美亞娛樂資訊集團有限公司
MEI AH ENTERTAINMENT GROUP LTD.

*(Incorporated in Bermuda with limited liability)*
**(Stock code: 391)**

# RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2008

The Board of Directors (the "Board") of Mei Ah Entertainment Group Limited (the "Company") announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March 2008 with comparative figures as follows:

## CONSOLIDATED INCOME STATEMENT

*For The Year Ended 31st March 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Turnover | 2 | **102,986** | 137,300 |
| Cost of sales | 4 | **(67,216)** | (89,345) |
| Gross profit | | **35,770** | 47,955 |
| Other income | 2 | **10,354** | 7,911 |
| Other (losses)/gains — net | 3 | | |
| — Fair value (loss)/gain on derivative financial instrument | 10 | **(111,401)** | 14,965 |
| — Others | | **75,452** | 8,555 |
| Selling and marketing expenses | 4 | **(6,018)** | (13,947) |
| Administrative and other expenses | 4 | **(75,547)** | (30,968) |
| Operating (loss)/profit | | **(71,390)** | 34,471 |
| Finance costs — net | | **(3,816)** | (9,419) |
| Share of losses of associated companies | | **(4,582)** | (2,332) |
| (Loss)/profit before income tax | | **(79,788)** | 22,720 |
| Income tax expense | 5 | **(3,596)** | (733) |
| (Loss)/profit for the year | | **(83,384)** | 21,987 |
| Attributable to: | | | |
| Equity holders of the Company | | **(83,413)** | 21,933 |
| Minority interests | | **29** | 54 |
| | | **(83,384)** | 21,987 |
| (Loss)/earnings per share | | | |
| Basic | 6 | **(8.78 HKcents)** | 2.67 HKcents |
| Diluted | 6 | **(8.78 HKcents)** | 1.78 HKcents |
| Dividend | 7 | **—** | 4,910 |

## CONSOLIDATED BALANCE SHEET

*As At 31st March 2008*

| | Note | **2008** | 2007 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land and land use rights | | **12,270** | 12,594 |
| Property, plant and equipment | | **128,268** | 112,873 |
| Investment properties | | **74,710** | 67,730 |
| Interest in a jointly controlled entity | | **—** | — |
| Interests in associated companies | | **19,631** | 55,794 |
| Available-for-sale financial assets | | **59,407** | 6,202 |
| Film rights, films in progress, film sub-licensing rights and deposits | | **85,040** | 73,372 |
| Trade and other receivables | *8* | **5,432** | 39,013 |
| **Current assets** | | | |
| Inventories | | **7,458** | 6,968 |
| Trade and other receivables | *8* | **48,638** | 20,898 |
| Financial assets at fair value through profit or loss | | **18,401** | 2,350 |
| Pledged deposit | | **30,000** | 30,000 |
| Bank balances and cash | | **86,936** | 17,140 |
| | | **191,433** | 77,356 |
| **Total assets** | | **576,191** | 444,934 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | | **98,209** | 82,300 |
| Reserves | | **349,269** | 198,588 |
| Shareholders' funds | | **447,478** | 280,888 |
| Minority interests | | **41** | 12 |
| **Total equity** | | **447,519** | 280,900 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **9,986** | 6,731 |
| Derivative financial instrument | *10* | **14,005** | 28,459 |
| Convertible notes — liability portion | *10* | **22,683** | 62,771 |
| Obligations under finance leases | | **3,346** | 1,650 |
| | | **50,020** | 99,611 |

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 9 | **74,589** | 52,019 |
| Borrowings | | **—** | 11,137 |
| Obligations under finance leases | | **2,746** | 1,267 |
| Current income tax liabilities | | **1,317** | — |
| | | **78,652** | 64,423 |
| **Total liabilities** | | **128,672** | 164,034 |
| **Total equity and liabilities** | | **576,191** | 444,934 |
| **Net current assets** | | **112,781** | 12,933 |
| **Total assets less current liabilities** | | **497,539** | 380,511 |

*Notes:*

**1. Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, investment properties, available-for-sale financial assets, financial assets at fair value through profit or loss and derivative financial instrument which are carried at fair value.

