# JADE DYNASTY GROUP LIMITED
# 玉皇朝集團有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)
Stock Code : 970 股份代號：970


# Annual Report 2008

# Contents

# Corporate Information

**DIRECTORS**

Tong Kai Lap *(Chairman)*
Zheng Hao Jiang *(Deputy Chairman and Chief Executive Officer)*
Wan Siu Lun *(Deputy Chairman)*
Wong Chun Keung
Kwong Chi Tak
Ko Chi Keung*
Choy Sze Chung Jojo**
Lam Kwok Cheong**
Tsui Pui Hung**

* *Non-Executive Director*
** *Independent Non-Executive Director*

**AUDIT COMMITTEE**

Choy Sze Chung, Jojo *(Chairman)*
Lam Kwok Cheong
Tsui Pui Hung

**REMUNERATION COMMITTEE**

Lam Kwok Cheong *(Chairman)*
Choy Sze Chung Jojo
Tsui Pui Hung
Tong Kai Lap
Zheng Hao Jiang

**COMPANY SECRETARY AND QUALIFIED ACCOUNTANT**

Chan Ka Kit *(CPA, ACCA)*

**PRINCIPAL BANKERS**

Chong Hing Bank Limited
Hang Seng Bank Limited

# Corporate Information

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|---|---|
| **AUDITORS** | Grant Thornton<br>Certified Public Accountants<br>13th Floor, Gloucester Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong |
| **REGISTERED OFFICE** | Clarendon House<br>2 Church House<br>Hamilton HM11<br>Bermuda |
| **PRINCIPAL OFFICE** | 11th Floor<br>Safety Godown Industrial Building<br>56 Ka Yip Street<br>Chai Wan<br>Hong Kong |
| **REGISTRARS (in Bermuda)** | Butterfield Fund Services (Bermuda) Limited<br>Rosebank Centre<br>11 Bermudiana Road<br>Pembroke<br>Bermuda |
| **REGISTRARS (in Hong Kong)** | Tricor Secretaries Limited<br>26th Floor Tesbury Centre<br>28 Queen's Road East<br>Wan Chai, Hong Kong |
| **WEBSITE** | http://www.hk970.com |
| **STOCKCODE** | 970 |

# Biographies of Directors and Senior Managements

## EXECUTIVE DIRECTORS

**TONG KAI LAP** *Chairman and Chief Strategic Officer*

Aged 48, graduated from The Chinese University of Hong Kong in 1982 with a Bachelor's Degree in Business Administration. Since graduation, he worked in various international banks in the commercial, corporate and investment banking areas. Mr. Tong is a licensed representative for Type 6 (advising on corporate finance) regulated activity under the Securities and Future Ordinance, an associate director of Oriental Patron Asia Limited and the past president of the Rotary Club of Tsim Sha Tsui East. Mr. Tong is a fellow member of the Hong Kong Institute of Directors and a founding member of Hong Kong Professionals and Senior Executives Association. Mr. Tong is brother-in-law of Mr. Wong Chun Keung, the director of the Company and Dr. Wong Chun Loong, the Chief Creative Officer and a substantial shareholder of the Company. Mr. Tong joined the Group in August 2002.

**ZHENG HAO JIANG** *Deputy Chairman and Chief Executive Officer*

Aged 41, graduated in the law department of Beijing University in 1990. Mr. Zheng has over 11 years experience in Beijing in the areas of equity portfolio management, capital market analysis management and financial advisory. Mr. Zheng is a Standing Director of China Automobile Dealers Association. Mr. Zheng is a fellow member of the Hong Kong Institute of Directors. Mr. Zheng joined the Group in October 2006.

**WAN SIU LUN** *Deputy Chairman and Chief Marketing Officer*

Aged 46, has over 30 years of experience in production and creation of comics in Hong Kong. Mr. Wan is the chief executive officer of KINGcomics.com Limited, a subsidiary of the Company engaging in e-commerce activities specialised in online comics reading and selling of comics-related merchandises and is also in charge of multi-media business development of the Group. Mr. Wan joined the Group in August 2002.

**WONG CHUN KEUNG** *Chief Operating Officer*

Aged 49, has over 28 years of experience in newspaper and magazine publications and printing. Mr. Wong has worked as the general manager and/or the director of daily newspaper, colour separation and printing companies and was responsible for the colour separation, printing and distribution of comics, daily newspaper and magazines. Mr. Wong is brother-in-law of Mr. Tong Kai Lap, the Chairman of the Company and brother of Dr. Wong Chun Loong, the Chief Creative Officer and a substantial shareholder of the Company. Mr. Wong joined the Group in August 2002.

**KWONG CHI TAK** *Chief Production Officer*

Aged 44, is the head of the production team of the comics and animation business of the Group. Mr. Kwong has over 20 years of experience in comics production and joined the Group in August 2002. Mr. Kwong is responsible for strategic planning of comics publication, marketing analysis, development of comics related merchandises and overseeing the operation of the production team.

# Biographies of Directors and Senior Managements

## NON-EXECUTIVE DIRECTOR

### KO CHI KEUNG

Aged 52, graduated from The Chinese University of Hong Kong in 1982. Mr. Ko has over 26 years working experience in auditing and consultancy. Mr. Ko started his professional career with a major international accounting firm and is currently the managing partner of an accounting and consultancy firm. Mr. Ko is a Certified Public Accountant (Practising), a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (UK) and an associate member of The Australian Society of Certified Practising Accountants. Mr. Ko joined the Group in August 2002.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

### CHOY SZE CHUNG, JOJO

Aged 49, is the Vice Chairman of National Resources Securities Limited. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy obtained Master of Business Administration Degree from University of Wales, Newport and Master of Business Law Degree from Monash University. Mr. Choy is an independent non-executive director of Chengdu Putian Telecommunications Cable Company Limited, Zhaojin Mining Industry Company Limited and Mandarin Entertainment (Holdings) Limited, all are companies listed on the Main Board of Hong Kong Stock Exchange ("Stock Exchange"). Mr. Choy is also the Vice-chairman of the Institute of Securities Dealers Limited, committee member of Society of Registered Financial Planner Limited, fellow member of Institute of Financial Accountants, Fellow Certified Financial Strategist of Hong Kong Institute of Investors, fellow member of the Institute of Compliance Officer, member of Shantou Chinese People's Political Consultative Committee, honorary president of Shantou Overseas Friendship and committee member of Rotary Club Kowloon West.

### LAM KWOK CHEONG

Aged 54, holds Bachelor of Laws degree from the University of Hong Kong and has been a practicing solicitor in Hong Kong for over 28 years' experience. Mr. Lam is independent non-executive director of Wing Lee Holdings Limited and Same Time Holdings Limited, both are companies listed on the Main Board of Stock Exchange. Mr. Lam is a Justice of the Peace with Bronze Bauhinia Star (BBS) and a solicitor of the High Court of the Hong Kong Special Administrative Region. Mr. Lam is currently a member of Election Committee; member of Yuen Long District Council; member of Yuen Long District Fight Crime Committee; a fellow member of the Hong Kong Institute of Directors, Ex-Officio Member of Heung Yee Kuk New Territories; member of Appeal Board Panel, Smoking (Public Health) (Amendment) Ordinance; member of Buildings Ordinance Appeal Tribunal Panel and a Civil Celebrant of Marriages.

### TSUI PUI HUNG

Aged 33, is a practicing solicitor of High Court of Hong Kong and an independent non-executive director of B.A.L. Holdings Limited, a company listed on the Growth Enterprise Market of Stock Exchange and Mandarin Entertainment (Holdings) Limited, a company listed on the Main Board of Stock Exchange. Mr. Tsui holds the degrees of Master in Laws from University of London, Bachelor of Laws (with Honours) from Manchester Metropolitan University, Bachelor of Science (with Honours) from the Chinese University of Hong Kong, Postgraduate Certificate in Laws from the University of Hong Kong and Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company.

