



DRAGONLOTT ENTERTAINMENT GROUP LIMITED

龍彩娛樂集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 8078)

ANNUAL RESULTS ANNOUNCEMENT

For the year ended 30th June, 2010

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This announcement, for which the directors of Dragonlott Entertainment Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 announcement 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 announcement misleading.

* for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECTS

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

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

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

CAPITAL STRUCTURE

Issuance and Conversion of Convertible Bond

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

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

Subscription and Use of Proceeds

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

COMMITMENTS

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

CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

NUMBER AND REMUNERATION OF EMPLOYEES

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

EVENTS AFTER THE REPORTING PERIOD

Placing of New Shares under General Mandate

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

Share Subdivision and Change in Board Lot Size

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

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

Proposed Change of Company Name

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

EVENTS AFTER REPORTING PERIOD (Continued)

Proposed Disposal of Movie and Television Library

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

Proposed Placing of New Shares under Specific Mandate

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

The Board announces the audited consolidated financial statements of the Group for the Year together with comparative audited figures for the preceding financial year as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th June, 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i> (Restated)
Continuing operations			
Revenue	3	92,947	157,178
Other income		4,525	3,600
Cost of film and television programme production and distribution		(78,657)	(161,697)
Selling and distribution costs		(9,557)	(18,797)
Administrative expenses		(41,715)	(39,297)
Finance costs	4	(17,452)	(9,067)
Share of results of a jointly controlled entity		2,530	504
Loss before taxation		(47,379)	(67,576)
Taxation	5	(1,231)	(562)
Loss for the year from continuing operations		(48,610)	(68,138)
Discontinued operations			
(Loss) profit for the year from discontinued operations	6	(2,016)	2,853
Loss for the year attributable to owners of the Company		(50,626)	(65,285)
Other comprehensive income			
Exchange differences arising on translation of foreign subsidiaries		655	1,351
Share of translation reserve of jointly controlled entities		44	231
Other comprehensive income for the year (net of tax)		699	1,582
Total comprehensive expense attributable to owners of the Company		(49,927)	(63,703)
Loss per share			
From continuing and discontinued operations Basic and diluted	7	HK cents 16.83	HK cents 25.11
From continuing operations Basic and diluted		HK cents 16.16	HK cents 26.21

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2010

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		604	1,994
Available-for-sale investment		46,674	–
Interests in jointly controlled entities		5,280	4,981
Prepayments and other receivables		–	10,933
Film rights		185,597	63,120
		238,155	81,028
Current assets			
Inventories and record masters		30	2,702
Trade receivables	8	35,706	27,019
Prepayments and other receivables		26,166	59,039
Loan to a jointly controlled entity		12,466	10,817
Bank balances and cash		16,625	51,288
		90,993	150,865
Current liabilities			
Trade payables	9	13,566	20,518
Other payables and accrued charges		44,113	65,499
Loan from a non-controlling shareholder of a subsidiary		2,000	2,000
Other loan		3,000	–
Taxation payable		–	568
		62,679	88,585
Net current assets		28,314	62,280
Total assets less current liabilities		266,469	143,308
Non-current liabilities			
Convertible bond		50,099	–
Promissory note payable		11,102	–
Amount due to a substantial shareholder of the Company/former immediate holding company		207,882	189,223
		269,083	189,223
		(2,614)	(45,915)
Capital and reserves			
Share capital		3,520	2,600
Reserves		(4,193)	(46,574)
Equity attributable to owners of the Company		(673)	(43,974)
Non-controlling interests		(1,941)	(1,941)
		(2,614)	(45,915)

Notes:

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS2, HKAS 38, paragraph 80 of HKAS 39, HK(IFRIC*) – INT 9 and HK(IFRIC) – INT 6
HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK(IFRIC) – INT 18	Transfers of assets from customers

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

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

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

Notes: (Continued)

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

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

New and Revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

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

HKFRS 8 Operating segments

In the Year, the Group has adopted HKFRS 8 “Operating segments”. HKFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group’s chief operating decision maker. HKFRS 8 replaces HKAS 14 “Segment reporting” which required an entity to identify two sets of segments (business and geographical). The adoption of HKFRS 8 has not resulted in redesignation of the Group’s reportable segments (see note 3 for details).

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

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

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

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

¹ Amendments that are effective for annual periods beginning on or after 1st January, 2010.

² Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.

³ Effective for annual periods beginning on or after 1st January, 2010.

⁴ Effective for annual periods beginning on or after 1st February, 2010.

⁵ Effective for annual periods beginning on or after 1st July, 2010.

⁶ Effective for annual periods beginning on or after 1st January, 2011.

⁷ Effective for annual periods beginning on or after 1st January, 2013.

Notes: (Continued)

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

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

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

2. BASIC PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

In preparing the consolidated financial statements, the Directors have given consideration to the future liquidity of the Group in light of its net liabilities of HK\$2,614,000 as at 30th June, 2010. A substantial shareholder of the Company agreed not to demand repayment of the amount due to it for at least the next twelve months from the date of this announcement or until the Group has the ability to repay the amount, whichever is later. On 6th August, 2010, the Company completed a placement to place 70,398,000 new shares of the Company to six places at a price of HK\$0.38 per placing share. The Company intends to use the net proceeds of approximately HK\$26,160,000 from this placement for the Group’s general working capital and further business development. Based on the above, the Directors believe that the Group will have sufficient cash resources to satisfy its future working capital. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values on initial recognition, and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

Other than disclosed in note 1, the accounting policies adopted for preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June, 2009.