## 2. Turnover, revenues and segment information

Revenues recognised during the year are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Television operations | **64,150** | 58,610 |
| Film exhibition and film rights licensing and sub-licensing | **23,191** | 49,501 |
| Sale and distribution of films and programs in audio visual product format | **15,645** | 29,189 |
| | **102,986** | 137,300 |
| Other income | | |
| Rental income from investment properties | **3,606** | 3,217 |
| Other rental income | **4,365** | 2,106 |
| Distribution commission income | **916** | 1,011 |
| Management fee income | **1,390** | 1,514 |
| Dividend income | **77** | 63 |
| | **10,354** | 7,911 |
| Total revenues | **113,340** | 145,211 |

**Primary reporting format — business segments**

At 31st March 2008 the Group is organised into three main business segments:

— Television operations

— Film exhibition and film rights licensing and sub-licensing

— Sale and distribution of films and programs in audio visual product format

The segment results for the year ended 31st March 2008 by each principal activity is as follows:

| | For the year ended 31st March 2008 | | | | |
|---|---|---|---|---|---|
| | **Television operations** *HK$'000* | **Film exhibition and film rights licensing and sub-licensing** *HK$'000* | **Sale and distribution of films and programs in audio visual product format** *HK$'000* | **Elimination** *HK$'000* | **Group** *HK$'000* |
| External sales | **64,150** | **23,191** | **15,645** | **—** | **102,986** |
| Inter-segment sales | **—** | **2,160** | **—** | **(2,160)** | **—** |
| Total revenues | **64,150** | **25,351** | **15,645** | **(2,160)** | **102,986** |
| Segment results | **10,354** | **3,123** | **(23,959)** | **3,325** | **(7,157)** |
| Unallocated income | | | | | **86,738** |
| Unallocated costs | | | | | **(150,971)** |
| Operating loss | | | | | **(71,390)** |
| Finance costs — net | | | | | **(3,816)** |
| Share of losses of associated companies | | | | | **(4,582)** |
| Loss before income tax | | | | | **(79,788)** |
| Income tax expense | | | | | **(3,596)** |
| Loss for the year | | | | | **(83,384)** |
| Property, plant and equipment | | | | | |
| — Additions | **163** | **104** | **208** | **—** | **475** |
| — Unallocated additions | | | | | **14,740** |
| | | | | | **15,215** |
| — Depreciation | **(499)** | **(22)** | **(914)** | **—** | **(1,435)** |
| — Unallocated depreciation | | | | | **(4,053)** |
| | | | | | **(5,488)** |
| Film rights, film sub-licensing rights and deposits | | | | | |
| — additions | **20,400** | **27,495** | **6,525** | **(2,160)** | **52,260** |
| — amortisation | **(23,031)** | **(14,127)** | **(5,607)** | **5,485** | **(37,280)** |
| — impairment | **—** | **(2,839)** | **(473)** | **—** | **(3,312)** |
| Impairment of trade and other receivables | **—** | **(2,631)** | **(11,784)** | **—** | **14,867** |
| Unallocated | | | | | **163** |
| | | | | | **14,578** |
| Write-off of trade and other receivables | **—** | **(203)** | **(250)** | **—** | **453** |
| Unallocated | | | | | **84** |
| | | | | | **537** |