# Biographies of Directors and Senior Managements

## SENIOR MANAGEMENTS

**WONG CHUN LOONG** *Chief Creative Officer*

Aged 58, alias Mr. Wong Yuk Long, the founder of Jade Dynasty Holdings Limited. Mr. Wong has over 40 years of experience in local comics industry, is considered as one of the most influential comics artists, a pioneer in the comics industry in Hong Kong. Dr. Wong is the Chairman of Hong Kong Comics and Animation Federation Limited, Visiting Professor of Beijing Film Academy- Animation Academy, Hononary Visiting Professor of Sichuan University and Honourable Professor of Taiwan Ling Tung University. Dr. Wong was also awarded "World Outstanding Chinese Award" confessed by the World Outstanding Charity Foundation and obtained an Honorary Doctoral Degree by the University of New Castle (USA). Dr. Wong is the Chief Creative Officer of the Group responsible for the overall strategy in comic titles creation and animation development. Dr. Wong is brother-in-law of Mr. Tong Kai Lap, the Chairman of the Company and brother of Mr. Wong Chun Keung, the director of the Company.

**CHAN KA KIT** *Chief Financial Officer and Company Secretary*

Aged 33, graduated from The City University of Hong Kong with Bachelor of Art (Hons) in Accountancy in 1997 and has over ten years of working experience in auditing and accounting in Hong Kong and People's Republic of China. Prior to joining the Company, he has worked for an international audit firm for more than seven years and a pharmaceutical group as financial controller for three years. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant (UK). He joined the Group in January 2008.

**GUO YING LINDA** *China Business Officer*

Aged 40, graduated from Shanghai College of Air Force and Politics in 1990. Ms. Guo also received Master of Engineering Management from the BeiHang University (formerly known as Beijing University of Aeronautics and Astronautics). Ms. Guo has over 10 years experience in media operation and management which launched various media projects in Beijing, Shanghai and Guangzhou respectively. Ms. Guo joined the Group in April 2006 and is responsible for developing animations business in PRC including audio products, TV broadcasting, peripheral products licensing and relevant marketing-related public relations activities.

# Chairman's Statement

## FINANCIAL REVIEW

For the year ended 31 March 2008, the Group recorded revenue of approximately HK$156.7 million as compared to approximately HK$102.1 million last year. Profit attributable to equity holders of the Company was approximately HK$6.6 million, as compared with a profit of approximately HK$11.4 million for the last financial year.

At the year end date, the Group maintained a net cash position with cash at banks and in hand of approximately HK$27.2 million (2007: HK$5.3 million) and short term bank borrowings of approximately HK$0.9 million (2007: HK$3.6 million). Coupled with the completion of placing 100,000,000 shares to institutional investors in June 2007 and payment of deposit for the acquisition of companies engaged in the dealerships of 3 luxury car and sports car brands including Bentley, Lamborghini and Rolls-Royce in the PRC, the Group had sufficient financial resources and will continue to finance its business development by internal resources and short-term bank borrowings.

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2008 (2007: HK0.2 cent per share), which together with the interim dividend of HK0.2 cent per share (2007: HK0.2 cent per share) make a total dividend of HK0.2 cent per share for the year end of 31 March 2008 (2007: HK0.4 cent per share). The total dividend amounted to approximately HK$2.2 million for the year ended 31 March 2008 (2007: HK$3.9 million).

## OPERATIONAL REVIEW

During the year, the Group published and sold 10 local Chinese comic books on a weekly or bi-weekly basis and approximately 23 Japanese comic books on a monthly basis. The Group also grants comic books licensing to overseas publishers to translate comic books into different languages. The Group has strengthened its multimedia development business by the acquisition of 51% of the equitable interests of Suzhou Hongyang Cartoon Production Company Limited through the acquisition of 51% paid up share capital of Super Win Limited, the exclusive entitlement to all of the economic benefits and rights to control, management and operate Shanghai Sanding Animation Creation Company Limited and Nanjing Hongying Anmie-Cartoon Entertainment Company Limited, (collectively "Hongying Group", an animation production basement in PRC), in early November 2007.

Despite the fact that revenue generated from publications and distributions of comic books increased by 21.8% to HK$109.7 million, this segment's profit reduced by 32.5% to HK$5.5 million due to the sharp increase in the printing and paper costs during the year.

Since the completion of the acquisition of Hongying Group in early November 2007, animations subcontracting works of 89 episodes with around 1,500 minutes have been produced with encouraging results contributed to the Group.

# Chairman's Statement

## NUMBERS AND REMUNERATION OF EMPLOYEES

As at 31 March 2008, the Group had 663 (2007: 227) employees. Employees' costs (including directors' other emoluments) charged to consolidated income statement amounted to approximately HK$50.6 million for the year (2007: HK$37.2 million). All permanent employees were under the remuneration policy of fixed monthly salary with discretionary bonus.

There has been no change to the share option scheme adopted by the Company on 7 October 2002. As at the balance sheet date, no share options were outstanding. As at 31 March 2007, approximately 3.1 million share options granted to certain directors and employees were outstanding.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's total assets as at 31 March 2008 were approximately HK$411.8 million (2007: HK$271.7 million) which were financed by the shareholders' fund and total liabilities of approximately HK$351.5 million (2007: HK$244.3 million) and HK$52.9 million (2007: HK$25.0 million) respectively.

The Group's gearing ratio then computed as total borrowings over shareholders' fund was approximately 0.3% as at 31 March 2008 (31 March 2007: 3.8%).

The directors consider the Group will have sufficient working capital for its operations and financial resources for financing future investment opportunities in suitable business ventures.

The Group had limited exposure to fluctuations in exchange rates and its borrowings, bank balances and cash were mainly denominated in Hong Kong dollars and Renminbi.

## CAPITAL STRUCTURE

During the year, the Company issued approximately 11.1 million new ordinary shares of HK$0.002 each at a price of HK$0.50 per share by way of convertible notes conversion, approximately 1.9 million new ordinary shares of HK$0.002 each at HK$0.37 per share of exercise price by way of exercise share options, 100.0 million ordinary new shares of HK$0.002 each at HK$0.76 per share by way of share placing and 40.8 million ordinary new shares of HK$0.002 each at HK$0.56 per share as consideration shares for acquisition of subsidiaries respectively.

## CHARGES ON ASSETS

As at 31 March 2008, certain assets of the Group with an aggregate amount of HK$18.6 million (2007: HK$18.7 million), including HK$14.3 million of buildings and prepaid lease payments (2007: HK$14.4 million) and HK$4.4 million of pledged bank deposits, (2007: HK$4.3 million), were pledged to secure general banking facilities granted to the Group which are not utilised at the balance sheet date.

# Chairman's Statement

## PROSPECTS

Envision the continuous growth of net wealth of a small group of elite in the PRC and grow the profitability of the Group, we have taken a significant business move forward by diversifying into luxury goods distribution in the PRC in the year 2008 while leveraging on its existing role as an emerging leading animations studio in the PRC.

Riding on the huge potential of ultra-luxury cars and luxury goods markets in the PRC propelled by the buoyant economy, the Group believes continuing to diversify into different luxury goods market in line with the emerging market trends and needs gives edge to the Group and the acquisition of the car dealerships business of Bentley, Lamborghini and Rolls-Royce in Beijing is an ideal entry point. In January 2008, the Group entered into a framework agreement with Sparkle Roll Holdings Limited to acquire 2 motor trading companies in Beijing named Beijing Mei He Zhen Yong Motors Trading Limited ("Mei He Zhen Yong") and Beijing De Te Motors Trading Limited ("De Te") to engage in the dealerships of 3 ultra-luxury car and sports car brands including Bentley, Lamborghini and Rolls-Royce in Beijing and some other areas of the PRC. Together with the exclusive entitlement to all of the economic benefits derived from the dealerships of Bentley cars and Lamborghini cars in Beijing under Mei He Zhen Yong and the dealership of Rolls-Royce cars in Beijing under De Te, the acquisition was put at an aggregate consideration of HK$402,000,000. Having approved in a Special General Meeting held on 8 April 2008, the acquisition was completed on 26 June 2008 and upon such, Mei He Zhen Yong and De Te became the deemed subsidiaries of the Group and their aggregated audited profit after tax from 1 January 2008 to 26 June 2008 that contributed to the increase of their net tangible assets will be kept by the Group and will reduce the goodwill on the acquisition according to the agreement. Bentley, Lamborghini and Rolls-Royce are categorised as ultra-luxury cars with prices ranging from RMB3,000,000 to RMB8,000,000. In the first half of 2008, the car sales volume of the dealerships of Bentley, Lamborghini and Rolls-Royce increased by approximately 125%, 40% and 170% respectively when compared with the same period last year. The remarkable sales performance achieved by the 3 brands reveals China is a market with huge development potential. The Group believes the dealerships acquisition will result in strong organic growth in the coming financial year.

