and cash	1,048
Trade payables	(610)
Accruals, deposit received and other payables	(37,328)
Amount due to a substantial shareholder of the Company/ former immediate holding company	(84,381)
	89

(c) Disposal of Racelead Limited ("Racelead") and its subsidiaries (the "Racelead Group")

On 31 January 2011, the Group entered into an agreement to dispose of 100% equity interest in Racelead, a wholly owned subsidiary of the Group immediate before the transaction, at a consideration of HK$50,000. The transaction was completed on 31 January 2011. Details of the assets and liabilities of the Racelead Group were set out as follow:

	HK$'000
Property, plant and equipment	267
Prepayment and other receivables	3,063
Bank balance and cash	756
Trade payables	(86)
Accruals, deposit received and other payables	(1,571)
Amount due to a substantial shareholder of the Company/ former immediate holding company	(2,411)
	18

(d) Disposal of Mile Oak

On 30 March 2011, the Group entered into an agreement to dispose of 100% equity interest in Mile Oak, a wholly owned subsidiary of the Group immediate before the transaction, at a consideration of HK$15,000. The transaction was completed on 30 March 2011 and no assets or liabilities were incurred as at the date of completion of disposal.

For the year ended 30 June 2011

38. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

For the year ended 30 June 2010

(e) Disposal of EHL

As referred to note 16, on 19 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:

	HK$'000
Property, plant and equipment	546
Interest in jointly controlled entities	2,275
Prepayment and other receivable	24,645
Film rights	24,992
Trade receivables	3,153
Prepayment and other receivables	15,710
Loan to a jointly controlled entity	6,138
Bank balance and cash	10,323
Trade payables	(7,019)
Accruals, deposit received and other payables	(71,367)
Taxation payable	(1,805)
	7,591
Release of translation reserve upon disposal of subsidiaries	(1,129)
Gain on disposal of subsidiaries (note 16)	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)

39. RETIREMENT BENEFITS SCHEME

Prior to 1 December 2000, the Group operated a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee.

Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce the contributions payable by the Group. The Defined Contribution Scheme was terminated on 1 December 2000.

Effective from 1 December 2000, the Group joined the Mandatory Provident Fund Scheme (the "MPF Scheme") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. No forfeited contribution is available to reduce the contribution payable in the future years.

40. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group has outstanding commitments for future lease payments under non-cancellable operating lease in respect of rented premises which fall due as follow:

	2011 HK$'000	2010 HK$'000
Within one year	–	783

Rentals are fixed over the lease term and no arrangement has been entered into for contingent rental payments.

41. OTHER COMMITMENTS

	2011 HK$'000	2010 HK$'000
Amount contracted for but not provided in the consolidated financial statements in respect of:		
Artiste fees	–	1,000
Film production cost	2,350	–
Guaranteed sum to be paid under various distributor agreements	7,559	50,748
	9,909	51,748

42. SHARE OPTION SCHEME

On 26 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 11 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 11 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.

42. SHARE OPTION SCHEME *(CONTINUED)*

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.

43. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following significant related party transactions, which in the opinion of the directors of the Company, were conducted under commercial terms and in the normal course of the Group's business.

	2011 HK$'000	2010 HK$'000
Transaction with a substantial shareholder of the Company/former immediate holding company		
Interest expenses (note 1)	**3,653**	9,074
Transactions with related companies		
Accounting service income (note 3)	**36**	–
Distribution and promotion income (note 3)	**86**	364
Income from sales of goods (note 3)	**111**	409
Sponsorship fee income (note 3)	**243**	113
Advertising and promotion expenses (note 3)	**15**	293
Artiste management fee (note 2)	**2,748**	–
Car park rental expenses (note 3)	**–**	78
Corporate secretarial expenses (note 3)	**385**	80
Distribution commission expense (note 3)	**12**	–
Operating lease rental expenses (note 2)	**348**	3,094
Professional fee (note 3)	**354**	887
Sharing of administrative expenses (note 3)	**414**	3,407

43. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) *(continued)*

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

Since 31 December 2010, Dr. Yeung ceased to be a substantial shareholder of the Company and the related companies were no longer to be related parties of the Company thereafter.

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.

   On 31 December 2010, Dr. Yeung disposed of his equity interest in the Company and ceased to be a substantial shareholder of the Company thereafter. The interest expenses as disclosed above were therefore covered the period from 1 July 2010 and up to the aforesaid cessation date of its being a substantial shareholder of the Company.

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) Key management personnel

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

44. CONTINGENT LIABILITIES

On 13 June 2011, a writ of summon and an indorsement of claim (the "Writ") was issued by Green Giant Investments Limited ("Green Giant") against the Company in which the Writ alleged that the Company refused and/or unreasonably withheld to register a transfer of the Note or issue a new promissory note as request upon transfer of the Note by Dragonlott Holdings Limited to Green Giant. The Company has sought legal advice and acknowledgement of service has been filed on behalf of the Company on 27 June 2011 indicating that the Company intends to contest the allegation in the Writ. Details of the litigation were set out in the Company's announcement dated 5 August 2011.

As at the date of approval of these consolidated financial statements, no decision has been made in the arbitration. In the opinion of the directors of the Company, based on legal advices, the arbitration proceedings are at a very early stage and the amount of the ultimate liability cannot be measured with sufficient reliability, therefore, no provision in respect of such claims was made in the consolidated financial statements for the year ended 30 June 2011.

45. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 September 2011.

Financial Summary

Results

	For the year ended 30 June			Period from 1 April 2007 to 30 June	For the year ended 31 March
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**53,977**	135,213	204,494	156,229	183,915
(Loss) profit before taxation	**(36,104)**	(49,395)	(64,723)	(78,256)	20,068
Taxation	**–**	(1,231)	(562)	(219)	(2,976)
(Loss) profit for the year/period	**(36,104)**	(50,626)	(65,285)	(78,475)	17,092
Attributable to:					
Owners of the Company	**(36,104)**	(50,626)	(65,285)	(78,469)	17,280
Non–controlling interests	**–**	–	–	(6)	(188)
	(36,104)	(50,626)	(65,285)	(78,475)	17,092

Assets and Liabilities

	As at 30 June				As at 31 March
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**150,759**	329,148	231,893	315,307	206,319
Total liabilities	**(27,618)**	(331,762)	(277,808)	(297,519)	(111,562)
	123,141	(2,614)	(45,915)	17,788	94,757
Attributable to:					
Owners of the Company	**123,141**	(673)	(43,974)	19,729	96,445
Non–controlling interests	**–**	(1,941)	(1,941)	(1,941)	(1,688)
	123,141	(2,614)	(45,915)	17,788	94,757