| | For the year ended 31st March 2007 | | | | |
|---|---|---|---|---|---|
| | Television operations HK$'000 | Film exhibition and film rights licensing and sub-licensing HK$'000 | Sale and distribution of films and programs in audio visual product format HK$'000 | Elimination HK$'000 | Group HK$'000 |
| External sales | 58,610 | 49,501 | 29,189 | — | 137,300 |
| Inter-segment sales | 166 | 8,160 | — | (8,326) | — |
| Total revenues | 58,776 | 57,661 | 29,189 | (8,326) | 137,300 |
| Segment results | 8,742 | 3,707 | (383) | 1,632 | 13,698 |
| Unallocated income | | | | | 29,820 |
| Unallocated costs | | | | | (9,047) |
| Operating profit | | | | | 34,471 |
| Finance costs — net | | | | | (9,419) |
| Share of losses of associated companies | | | | | (2,332) |
| Profit before income tax | | | | | 22,720 |
| Income tax expense | | | | | (733) |
| Profit for the year | | | | | 21,987 |
| Property, plant and equipment | | | | | |
| — Additions | 1,429 | 10 | 2,201 | — | 3,640 |
| — Unallocated additions | | | | | 822 |
| | | | | | 4,462 |
| — Depreciation | (279) | (43) | (713) | — | (1,035) |
| — Unallocated depreciation | | | | | (3,502) |
| | | | | | (4,537) |
| Film rights, film sub-licensing rights and deposits | | | | | |
| — additions | 28,644 | 18,219 | 5,690 | (8,326) | 44,227 |
| — amortisation | (20,431) | (24,801) | (8,496) | 9,959 | (43,769) |
| — impairment | — | (50) | (600) | — | (650) |
| Impairment of trade and other receivables | — | — | (326) | — | (326) |
| Write-off of trade and other receivables | (142) | — | — | — | (142) |

The amortisation of leasehold land and land use rights amounting to HK$324,000 (2007: HK$322,000) is unallocated to the Group's business segments and the unwinding of discount in respect of non-current receivables amounting to HK$2,465,000 (2007: discounting of non-current receivables of HK$514,000) are under the segment of "Sale and distribution of films and programs in audio visual product format".

| | As at 31st March 2008 | | | | |
|---|---|---|---|---|---|
| | **Television operations** | **Film exhibition and film rights licensing and sub-licensing** | **Sale and distribution of films and programs in audio visual product format** | **Elimination** | **Group** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Segment assets | **35,886** | **58,974** | **170,101** | **(2,618)** | **262,343** |
| Interests in associated companies | | | | | **19,631** |
| Unallocated assets | | | | | **294,217** |
| Total assets | | | | | **576,191** |
| Segment liabilities | **23,645** | **34,543** | **17,631** | **—** | **75,819** |
| Unallocated liabilities | | | | | **52,853** |
| Total liabilities | | | | | **128,672** |

| | As at 31st March 2007 | | | | |
|---|---|---|---|---|---|
| | Television operations | Film exhibition and film rights licensing and sub-licensing | Sale and distribution of films and programs in audio visual product format | Elimination | Group |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 39,814 | 42,859 | 99,535 | (5,988) | 176,220 |
| Interests in associated companies | | | | | 40,583 |
| Unallocated assets | | | | | 228,130 |
| Total assets | | | | | 444,934 |
| Segment liabilities | 25,908 | 29,779 | 7,647 | — | 63,334 |
| Unallocated liabilities | | | | | 100,700 |
| Total liabilities | | | | | 164,034 |

**Secondary reporting format — geographical segment**

The Group's three main business segments operate in two main geographical areas — Hong Kong, and Singapore and other countries.

| | **2008** | 2007 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| **Turnover** | | |
| Hong Kong | **82,597** | 130,722 |
| Singapore and other countries | **20,389** | 6,578 |
| | **102,986** | 137,300 |

Turnover is allocated based on the country in which the customers are located. No geographical analysis is provided for the Group's assets as less then 10% of the Group's consolidated assets were attributable to markets outside Hong Kong as at 31st March 2007 and 2008.