In the future, we will keep on exploring and identifying opportunities in the luxury goods market including one more ultra-luxury sports car, branded watches and accessories, to strengthen our position as one of the leading luxury goods dealers in the PRC, thus enhancing the profitability of the Group in a long run. In July 2008, the Group acquired the dealership of a super deluxe branded watch, Richard Mille in the PRC to signify our commitment to this direction.

Jackie Chan Animations, our landmark project embarking on the international animations market is progressing well. The storyboard of the first 26 episodes named "Jackie Chan's Fantasia" is making strides and licensing of the animation's derivative products is in full gear making it possible for the kick-off of licensing products to go in line with the launch of the first 26 episodes. The Group has just acquired the remaining 49% interest of Dragon Animation Holdings Limited and Dragon Animation Limited in order to capture maximum returns once the animations is ready to launch.

The Group is pleased to report that "Hongying Group" is one of our income drivers in this financial period right after the completion of acquisition in early November 2007. For the financial period between November 2007 and March 2008, Hongying Group performed remarkably and it has already honored the target of guaranteed profit in the first year ended on 31 December 2007 according to the agreement signed among Jade Dynasty Multi-media Limited and Hong Ying Universe Company Limited.

# Chairman's Statement

"Shen Bing Kids", the Group's signature animations project, was well-received by children audience and animations lovers in the PRC. The entire series of 52 episodes was fully broadcasted on CCTV children channel in February 2008. With excellent audience rating and high popularity in the PRC, the Group has actively lobbied for broadcast of the 52 episodes in various national channels including Kaku TV, Hunan Hifly TV, Toonmax TV, Hangzhou Children and Guangdong Southern Children. Audio-visual products, animations-derived comics books and derivative products of "Shen Bing Kids" have been distributed in full speed throughout the PRC to keep up with the national broadcasts. The Group is now proactively enrolling more local and overseas licensees as well as licensees incorporated in the PRC to enlarge the derivative products portfolio of our animations, hoping to bring promising returns to our shareholders in the coming fiscal year.

Revenue derived from our comic publications business is steady. The Group will unceasingly search for more interesting titles from our established ready-made comics and animations library to cultivate greater readership by catering to wider range of tastes.

To preserve working capital for luxury goods and animations developments, the Group has disposed of its industrial and office premises in a sale-and-leaseback arrangement for 3 years at a consideration of HK$32 million.

Since the Group has repositioned to be a luxury goods dealer in the PRC, our board has recommended changing the Group's name to Sparkle Roll Group Limited providing a new corporate image for the Group.

In view of the aforesaid plans for business expansion, the board has decided not to propose dividends this year. We will endeavour to roll out our business plans for greater return and look seriously into the resumption of declaring dividends to share the fruits with our shareholders.

## Acknowledgement

We are very proud of our intelligent and dedicated team, which led our Group to sail through challenges in this extremely competitive global environment. I would like to take this opportunity to thank our board members and staff members for their hard work and contributions during the year.

**Tong Kai Lap**
*Chairman*

Hong Kong, 28 July 2008

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

The Group is committed to maintaining a high standard of corporate governance. The board of directors of the Company ("the Board") agrees that corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure that all practices can be met with legal and statutory requirements throughout the year of 2007/08, the Group has complied with all applicable the Code Provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company has been in compliance with the Code throughout the year.

## BOARD OF DIRECTORS

The Board currently comprises five executive and four non-executive directors whom three are independent as defined by the Stock Exchange. The biographical details are set out in the "Biographies of Directors and Senior Managements" section.

The Company has three independent non-executive directors, representing one-third of the Board. At least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All the independent non-executive directors have signed the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to confirm their independence.

Under the Company's Bye-laws, every director is subject to retirement by rotation at least once every three year.

The Board's primary responsibilities are to determine the overall strategies, monitor and control operating and financial performance and set appropriate policies to manage risks in pursuit of the groups' strategic objectives. Matters reserved for the Board are those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments. Day-to-day management of the Group's business is delegated to the executive director or officer in charge of each department. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. The Board members have access to appropriate business documents and information about the Group on a timely basis. All directors have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has a clear division of responsibilities for its top management and separates leadership structure where the role of Chairman is segregated from that of Chief Executive Officer. The Chairman is responsible for providing leadership for the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The Chief Executive Officer is responsible for the day-to-day business of the Group.

# Corporate Governance Report

## NON-EXECUTIVE DIRECTORS

There are currently four non-executive directors of whom three are independent. Under the Bye-laws of the Company, every director, including the non-executive and independent non-executive directors, shall be subject to retirement by rotation at least every three years. This means that the specific term of appointment of a director cannot exceed three years.

## MEETINGS AND ATTENDANCE

The Board meets regularly to review the financial and operating performance of the Group and approve business plan. Four Board meetings were held in 2007/08. Individual attendance of each director at the Board meetings, the Audit Committee meetings and Remuneration Committee meetings during 2007/08 is set out below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| **Director** | **Board** | **Audit Committee** | **Remuneration Committee** |
| *Executive Director* | | | |
| Mr. Tong Kai Lap | 1/1 | N/A | N/A |
| (redesignated as Non-executive Director on 1 November 2007) | | | |
| Mr. Wan Siu Lun | 4/4 | N/A | N/A |
| Mr. Wong Chun Keung | 4/4 | N/A | 1/1 |
| Mr. Kwong Chi Tak | 4/4 | N/A | N/A |
| Mr. Ko Chi Keung | 1/1 | N/A | N/A |
| (redesignated as Non-executive Director on 1 October 2007) | | | |
| *Non-executive Director* | | | |
| Mr. Tong Kai Lap | | | |
| (redesignated as Non-executive Director on 1 November 2007) | 3/3 | N/A | 1/1 |
| Mr. Zheng Hao Jiang | 4/4 | 2/2 | N/A |
| Mr. Ko Chi Keung | 3/3 | N/A | N/A |
| (redesignated as Non-executive Director on 1 October 2007) | | | |
| *Independent Non-executive Director* | | | |
| Choy Sze Chung, Jojo (appointed on 15 October 2007) | 3/3 | 1/1 | 1/1 |
| *(Chairman of the Audit Committee)* | | | |
| Lam Kwok Cheong (appointed on 15 October 2007) | 3/3 | 1/1 | 1/1 |
| *(Chairman of the Remuneration Committee)* | | | |
| Tsui Pui Hung (appointed on 15 October 2007) | 3/3 | 1/1 | 1/1 |
| Mr. Ho Yiu Ming (resigned on 15 October 2007) | 1/1 | 1/1 | N/A |
| *(Chairman of the Audit Committee)* | | | |
| Mr. Kwong Chi Keung (resigned on 15 October 2007) | 1/1 | 1/1 | N/A |
| *(Chairman of the Remuneration Committee)* | | | |
| Mr. Ma Fung Kwok (resigned on 15 October 2007) | 0/1 | 0/1 | N/A |

# Corporate Governance Report

## AUDIT COMMITTEE

The Company established an Audit Committee in compliance with the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls and discussing with the external auditors for the nature and scope of audit. Written terms of reference of the Audit Committee were formulated and adopted in March 2005.