Notes: (Continued)

3. SEGMENT INFORMATION

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

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

Under HKFRS 8, the Group’s operating segments are therefore as follows: (a) artiste management and (b) film and television programme production, distribution and licensing. They are strategic business units and are managed separately as each business require different expertise and marketing strategies. In previous years, the Group’s primary reporting format was business segments comprising the four main operating activities – (a) artiste management, (b) event production, (c) music production and distribution and (d) film, television programme production, distribution and licensing. The Group’s operations relating to event production and music production and distribution were discontinued during the year. Information about the discontinued operating segments is presented in note 6.

Principal activities are as follows:

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

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 2. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, other income not allocated to principal activities, finance costs and share of results of a jointly controlled entity. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

Notes: (Continued)

3. SEGMENT INFORMATION (Continued)

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

For the year ended 30th June, 2010

Continuing operations

Segment revenue and results

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

Other segment information

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

Notes: (Continued)

3. SEGMENT INFORMATION (Continued)

Reconciliation of other segment information

	Segment total <i>HK\$'000</i>	Adjustment <i>HK\$'000</i> <i>(note)</i>	Total <i>HK\$'000</i>
Depreciation of property, plant and equipment	<u>882</u>	<u>64</u>	<u>946</u>

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

For the year ended 30th June, 2009

Continuing operations

Segment revenue and results

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

Notes: (Continued)

3. SEGMENT INFORMATION (Continued)

Other segment information

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

Reconciliation of other segment information

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

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

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

Geographical information

The Group's operations are located in Hong Kong, the PRC, Taiwan, Japan, Other Asian countries, North America, European countries and other areas.

Notes: (Continued)

3. SEGMENT INFORMATION (Continued)

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

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

Notes:

- (a) Other Asian countries mainly included Brunei, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand.
- (b) North America included United State and Canada.
- (c) European countries mainly included Italy, United Kingdom, Germany, France, Switzerland, Poland, Netherland and Belgium.

Information about major customer

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

Notes: (Continued)

4. FINANCE COSTS

Continuing operations

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

5. TAXATION

Continuing operations

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

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

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

Notes: (Continued)

6. DISCONTINUED OPERATIONS

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

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
(Loss) profit for the year from discontinued operations	(3,145)	2,853
Gain on disposal of subsidiaries (<i>note 10</i>)	1,129	–
	<u>(2,016)</u>	<u>2,853</u>

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

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

Notes: (Continued)

6. DISCONTINUED OPERATIONS (Continued)

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

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

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

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

The carrying amounts of the consolidated assets and liabilities of EHL at the date of the EHL Disposal are disclosed in note 10.

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

7. LOSS PER SHARE

From continuing and discontinued operations

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

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

Notes: (Continued)

7. LOSS PER SHARE (Continued)

From continuing operations

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

Loss are calculated as follows:

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

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

From discontinued operations

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

Notes: (Continued)

8. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the due date at the end of the reporting period:

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

9. TRADE PAYABLES

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

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

Notes: (Continued)

10. DISPOSAL OF SUBSIDIARIES

As referred to in note 6, on 19th March, 2010, the Group discontinued the event production and music production and distribution operations at the time of the EHL Disposal. The consolidated net assets of EHL at the date of the EHL Disposal were as follows:

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

The impact of the EHL Group on the Group's results and cash flows in the current and prior periods is disclosed in note 6.

DIVIDEND

The Board does not recommend the payment of any final dividend for the Year.

REVIEW OF RESULTS

The audited annual results of the Group for the Year have been reviewed by the audit committee of the Company, which is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The audit committee comprises the three Independent Non-executive Directors, namely Mr. Wong Tak Ming, Gary, Mr. Chan Chi Ho and Mr. Kam Tik Lun.

EXTRACT OF AUDITOR'S REPORT

The following is an extract of the auditor's report on the Group's consolidated financial statements for the Year:

“Basis of qualified opinion

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

Qualified opinion arising from limitation of scope

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

CORPORATE GOVERNANCE

The Company has fully complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the Year.

MODEL CODE FOR SECURITIES DEALING BY DIRECTORS

The Company had adopted Rules 5.48 to Rules 5.67 of the GEM Listing Rules (“Model Code”) as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry to all the Directors, all the Directors confirmed that they had throughout the Year complied with the required standard of dealings as set out in the Model Code.

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.

PUBLICATION OF ANNUAL REPORT ON THE GEM WEBSITE

The Annual Report of the Company containing all the information required by the GEM Listing Rules will be dispatched to the shareholders of the Company and be published on the GEM website of the Stock Exchange (www.hkgem.com) and the Company’s website (www.deg8078.com) in due course.

By order of the Board
Dragonlott Entertainment Group Limited
Stephen Shiu Junior
Executive Director

Hong Kong, 15th September, 2010

As at the date hereof, the Board comprised:

Executive Directors: Mr. Stephen Shiu Junior
Ms. Leung Ge Yau
Mr. Tsang Pui Lan, Patrick

Non-executive Director: Mr. Leung Yuk Lun, Ulric

Independent Non-executive Directors: Mr. Wong Tak Ming, Gary
Mr. Chan Chi Ho
Mr. Kam Tik Lun

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for seven days from the day of its posting and on the website of the Company at www.deg8078.com.