**3. Other (loss)/gain — net**

| | **2008** | 2007 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Fair value (loss)/gain on derivative financial instrument | **(111,401)** | 14,965 |
| Surplus on revaluation of investment properties and buildings | **12,930** | 6,570 |
| Gain on disposal of an associated company | **55,749** | — |
| Gain on disposal of available-for-sale financial assets | **1,412** | 385 |
| Gain on disposal of financial assets at fair value through profit or loss | **509** | — |
| Fair value gains on financial assets at fair value through profit or loss | **4,852** | 1,600 |
| | **(35,949)** | 23,520 |

## 4. Expenses by nature

Expenses included in cost of sales, selling and marketing, administrative and other expenses are analysed as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Amortisation of film rights and film sub-licensing rights | **37,280** | 43,769 |
| Amortisation of leasehold land and land use rights | **324** | 322 |
| Discounting of non-current receivables | **—** | 514 |
| Auditor's remuneration | | |
| — current year | **1,163** | 910 |
| — under provision in prior years | **170** | — |
| Cost of inventories | **5,649** | 11,431 |
| Depreciation | | |
| — owned property, plant and equipment | **4,452** | 4,238 |
| — leased property, plant and equipment | **1,036** | 299 |
| Impairment of film rights and film sub-licensing rights | **3,312** | 650 |
| Loss on disposal of property, plant and equipment | **—** | 63 |
| Provision for impairment of trade and other receivables | **14,578** | 326 |
| Provisions for amounts due from a jointly controlled entity and associated companies | **523** | 882 |
| Employee benefit expenses (including directors' emoluments) | **16,317** | 15,005 |
| Share-based payment *(note 11)* | **22,197** | — |
| Direct operating expenses arising from investment properties that generate rental income | **620** | 820 |
| Write-back of payables and provision for amount due from an associated company | **(3,978)** | (713) |
| Write-off of trade and other receirables | **537** | 142 |
| Other expenses | **44,601** | 55,602 |
| Total cost of sales, selling and marketing, administrative and other expenses | **148,781** | 134,260 |

## 5. Income tax expense

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current income tax — Hong Kong profits tax | **1,333** | — |
| Deferred income tax | **2,263** | 733 |
| | **3,596** | 733 |

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. No provision for Hong Kong and overseas profits tax has been made for the year ended 31st March 2007 as there was no estimated assessable profit.

The Group's jointly controlled entity in the People's Republic of China ("PRC") did not have any assessable income for the year for PRC tax purposes and accordingly no provision for PRC tax has been made in these financial statements (2007: Nil).

The income tax expense on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the taxation rates of the home countries in which the Group operates as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before income tax | **(79,788)** | 22,720 |
| Calculated at a tax rate of 17.5% (2007: 17.5%) | **(13,963)** | 3,976 |
| Income not subject to tax | **(10,427)** | (2,411) |
| Expenses not deductible for tax purposes | **28,642** | 452 |
| Tax losses for which no deferred income tax assets were recognised | **1,543** | 615 |
| Utilisation of previously unrecognised tax losses | **(2,199)** | (1,899) |
| Income tax expense | **3,596** | 733 |

**6. (Loss)/earnings per share**

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company of HK$83,413,000 (2007: profit of HK$21,933,000) by the weighted average number of ordinary shares 949,893,936 (2007: 821,432,877) in issue during the year.

The computation of diluted loss per share for the year ended 31st March 2008 does not assume the conversion of the Company's outstanding convertible notes and exercise of share options granted by the Company since these would be anti-dilutive.

Diluted earnings per share for the year ended 31st March 2007 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the convertible notes issued by the Company based on the initial conversion price of HK$0.44 per share, and the Group's profit attributable to equity holders of the Company is adjusted to eliminate the fair value changes on derivative financial instrument and interest accretion in relation to the convertible notes.