The Audit Committee comprises three independent non-executive directors. The Chairman of the Audit Committee is an independent non-executive director. Its members include:

### Independent non-executive Director

Mr. Choy Sze Chung, Jojo – Chairman (appointed on 15 October 2007)
Mr. Lam Kwok Cheong (appointed on 15 October 2007)
Mr. Tsui Pui Hung (appointed on 15 October 2007)
Mr. Ho Yiu Ming – Chairman (resigned on 15 October 2007)
Mr. Kwong Chi Keung (resigned on 15 October 2007)
Mr. Ma Fung Kwok (resigned on 15 October 2007)

### Non-executive Director

Mr. Zheng Hao Jiang (resigned as audit committee member on 31 May 2008)

The Chairman of the Audit Committee, Choy Sze Chung, Jojo, has appropriate professional qualification in accounting and extensive experience in accounting and auditing matters. Senior management and auditors shall normally attend the meetings. The Audit Committee held two meetings in 2007/08 with satisfactory attendance rate for the purpose of discharging the aforesaid duties. The Group's annual report for the year ended 31 March 2008 has been reviewed by the Audit Committee.

## REMUNERATION COMMITTEE

According to the Code, the Company established the Remuneration Committee in March 2005. The principal role of the Remuneration Committee is to exercise the power of the Board to determine and review the remuneration package of individual directors and key executives, including salaries, bonuses and benefits in kind, considering factors such as time commitment and responsibilities of the directors and key executive, employments conditions elsewhere in the Group and desirability of performance based remuneration so as to align management incentives with shareholders' interests. The Remuneration Committee is also considering all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors and officers by linking their compensation with performance and measured it against corporate goals. During the year, the Remuneration Committee reviewed and approved the remuneration package of the executive directors.

The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about their proposals relating to remuneration of executive directors and have access to professional advice if considered necessary. After reviewing all relevant information, the Remuneration Committee made recommendations to the Board for the remuneration of the directors and senior management.

The Remuneration Committee comprises three non-independent executive directors and two executive directors. It members include:

### Independent non-executive Director

Mr. Lam Kwok Cheong – Chairman (appointed on 15 October 2007)
Mr. Choy Sze Chung, Jojo (appointed on 15 October 2007)
Mr. Tsui Pui Hung (appointed on 15 October 2007)
Mr. Kwong Chi Keung – Chairman (resigned on 15 October 2007)
Mr. Ho Yiu Ming (resigned on 15 October 2007)
Mr. Ma Fung Kwok (resigned on 15 October 2007)

### Executive Director

Mr. Wan Siu Lun (appointed on 1 November 2007 and resigned on 16 June 2008)
Mr. Wong Chun Keung (appointed on 1 October 2007 and resigned on 16 June 2008)
Mr. Tong Kai Lap (resigned on 1 November 2007 and re-appointed on 16 June 2008)
Mr. Zheng Hao Jiang (appointed on 16 June 2008)
Mr. Ko Chi Keung (resigned on 1 October 2007)

The Remuneration Committee met once in 2007/08 to review and approve directors' and senior managements' remuneration. The directors' fee paid to the non-executive and independent non-executive directors are subject to annual review and approval by the Remuneration Committee. The emoluments of each of the directors of the Company for 2007/08 are set out in Note 11 to this Annual Report.

## NOMINATION OF DIRECTORS

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the needs of the business of the Company. Therefore, it has not established nomination committee for the time being. Candidates to be nominated as directors are those experienced, high calibre individuals. During the year, appointment of Messrs. Choy Sze Chung, Jojo, Lam Kwok Cheong and Tsui Pui Hung as new directors are put to the full Board for approval. Thereafter, Messrs. Choy Sze Chung, Jojo, Lam Kwok Cheong and Tsui Pui Hung as the new directors are subject to election by shareholders at the next general meeting after his appointment.

All non-executive directors and independent non-executive directors are appointed for a specific term of two years and automatically renewed for one year and are required to retire and eligible for re-election at the annual general meeting of the Company in every three year in accordance with the Company's bye-laws.

# Corporate Governance Report

## AUDITOR'S REMUNERATION

Each year, the auditors are appointed by resolution of the Annual General Meeting and directors are authorised to fix their remunerations for the auditing services.

Grant Thornton was appointed as the auditors of the Company until the next general meeting of the Company.

The fee for annual audit provided by Grant Thornton for the year ended 31 March 2008 amounted to HK$1.0 million (2007: HK$0.7 million).

The auditors have not so far performed any significant non-auditing service. Should any non-auditing service be considered to be conducted by our auditors, the Audit committee would consider that based on the policy developed by them in this regard and would then make recommendations to the Board.

## COMPANY SECRETARY

The company secretary is responsible to the Board for ensuring that board procedures are followed and that activities of the Board are efficient and effective by assisting the chairman to prepare agenda for meeting and by preparing and disseminating Board papers to the directors and board committees in a timely and comprehensive manner. With respect to the company secretarial function, the company secretary maintains formal minutes for Board and other meetings.

The company secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The company secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of annual reports and interim reports within the period laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notifications are made of directors' dealings in Securities of the Group.

The company secretary also advises the directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Company.

In relation to connected transactions, advice from legal counsels is made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analysis is performed on all potential connected transactions for presentation to directors of relevant companies for their consideration in approving transactions.

## DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the financial year.

# Corporate Governance Report

## INVESTOR RELATIONS AND SHAREHOLDERS RIGHTS

To promote investor relations and communications, meetings with fund managers and potential investors are held frequently. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The chairman and directors are available to answer question on the Group's businesses at the meeting. Shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for considerations by shareholders. At any general meeting a resolution put to their vote of the meeting shall be decided on a show of hands unless a poll is demanded.

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices, financial reports to shareholders, addition information is also available to shareholders from the Group's website.

## INTERNAL CONTROLS

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk. In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and put in place policies and procedures. The Company has not appointed an internal auditor. The internal controls are monitored and reviewed regularly by appropriate senior management so as to ensure that the categories of risks are managed effectively.

The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies. Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by the Board. The Board is overall responsible for monitoring the operations of the business within the Group. Monitoring activities include the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. When setting budget and forecast, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Group maintains a centralised cash management system for its subsidiary operations and the Group's finance department oversees the Group's cash position.

During the year, the Audit Committee and board of directors have reviewed internal control of the Company. The Board considers that the Group's internal control system is satisfactory.

## FINANCIAL REPORTING

The Board recognises its responsibility to prepare consolidated financial statements which give a true and fair view and are in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereafter collectively referred to as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are selected and applied consistently. Judgements and estimates made are prudent and reasonable. HKFRS have always broadly followed International Financial Reporting Standards. The Group has changed some of its accounting policies following the adoption of the new or revised HKFRS which came into effect on 1 April 2007. The accounting policies adopted by the Group are set out in the "Summary of Significant Accounting Policies" of the notes to the financial statements. The directors use their best endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

The responsibilities of the auditors with respect to financial reporting are set out on page 27 in the Independent Auditors' Report.

# Report of the Directors

The directors present their annual report and the audited financial statements of the Group for the year ended 31 March 2008.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. Its subsidiaries were principally engaged in the publications and distributions of comic books and multimedia development in Hong Kong and the People's Republic of China.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2008, the largest and the top five suppliers of the Group accounted for less than 30% of the Group's total purchases. The largest and the top five customers of the Group accounted for approximately 31% and 66% respectively of the Group's total revenue.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have a beneficial interest in any of the Group's five largest suppliers or customers during the year.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2008 are set out in the consolidated income statement on page 29.

An interim dividend of HK0.2 cents per share amounting to HK$2,169,000 was paid to shareholders during the year. The directors do not recommend the payment of a final dividend for the year ended 31 March 2008.

## DISTRIBUTABLE RESERVES

In addition to retained profits, under the Bermuda Companies Act, the contributed surplus account of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 March 2008 is HK$110,818,000 (2007: 113,958,000).

# Report of the Directors

## SUBSTANTIAL INVESTMENT AND ACQUISITION

On 1 November 2007, the Group completed the acquisition of 51% issued share capital of Super Win Limited which has a wholly owned subsidiary, Suzhou Hongyang Cartoon Production Company Limited, and exclusive entitlement to all of the economic benefits and rights to control, manage and operate Nanjing Hongying Anmie-cartoon Entertainment Company Limited and Shanghai Sanding Animation Creation Company Limited. Details of the acquisition had been set out in the circular to the shareholders dated 31 August 2007.

## SHARE CAPITAL

During the year, 100,000,000 ordinary shares of HK$0.002 each of the Company were issued and allotted to Super Empire Investments Limited ("Super Empire"), a company wholly owned by the major shareholder of the Company, which were then placed to independent professional investors at a price of HK$0.76 each and 100,000,000 new ordinary shares of HK$0.002 each of the Company were issued and allotted to Super Empire on 13 June 2007. These shares were issued under the general mandate granted to the directors of the Company on 23 August 2006. The issued price of HK$0.76 represented a discount of approximately 8.4% to the closing price of HK$0.83 on 13 June 2007.

During the year, 40,800,000 shares of HK$0.002 each of the Company were issued and allotted to an independent third party for the acquisition of subsidiaries.

During the year, convertible notes with an aggregate principal amount of HK$5,603,000 were converted into 11,054,400 ordinary shares of HK$0.002 each at HK$0.5 per share.

During the year, registered holders of share options exercised their rights to subscribe for 1,904,000 ordinary shares in aggregate. At the balance sheet date, the Company had no outstanding share options.

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

## CONVERTIBLE NOTES

Convertible notes (the "Notes") of the Company were issued on 19 October 2004 upon completion of the agreement for the sale and purchase of 49% equity interests in Jade Dynasty Holdings Limited ("JDH") dated 17 August 2004. The Notes were convertible into shares of the Company at a price of HK$0.50 per share (subject to adjustments) and matured on 18 October 2007. The Notes bore interest on the outstanding principal from the date of issue to the date of redemption or conversion at a rate of 2% per annum payable in arrears semi-annually. During the year, certain registered holders of the Notes converted the Notes of an aggregate principal amount of HK$5,603,000 into 11,054,400 ordinary shares.

## BANK BORROWINGS

Particulars of bank borrowings of the Company and the Group as at 31 March 2008 are set out in note 30 to the financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 98.

# Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

## DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Tong Kai Lap (redesignated as Deputy Chairman and Non-Executive Director on 1 November 2007, and redesignated as Chairman and Executive Director on 16 June 2008)
Mr. Zheng Hao Jiang (redesignated as Executive Director, appointed as Deputy Chairman and Chief Executive Officer on 16 June 2008)
Mr. Wan Siu Lun (appointed as Chairman on 1 November 2007, redesignated as Deputy Chairman on 16 June 2008)
Mr. Wong Chun Keung (appointed as Deputy Chairman and Chief Executive Officer on 1 October 2007 and resigned as Deputy Chairman and Chief Executive Officer on 16 June 2008)
Mr. Kwong Chi Tak
Mr. Ko Chi Keung (redesignated as Non-Executive Director and resigned as Chief Executive Officer on 1 October 2007)

### Non-executive director:

Mr. Tong Kai Lap (redesignated as Non-Executive Director on 1 November 2007, and redesignated as Executive Director on 16 June 2008)
Mr. Zheng Hao Jiang (redesignated as Executive Director, appointed as Deputy Chairman and Chief Executive Officer on 16 June 2008)
Mr. Ko Chi Keung (redesignated as Non-Executive Director on 1 October 2007)

### Independent non-executive directors:

Mr. Choy Sze Chung, Jojo (appointed on 15 October 2007)
Mr. Lam Kwok Cheong (appointed on 15 October 2007)
Mr. Tsui Pui Hung (appointed on 15 October 2007)
Mr. Ho Yiu Ming (resigned on 15 October 2007)
Mr. Kwong Chi Keung (resigned on 15 October 2007)
Mr. Ma Fung Kwok (resigned on 15 October 2007)

In accordance with bye-laws 86(2B) of the Company's Bye-laws, any director appointed during the year will retire at the forthcoming annual general meeting and are eligible for re-election.

In accordance with bye-laws 87(1) of the Company's Bye-laws, every director should be subject to retirement by rotation at the annual general meeting at least once every three years and are eligible for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period of two years or up to his retirement by rotation in accordance with the Company's Bye-laws.

In accordance with bye-laws 87(1) of the company's Bye-laws, Messrs. Kwong Chi Tak and Ko Chi Keung will retire by rotation and, being eligible, for re-election. In addition, pursuant to bye-laws 86(2B) of the Company's Bye-laws, Messrs. Choy Sze Chung, Jojo, Lam Kwok Cheong and Tsui Pui Hung were appointed as directors during the year and will hold offices until the forthcoming general meeting. Messrs. Choy Sze Chung, Jojo and Lam Kwok Cheong will and Messrs. Kwong Chi Tak, Ko Chi Keung and Tsui Pui Hung will not offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 March 2008, the interests of the directors and their associates in the shares and convertible notes of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long position in the shares of the Company

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Mr. Tong Kai Lap ("Mr. Tong") (Note 1) | Founder of discretionary trust | 10,274,400 ordinary shares | 1.62% |
| Mr. Tong (Note 1) | Beneficial owner | 4,760,000 ordinary shares | 1.62% |
| Mr. Tong (Note 2) | Interest of spouse | 2,551,466 ordinary shares | 1.62% |
| Mr. Wan Siu Lun | Beneficial owner | 504,000 ordinary shares | 0.05% |

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Mr. Wong Chun Keung | Beneficial owner | 4,264,000 ordinary shares | 0.39% |
| Mr. Ko Chi Keung | Beneficial owner | 1,292,000 ordinary shares | 0.12% |
| Mr. Kwong Chi Tak | Beneficial owner | 906,666 ordinary shares | 0.08% |
| Mr. Zheng Hao Jiang | Beneficial owner | 10,640,000 ordinary shares | 0.98% |

(1) Interest in the issued shares shown in this row is beneficially owned by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong is the founder. Accordingly, Mr. Tong is deemed to be interested in these shares. The total interests of issued shares of Mr. Tong are 17,585,866 shares.

(2) Interest of issued shares shown in this row is beneficially owned by Ms. Wong Miu Ling, Patricia, the spouse of Mr. Tong. Accordingly, Mr. Tong is deemed to be interested in these securities.

(3) The denominator used is 1,086,152,850 shares, being the total number of shares in issue as at 31 March 2008.

(4) Other than as disclosed above and in the section headed "Share Options" below, none of the directors nor their associates has any interests or short positions in any shares, underlying shares or convertible notes of the Company or any of its associated corporations as at 31 March 2008.

# Report of the Directors

## SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company held on 7 October 2002. Particulars of the Scheme are set out in note 36 to the consolidated financial statements.

The following table discloses movements in the Company's share options held by its directors during the year:

| Name of director | Option type | Date of grant | Exercisable period | Exercise price HK$ | Outstanding at 1 April 2007 | Exercised during the year | Lapsed during the year | Outstanding at 31 March 2008 |
|---|---|---|---|---|---|---|---|---|
| Mr. Tong | 2004 | 2 April 2004 | 22 April 2004 to 21 April 2007 | 0.363 | 4,000 | – | (4,000) | – |
| Mr. Wong Chun Keung | 2005 | 6 January 2005 | 21 January 2005 to 20 January 2008 | 0.370 | 1,200,000 | – | (1,200,000) | – |
| Mr. Ko Chi Keung | 2005 | 6 January 2005 | 21 January 2005 to 20 January 2008 | 0.370 | 1,000,000 | (1,000,000) | – | – |
| Mr. Kwong Chi Tak ("Mr. Kwong") | 2004 | 2 April 2004 | 22 April 2004 to 21 April 2007 | 0.363 | 4,000 | – | (4,000) | – |
| Note | 2005 | 6 January 2005 | 21 January 2005 to 20 January 2008 | 0.370 | 904,000 | (904,000) | – | – |
| | | | | | 3,112,000 | (1,904,000) | (1,208,000) | – |

Note: Share options were granted to Mr. Kwong on 2 April 2004 in the capacity of a consultant of the Group. Mr. Kwong was appointed as a director of the Company on 1 January 2005.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long position in the shares of the Company

| **Name of shareholder** | **Capacity** | **Number of issued ordinary shares held** | **Percentage of the issued share capital of the Company** (Note 4) |
|---|---|---|---|
| Substantial shareholders | | | |
| Super Empire Investments Limited ("Super Empire") | Beneficial owner | 273,435,100 | 25.17% |
| Mr. Wong Chun Loong ("Mr. Wong") (Note 1) | Held by controlled corporation | 273,435,100 | 25.17% |
| Evolution Master Fund Ltd. | Held by controlled corporation | 119,473,684 | 11.00% |
| Evolution Capital LLC | Held by controlled corporation | 119,473,684 | 11.00% |
| Hong Ying Universe Company Limited ("Hong Ying") (Note 2) | Held by controlled corporation | 130,800,000 | 12.04% |
| Mr. Hsieh Tai Chun ("Mr. Hsieh") (Note 2) | Beneficial owner corporation | 130,800,000 | 12.04% |
| Ms. Liu Su ("Ms. Liu") (Note 2) | Interest of spouse | 130,800,000 | 12.04% |

Notes:

(1) Super Empire is a company controlled by Mr. Wong. Accordingly, Mr. Wong is deemed to be beneficial holder of shares held by Super Empire.