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit attributable to equity holders of the Company | **(83,413)** | 21,933 |
| Fair value changes on derivative financial instrument | — | (14,965) |
| Interest accretion in respect of convertible notes | — | 10,216 |
| (Loss)/profit used to determine diluted earnings per share | **(83,413)** | 17,184 |
| Weighted average number of ordinary shares in issue *(thousands)* | **949,894** | 821,433 |
| Adjustment for assumed conversion of convertible notes *(thousands)* | — | 145,081 |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | **949,894** | 966,514 |
| Diluted (loss)/earnings per share *(HK cents per share)* | **(8.78)** | 1.78 |

## 7. Dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31st March 2008 (2007: HK$0.005 per share).

## 8. Trade and other receivables

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **27,867** | 29,038 |
| *Less:* provision for impairment of receivables | **(13,531)** | (4,140) |
| *Less:* discount on non-current portion | **(476)** | (1,461) |
| Trade receivables — net | **13,860** | 23,437 |
| Prepayments, deposits and other receivables — net | **40,210** | 36,474 |
| | **54,070** | 59,911 |
| *Less:* non-current portion of | | |
| — trade receivables | **(5,432)** | (19,106) |
| — prepayments, deposits and other receivables | **—** | (19,907) |
| | **(5,432)** | (39,013) |
| | **48,638** | 20,898 |

All non-current receivables are due within five years from the balance sheet date.

The fair values are based on cash flows discounted using prevailing fixed deposit rates that range from 1.2% to 2.2% per annum (2007: 3.6%).

The ageing analysis of trade receivables is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current to 3 months | **2,392** | 3,043 |
| 4 to 6 months | **684** | 1,936 |
| Over 6 months | **24,791** | 24,059 |
| | **27,867** | 29,038 |

The Group's credit terms to trade receivables generally range from 7 to 90 days (2007: ranged from 7 to 90 days).

## 9. Trade and other payables

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **10,464** | 6,200 |
| Receipts in advance and accruals | **57,586** | 44,413 |
| Bills payable | **6,539** | 1,406 |
| | **74,589** | 52,019 |

At 31st March 2008, the ageing analysis of trade payables is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 3 months | **6,632** | 4,012 |
| 4 to 6 months | **—** | 700 |
| Over 6 months | **3,832** | 1,488 |
| | **10,464** | 6,200 |

## 10. Convertible notes

| | **Liability portion** | **Derivative portion** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1st April 2007 | 62,771 | 28,459 | 91,230 |
| Changes in fair value of derivative financial instrument | — | 111,401 | 111,401 |
| Interest accretion | 8,523 | — | 8,523 |
| Conversion during the year | (46,467) | (125,855) | (172,322) |
| Interest paid during the year | (2,144) | — | (2,144) |
| As at 31st March 2008 | 22,683 | 14,005 | 36,688 |

(a) On 11th August 2006, the Company issued convertible notes (the "Notes") in an aggregate principal amount of HK$100 million. The initial conversion price, which is subject to anti-dilution adjustments in certain events and a reset mechanism as set out in the note subscription agreements, is HK$0.44 per share. During the year, convertible notes with an aggregate principal amount of HK$70,000,000 were converted and 159,090,905 shares were issued to the holders of the Notes.

The derivative portion of the Notes was revalued to its fair value using the Binominal model at each conversion date to determine the then carrying values to be transferred to the share capital and share premium account; and at every reporting date. Changes in fair values were reflected as an expense in the consolidated income statement. The changes in fair value of the derivative portion resulted in a fair value loss on derivative instrument of HK$111,401,000 during the year (2007: fair value gain of HK$14,965,000).

(b) The fair value of the derivative component of the Notes as at 31st March 2008 was calculated using the Binomial model with the following major inputs:

| | 2008 | 2007 |
|---|---|---|
| Stock price | **0.41** | 0.345 |
| Exercise price | **0.44** | 0.44 |
| Volatility | **121.68%** | 67.68% |
| Risk free rate | **1.028% p.a.** | 3.851% p.a. |
| Expected life | **71 weeks** | 28 months |

The initial carrying amount of the liability component is the residual amount after deducting the issuance costs of the Notes and the fair value of the derivative component as at 11th August 2006 and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 31.22% (2007: 31.22%) to the adjusted liability component.