(2) Hong Ying is a company controlled by Mr. Hsieh and Ms. Liu is wife of Mr. Hsieh. Accordingly, Mr. Hsieh is deemed to be beneficial holder of shares held by Hong Ying and Ms. Liu.

(3) The denominator used is 1,086,152,850 shares, being the total number of shares in issue as at 31 March 2008.

(4) Other than as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 March 2008.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section headed "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

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

## 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.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market information.

The Company has adopted a share option share scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 36 to the consolidated financial statements.

## 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 Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

## CONTINUING CONNECTED TRANSACTIONS

On 30 March 2007, the Company entered into a service agreement ("Service Agreement") with Mr. Wong, pursuant to which the Company has appointed Mr. Wong, for a term commencing from 1 April 2007 to 31 March 2008, as a creative writer for the comic and animated cartoon of the Group and Mr. Wong shall provide creative idea for the comic and animated cartoon related products of the Group. Mr. Wong shall also be responsible for assisting the promotion of the Group's products to the public. Mr. Wong is entitled to a monthly salary of HK$392,000 together with a bonus calculated based on the net profit of the comic and animated cartoon division of the Group for the year. However, the total annual emoluments of Mr. Wong under the Service Agreement shall be subject to an annual cap of HK$6,500,000. For the year ended 31 March 2008, the total annual emoluments and MPF paid by the Group to Mr. Wong for his services as a comic and animated cartoon creative writer amounted to HK$4,668,000.

On 9 April 2008, the Company renewed the service agreement with Mr. Wong for a term commencing from 1 April 2008 to 31 March 2009, as chief creative officer. The major terms and conditions of the renewed service agreement are as same as the above-said Service Agreement except that the monthly salary being reduced to HK$388,000.

The independent non-executive directors of the Company have reviewed the continuing connected transaction and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms or on terms no less favourable to the Group the terms available from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable in the interests of shareholders of the Company as a whole.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2008.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

## AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be put at the forthcoming annual general meeting.

On behalf of the Board

**Tong Kai Lap**
*Chairman*

Hong Kong, 28 July 2008

# Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

**To the members of Jade Dynasty Group Limited**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Jade Dynasty Group Limited (the "Company") set out on pages 29 to 97, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 as to whether the financial statements are free from material misstatement.

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

# Independent Auditors' Report

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2008 and of the Group's profit 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.

**Grant Thornton**
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 July 2008

# Consolidated Income Statement

For the year ended 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Revenue** | *5* | **156,726** | 102,094 |
| Cost of sales | | **(128,050)** | (76,930) |
| **Gross profit** | | **28,676** | 25,164 |
| Other revenue and gains | *7* | **3,488** | 1,264 |
| Selling and distribution costs | | **(3,302)** | (2,640) |
| Administrative expenses | | **(19,360)** | (12,331) |
| Other operating expenses | | **(991)** | – |
| Operating profits | *8* | **8,511** | 11,457 |
| Finance costs | *9* | **(226)** | (380) |
| **Profit before income tax** | | **8,285** | 11,077 |
| Income tax (expense)/credit | *10* | **(2,052)** | 286 |
| **Profit for the year** | | **6,233** | 11,363 |
| Attributable to: | | | |
| Equity holders of the Company | | **6,585** | 11,370 |
| Minority interests | | **(352)** | (7) |
| | | **6,233** | 11,363 |
| **Dividends** | *14* | **2,169** | 3,943 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | *15* | | |
| – Basic | | **0.63 cent** | 1.24 cent |
| – Diluted | | **0.63 cent** | 1.23 cent |

# Consolidated Balance Sheet

As at 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *16* | **13,591** | 7,899 |
| Prepaid lease payments | *17* | **8,184** | 8,358 |
| Intangible assets | *18* | **10,551** | 6,107 |
| Goodwill | *20* | **141,194** | 124,539 |
| Deferred tax assets | *21* | **4,388** | 4,353 |
| Trade receivables | *22* | **–** | 1,597 |
| Deposits | *23* | **50,000** | – |
| | | **227,908** | 152,853 |
| **Current assets** | | | |
| Prepaid lease payments | *17* | **174** | 174 |
| Inventories | *24* | **59,874** | 65,298 |
| Film rights | *25* | **46,307** | – |
| Trade receivables | *22* | **19,729** | 31,252 |
| Deposits, prepayments and other receivables | *23* | **23,004** | 11,239 |
| Derivative financial instruments | *26* | **2,428** | – |
| Tax recoverable | | **775** | 1,280 |
| Pledged bank deposits | *27* | **4,406** | 4,258 |
| Cash at banks and in hand | *27* | **27,172** | 5,299 |
| | | **183,869** | 118,800 |
| **Current liabilities** | | | |
| Trade payables | *28* | **9,943** | 9,672 |
| Receipts in advance, accrued charges and other payables | *29* | **35,687** | 4,597 |
| Derivative financial instruments | *26* | **2,317** | – |
| Provision for tax | | **1,180** | 1,521 |
| Bank borrowings | *30* | **930** | 3,557 |
| Convertible notes | *31* | **–** | 5,603 |
| | | **50,057** | 24,950 |
| **Net current assets** | | **133,812** | 93,850 |
| **Total assets less current liabilities** | | **361,720** | 246,703 |

# Consolidated Balance Sheet

As at 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other payables | *29* | **2,148** | – |
| Deferred tax liabilities | *21* | **686** | – |
| | | **2,834** | – |
| **Net assets** | | **358,886** | 246,703 |
| **EQUITY** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | *32* | **2,172** | 1,865 |
| Reserves | | **349,278** | 242,395 |
| | | **351,450** | 244,260 |
| **Minority interests** | | **7,436** | 2,443 |
| **Total equity** | | **358,886** | 246,703 |

**Tong Kai Lap**
*Director*

**Zheng Hao Jiang**
*Director*

# Balance Sheet

As at 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | *19* | **150,298** | 150,298 |
| Deferred tax assets | *21* | **835** | 880 |
| Deposits | *23* | **50,000** | – |
| | | **201,133** | 151,178 |
| **Current assets** | | | |
| Amounts due from subsidiaries | *19* | **121,809** | 76,635 |
| Prepayments | *23* | **918** | 346 |
| Pledged bank deposits | *27* | **3,294** | 3,190 |
| Cash at banks and in hand | *27* | **44** | 3,332 |
| | | **126,065** | 83,503 |
| **Current liabilities** | | | |
| Accrued charges | *29* | **498** | 178 |
| Bank borrowings | *30* | **80** | 1,863 |
| Convertible notes | *31* | **–** | 5,603 |
| | | **578** | 7,644 |
| **Net current assets** | | **125,487** | 75,859 |
| **Net assets** | | **326,620** | 227,037 |
| **EQUITY** | | | |
| Share capital | *32* | **2,172** | 1,865 |
| Reserves | *33* | **324,448** | 225,172 |
| **Total equity** | | **326,620** | 227,037 |

**Tong Kai Lap**
*Director*

**Zheng Hao Jiang**
*Director*

# Consolidated Cash Flow Statement

For the year ended 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **8,285** | 11,077 |
| Adjustments for: | | | |
| Bank interest income | *7* | **(1,826)** | (530) |
| Gains on disposal of property, plant and equipment | *7* | **(86)** | (135) |
| Over-provision of effective interest expense on convertible notes | | **(101)** | – |
| Amortisation of film rights | *8* | **3,051** | – |
| Amortisation of intangible assets | *8* | **2,258** | 827 |
| Amortisation of prepaid lease payments | *8* | **174** | 174 |
| Depreciation | *8* | **1,574** | 816 |
| Fair value loss on derivative financial instruments | *8* | **319** | – |
| Allowance for impairment of intangible assets | *8* | **464** | – |
| Allowance for impairment of inventories | *8* | **1,791** | – |
| Allowance for impairment of receivables | *8* | **108** | – |
| Interest expense | *9* | **226** | 380 |
| Operating profit before working capital changes | | **16,237** | 12,609 |
| Decrease/(increase) in inventories | | **21,029** | (21,594) |
| Increase in film rights | | **(29,790)** | – |
| Decrease/(increase) in trade receivables | | **13,289** | (5,139) |
| (Increase)/decrease in deposits, prepayments and other receivables | | **(31,552)** | 787 |
| (Decrease)/increase in trade payables | | **(3,447)** | 1,794 |
| Decrease in receipts in advance, accrued charges and other payables | | **(24,481)** | (4,163) |
| Cash used in operations | | **(38,715)** | (15,706) |
| Hong Kong profits tax paid | | **(1,088)** | (954) |
| Foreign tax paid | | **(149)** | – |
| Net cash used in operating activities | | **(39,952)** | (16,660) |
| **Cash flows from investing activities** | | | |
| Increase in pledged bank deposits | | **(148)** | (145) |
| Purchase of property, plant and equipment | | **(747)** | (1,948) |
| Purchase of intangible assets | | **(5,950)** | (76) |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | *34* | **(2,437)** | (2,550) |
| Proceeds from disposals of property, plant and equipment | | **268** | 158 |
| Interest received | | **1,826** | 530 |
| Net cash used in investing activities | | **(7,188)** | (4,031) |

# Consolidated Cash Flow Statement

For the year ended 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Repayments of bank loans | | **(2,188)** | (14,610) |
| Dividends paid to equity holders of the Company | | **(4,250)** | (3,717) |
| Bank interest paid | | **(220)** | (251) |
| Interest on convertible notes paid | | **(5)** | (120) |
| Proceeds from the issue of new shares | | **76,705** | 39,770 |
| Share issue expenses | | **(2,333)** | (989) |
| New bank loans raised | | **850** | 2,188 |
| Net cash generated from financing activities | | **68,559** | 22,271 |
| **Net increase in cash and cash equivalents** | | **21,419** | 1,580 |
| **Cash and cash equivalents beginning of the year** | | **3,930** | 2,318 |
| Effect of foreign exchange rate changes, net | | **1,743** | 32 |
| **Cash and cash equivalents at end of the year** | | **27,092** | 3,930 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **27,172** | 5,299 |
| Bank overdrafts | *30* | **(80)** | (1,369) |
| **Cash and cash equivalents at 31 March** | | **27,092** | 3,930 |

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

| | Equity attributable to the equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Capital reserve** HK$'000 | **Special reserve** HK$'000 *(Note 1)* | **Contributed surplus** HK$'000 *(Note 2)* | **Exchange reserve** HK$'000 | **Proposed final dividends** HK$'000 | **Retained profits** HK$'000 | **Total** HK$'000 | **Minority interests** HK$'000 | **Total** HK$'000 |
| At 1 April 2006 | 1,689 | 62,912 | 66 | (36,810) | 49,394 | 2 | 1,855 | 109,055 | 188,163 | – | 188,163 |
| Exchange difference on translation of overseas operations recognised directly in equity | – | – | – | – | – | 32 | – | – | 32 | – | 32 |
| Profit for the year | – | – | – | – | – | – | – | 11,370 | 11,370 | (7) | 11,363 |
| **Total recognised income for the year** | – | – | – | – | – | 32 | – | 11,370 | 11,402 | (7) | 11,395 |
| Issue of shares upon conversion of convertible notes | 39 | 9,634 | (42) | – | – | – | – | – | 9,631 | – | 9,631 |
| Issue of shares upon exercise of shares options | 57 | 10,513 | – | – | – | – | – | – | 10,570 | – | 10,570 |
| Placing of shares | 80 | 29,120 | – | – | – | – | – | – | 29,200 | – | 29,200 |
| Share issue expenses | – | (989) | – | – | – | – | – | – | (989) | – | (989) |
| Minority interests arising from acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | 2,450 | 2,450 |
| Final dividend paid for the year ended 31 March 2006 | – | – | – | – | – | – | (1,855) | – | (1,855) | – | (1,855) |
| Interim dividend paid for the period ended 30 September 2006 | – | – | – | – | – | – | – | (1,862) | (1,862) | – | (1,862) |
| Proposed final dividends for the year ended 31 March 2007 | – | – | – | – | – | – | 2,081 | (2,081) | – | – | – |
| **At 31 March 2007** | 1,865 | 111,190 | 24 | (36,810) | 49,394 | 34 | 2,081 | 116,482 | 244,260 | 2,443 | 246,703 |
| Exchange difference on translation of overseas operations recognised directly in equity | – | – | – | – | – | 2,132 | – | – | 2,132 | – | 2,132 |
| Profit for the year | – | – | – | – | – | – | – | 6,585 | 6,585 | (352) | 6,233 |
| **Total recognised income for the year** | – | – | – | – | – | 2,132 | – | 6,585 | 8,717 | (352) | 8,365 |
| Issue of shares upon conversion of convertible notes | 22 | 5,505 | (24) | – | – | – | – | – | 5,503 | – | 5,503 |
| Issue of shares upon exercise of shares options | 3 | 702 | – | – | – | – | – | – | 705 | – | 705 |
| Placing of shares | 200 | 75,800 | – | – | – | – | – | – | 76,000 | – | 76,000 |
| Issue of shares upon acquisition of subsidiaries | 82 | 22,766 | – | – | – | – | – | – | 22,848 | – | 22,848 |
| Share issue expenses | – | (2,333) | – | – | – | – | – | – | (2,333) | – | (2,333) |
| Minority interests arising from acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | 5,345 | 5,345 |
| Final dividends paid for the year ended 31 March 2007 | – | – | – | – | – | – | (2,081) | – | (2,081) | – | (2,081) |
| Interim dividend paid for the period ended 30 September 2007 | – | – | – | – | – | – | – | (2,169) | (2,169) | – | (2,169) |
| **At 31 March 2008** | **2,172** | **213,630** | **–** | **(36,810)** | **49,394** | **2,166** | **–** | **120,898** | **351,450** | **7,436** | **358,886** |

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

*Notes :*

1. The special reserve of the Group represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the shares issued for the acquisition under a group reorganisation in 1997.

2. Pursuant to a special resolution passed at the annual general meeting of the Company on 10 August 2004, the Company reduced it share premium by an amount of approximately HK$286,300,000 in accordance with the provisions of section 46 of the Bermuda Companies Act 1981 and transferred the same amount to the contributed surplus account of the Company. On the same date, the Company applied an amount of approximately HK$236,906,000 from the contributed surplus account against the accumulated losses. The remaining balance of the contributed surplus amounted to HK$49,394,000.

## 1. GENERAL INFORMATION

Jade Dynasty Group Limited (the "Company") is an exempted company with limited liability incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church House, Hamilton HM11, Bermuda and its principal place of business is 11th Floor, Safety Godown Industrial Building, 56 Ka Yip Street, Chai Wan, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries (the "Group") are the publications of comic books and multimedia development in Hong Kong and Mainland China.