**11. Share-based payment**

A share option scheme (the"Scheme") was adopted by the Shareholders of the Company on 30th August 2005. No options were granted under the Scheme up to 21st June 2007.

On 21st June 2007, 77,100,000 options were granted to certain service providers to subscribe for 77,100,000 shares of the Company at an exercise price of HK$0.9 per share. Of the options granted, 50% of them vested on 1st August 2007 and the remaining 50% became vested on 1st November 2007. None of these options was exercised and all of the options expired on 30th June 2008. The closing share price of the Company immediately before the date on which the options were granted was HK$0.85.

The fair value of the options granted of HK$22,197,000 at the measurement date of 21st June 2007 was determined using the Black-Scholes-Merton Option Pricing Model and based on the following parameters:

| | |
|---|---|
| Spot Price | 0.85 |
| Exercise Price | 0.90 |
| Risk Free Rate | 4.051% p.a. |
| Expected Life of the Options | 0.63 year |
| Expected Volatility | 115.36% |
| Expected Dividend Yield | 0.95% |

The variables and assumptions used in computing the fair value of the share options are based on management's best estimate, the value of an option may vary by the adoption of different variables of certain subjective assumptions with uncertainty.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

**BUSINESS REVIEW**

During the year ended 31st March 2008, the Group recorded a consolidated turnover of HK$102,986,000 (2007: HK$137,300,000) and a loss attributable to equity holders of the Company of HK$83,413,000 (2007: profit of HK$21,933,000). Excluding the loss arising from fair value changes on derivative financial instrument, interest accretion in respect of convertible notes and share-based payment totalling HK$142,121,000 (2007: profit of HK$4,749,000) and gain on disposal of an associated company of HK$55,749,000 (2007: Nil) during the year, the profit of the Group attributable to equity holders of the Company for the period shall be HK$2,959,000 (2007: HK$17,184,000).

The Group operates in three major business segments, television operations, film exhibition, and film rights licensing and sub-licensing and sale and distribution of films and programs in audio visual product format, which contributed 62% (2007: 43%), 23% (2007: 36%) and 15% (2007: 21%) to the Group's turnover respectively.

The contribution of revenues from the Group's television segment has increased to the level of approximately HK$64,150,000 (2007: HK$58,776,000), representing approximately 62% (2007: 43%) of the Group's turnover. Since the launch of its first channel in 2001, which broadcasts movies from the Group's film library and other programs from its business partners, the Group has continuously explored opportunities to broaden the revenue streams of its television operations. As at 31st March 2008, the Group provided three channels to now TV. In July 2007, the Group launched a movie channel in Singapore. Looking forward, the Group aims to develop and launch more channels with increasing varieties to other Asian countries and secure advertising income from available air-time in those TV channels.

The Group will continue to strengthen its film library through acquisition, own production and co-production. Equipped by the Group's film library and through the Group's experience and network in program sourcing, the Group is confident that it will continue to provide high quality and customised TV programs to its audiences. The Group also believes that its television segment has huge potential of growth and will continue to bring significant and increasing contribution to the Group's results. Following the increasing popularity of pay TV in Hong Kong and digitalisation plan of TV signal in Hong Kong and China, which allows more broadcasting channels than the existing analogue system, the demand for TV contents is expected to increase significantly and the Group believes that it will receive encouraging results and fruitful rewards from these new market opportunities.

During the year, the Group strengthened its production arm through the professional production team of BIG Media Group ("BIG"), a former associated company of the Company, to support its content requirement in respect of the Group's television, licensing and distribution operations, and favour from the synergy in respect of the collaboration of BIG's film library and the Group's distribution network. The Group was appointed as the exclusive distribution agent to market and license BIG's films. As a result of the above changes in arrangement with BIG, the Group's turnover from the segment of film exhibition and film rights licensing and sub-licensing decreased from last year's HK$49,501,000 to HK$23,191,000.

Despite the above, the Group continues to support Hong Kong's film industry by investing in high quality and popular film productions, including "Red Cliff" and "An Empress and the Warriors", both of which received encouraging responses from the market. Looking forward, the Group will continue to support and invest in Hong Kong's film production industry and aim to produce popular films with high guality.

The revenues attributable to sale and distribution of films and programs in audio visual product format dropped from HK$29,189,000 to HK$15,645,000, as a result of the reduction in newly released films and the relatively stagnant market environment during the year.

The performance of the video sales and distribution segment has been affected by the overall industrial climate. Fewer new titles were released during the year and the competition is still keen. Following the increasing popularity of copyright infringement behaviour, the business of sale and distributions of video discs has become difficult. Nevertheless, the Group will continue to acquire popular films and diversify its distribution channels in order to maintain its competitiveness.

In response to the increasing popularity of films to be released and distributed in high definition ("HD") format, the Group invested approximately HK$15 million to acquire equipment that are HD compatible. Management believes that the investment will contribute return to the Group in the near future.

Following the fund raising activities in 2006 and further to the proceed from the disposal of majority of its interests in BIG in January 2008, the working capital of the Group has been significantly enhanced. As at 31st March 2008, the Group had no bank borrowing and the gearing ratio of the Group has improved from 37.5% to 9.6%. During the year, 70% of the convertible notes issued by the Company in 2006 were converted into shares of the Company, and as a result, the equity base of the Company was strengthened and the Group believes that it will continue to be benefited from that and its increasing exposure to the global entertainment industry. The recognition of the fair value loss in the income statement as a result of the changes in fair value of the derivative component of the convertible notes is solely for the compliance of the relevant accounting standards and it has no significant effect to the Group's shareholders' equity, cash flows and financial capability.

Looking forward, the Group will exploit every opportunities to generate greatest returns for its shareholders and reward their long-term support.

**Liquidity and financial resources**

At 31st March 2008, the Group had available banking facilities of approximately HK$60 million, of which approximately HK$6.5 million were utilised. Certain of the Group's deposits and properties with net book values of HK$183 million were pledged to banks to secure banking facilities. The Group's gearing ratio of 9.6% as at 31st March 2008 was based on the total of convertible notes and derivative financial instrument (with remaining maturity of 2 years) and obligations under finance leases (of which HK$2,746,000, HK$2,039,000 and HK$1,307,000 are repayable within one year, in the second year and in the third to fifth year respectively) of HK$42,780,000 and the shareholders' funds of approximately HK$447,478,000. The Group's borrowings and bank balances are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign currency fluctuations.

At 31st March 2008, the Company had contingent liabilities in respect of guarantees given to banks for facilities of its subsidiaries amounting to approximately HK$30 million, and commitments in respect of film production and program licensing agreements amounting to approximately HK$12.9 million. The commitments will be financed by the Group's internal resources and banking facilities.

**Employees**

At 31st March 2008, the Group employed 51 staff. Remuneration is reviewed periodically based on individual staff's performance. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund. The Group also has a share option scheme whereby qualified participants may be granted options to acquire shares of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, with the exception of the deviation in respect of the appointment term of non-executive directors as mentioned below.

Under the Code, non-executive directors should be appointed for a specific term. There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with the Bye-laws of the Company. Accordingly the Board considers that sufficient measures have been taken to dealt with the requirement in respect of the appointment terms of non-executive directors as required under the Code.

## REVIEW BY AUDIT COMMITTEE

The annual results have been reviewed by the audit committee of the Company.

On behalf of the Board
**Li Kuo Hsing**
*Chairman*

Hong Kong, 29th July 2008

*As at the date of this announcement, the executive directors are Mr. Li Kuo Hsing, Mr. Tong Hing Chi and Mr. Chau Kei Leung, the non-executive director is Mr. Hugo Shong and Mr. Chan Ngan Piu and the independent non-executive directors are Ms. Wang Huarong, Mr. Cheung Ming Man and Dr. Lee G. Lam.*