The financial statements on pages 29 to 97 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements for the year ended 31 March 2008 were approved for issue by the board of directors on 28 July 2008.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

### Adoption of new and amended HKFRSs effective on 1 April 2007

From 1 April 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 April 2007 and relevant to the Group. The adoption of these HKFRSs did not result in significant changes to the Group's accounting policies. As a result of the adoption of HKAS 1 (Amendment) "Capital Disclosures" and HKFRS 7 "Financial Instruments: Disclosures", there are additional disclosures provided as follows:

The amendment to HKAS 1 introduces additional disclosure requirements to provide information in each annual financial report about the level of capital and the Group's objectives, policies and procedures for managing capital. These new disclosures are set out in note 40 to the financial statements.

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required under HKAS 32 "Financial Instruments: Disclosure and Presentation". These disclosures are provided throughout these financial statements, in particular in note 39 to the financial statements.

The amendment to HKFRS 7 does not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The first-time application of HKAS 1 (Amendment) and HKFRS 7, however, has not resulted in any prior period adjustments on cash flows, net income or balance sheet items. Accordingly, no adjustments on prior periods are required.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

### New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| Amendments to HKAS 1 (Revised) | Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 (Amendment) | Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement[1] |
| HKFRS 2 (Revised) | Share-based Payment – Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combination – Comprehensive Revision on Applying the Acquisition Method[2] |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures – Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Interpretation 2 (Amendment) | Members' Shares in Co-operative Entities and Similar Instruments[1] |
| HK(IFRIC) – Interpretation 12 | Service Concession Arrangements[3] |
| HK(IFRIC) – Interpretation 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) – Interpretation 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

[1] *Effective for annual periods beginning on or after 1 January 2009*

[2] *Effective for annual periods beginning on or after 1 July 2009*

[3] *Effective for annual periods beginning on or after 1 January 2008*

[4] *Effective for annual periods beginning on or after 1 July 2008*

Among these new or amended HKFRSs, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements. The amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The directors of the Company are currently assessing the impact of other new or amended HKFRSs but are not yet in a position to state whether they would have any material financial impact on the Group's financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The financial statements have been prepared in accordance with the significant accounting policies set out below. The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Subsidiaries *(Continued)*

In the Company's balance sheet, subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Group has been recovered.

### 3.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.4 Foreign currency translation *(Continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 April 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other 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 income statement as part of the gain or loss on sales.

### 3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest, royalties and dividends, net of returns and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised when goods are delivered.

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreements or when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon the delivery of the rights to the customers.

Online comics viewing income is recognised on a basis which generally coincides with the timing, when the services are rendered.

Subcontracting service fees are recognised when services are rendered.

Advertising income for advertisements on comic books is recognised on the relevant publication date of the Group's comic books.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.6 Borrowing costs

All borrowing costs are expensed as incurred.

### 3.7 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. The cost of the business combination is 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, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(see note 3.10)*.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

### 3.8 Intangible assets (other than goodwill)

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

The intangible assets of the Group which have definite useful lives are amortised on a straight-line basis over the following useful lives:

| | |
|---|---|
| Copyrights | 2 – 10 years |
| Trademarks | 5 years |

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets are tested for impairment as described in note 3.10.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.9 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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 of their estimated residual value, using the straight-line method, as follows:

| | |
|---|---|
| Buildings | 50 years or over the lease term, if less than 50 years |
| Furniture and equipment | 3 to 10 years |
| Fixtures | 5 to 10 years or over the lease term whichever is shorter |
| Motor vehicles | 4 to 5 years |

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

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 retirement or disposal of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement.

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

### 3.10 Impairment of non-financial assets

Goodwill arising from acquisition of subsidiary, other intangible assets, property, plant and equipment, prepaid lease payments and interests in subsidiaries are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.10 Impairment of non-financial assets *(Continued)*

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss recognised for a cash-generating unit, to which goodwill has been allocated, is credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*(ii) Operating lease charges as the lessee*

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.12 Financial assets

The Group's accounting policies for financial assets other than interests in subsidiaries are set out below.

The Group's financial assets include trade and other receivables, derivative financial instruments and cash and cash equivalents. Financial assets are classified into financial assets at fair value through profit or loss and loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial assets.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.12 Financial assets *(Continued)*

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, such as significant difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

### 3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and applicable selling expenses.

### 3.14 Film rights

Film rights represent completed animations which are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the exploration of film rights. Where there is an impairment in value, the unamortised balance is written down to its estimated recoverable amount.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

### 3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 3.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.18 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through several defined contribution plans.

*Defined contribution plan*

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

The employees of the Group's subsidiaries which operate in the People's Republic of China except Hong Kong, Macau and Taiwan (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

*Short-term employee benefits*

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 3.19 Equity-settled share-based payment transactions

*Share options granted to employees of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.19 Equity-settled share-based payment transactions *(Continued)*

*Share options granted to consultants, advisors, customers, shareholders and business associates*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

### 3.20 Financial liabilities

The Group's financial liabilities include trade payables, accrued charges and other payables, derivative financial instruments, bank borrowings and convertible notes.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

*Trade and other payables and accrued charges*

Trade and other payables and accrued charges are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including derivatives which have been separated from their host contracts are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.20 Financial liabilities *(Continued)*

*Financial liabilities at fair value through profit or loss (Continued)*

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

*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 balance sheet date.

*Convertible notes*

Convertible notes issued by the Group that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option for the holders to convert the notes into equity, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the embedded option is exercised (in which case the balance stated in capital reserve will be transferred to share premium).

When the convertible notes are converted, the capital reserve and the carrying amount of the liability component of the convertible notes at the time of conversion are transferred to share capital and share premium. Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.20 Financial liabilities *(Continued)*

*Convertible notes (Continued)*

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

### 3.21 Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

### 3.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the business development of the Group are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected investment period of certain conditions specified.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount of the guarantee i.e. the amount initially recognised less accumulated amortisation, where appropriate.

### 3.24 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, prepaid lease payments and intangible assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.25 Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled by, or is under common control with, the Company/Group; (2) has an interest in the Company that gives it significant influence over the Company/Group; or (3) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

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

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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

### Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.10. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 March 2008, the carrying amount of goodwill was approximately HK$141,194,000 (2007: HK$124,539,000). Details of the impairment assessment are disclosed in note 20.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Impairment of other non-financial assets

The Group assesses at each reporting date whether there is any indication that other non-financial assets with definite lives may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in note 3.10. In assessing whether there is any indication that other non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions, economic environment and customers' tastes. These assessments are subjective and require management's judgements and estimations.

### Deferred tax assets

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available in the future against which the temporary differences, the carry forward of unused tax credits and unused tax losses could be utilised. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Where the actual or expected tax positions in future are different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax expense in the period in which such estimate has been changed.

### Impairment of receivables

The policy for making allowance for impairment of receivables of the Group is based on the evaluation of collectability and ageing analysis of the receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/debtor. If the financial conditions of the customers/debtors of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowance for impairment may be required. If the financial conditions of the customers/debtors of the Group, on whose account allowance for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of allowance for impairment may be required.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Impairment of inventories

The management of the Group reviews the inventories at each balance sheet date, and makes allowance for impairment of obsolete, slow-moving and impaired items. The management estimates the net realisable value for such inventories based primarily on the expected future market conditions and the revenue associated. The Group carries out a review on the inventories at each balance sheet date and makes allowance for impairment if the net realisable value is below the carrying amount.

### Impairment of film rights

The management of the Group reviews the film rights at each balance sheet date, and makes allowance for impairment when necessary. The management estimates the recoverable amount of film rights based primarily on the expected future market conditions as to whether the revenue associated. The Group carries out a review on film rights at each balance sheet date and makes allowance for impairment if the recoverable amount is below the net carrying amount.

### Valuation for derivative financial instruments

The fair values of the derivative financial instruments are determined by a firm of independent professional valuers in Hong Kong. Black-Scholes-Merton Option Pricing Model was used in determining the fair value of the derivative financial instruments. This valuation model requires the input of subjective assumptions, including the risk free rate, stock price, estimated volatility and expected life of the options. Changes in subjective input assumptions can materially affect the fair value estimate. Details of the fair value of each kind of the derivative financial instrument are disclosed in note 26.

## 5. REVENUE

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold and income from provision of services and use of the Group's assets. An analysis of the Group's revenue for the year is as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Sale of comic books | **104,624** | 83,568 |
| Royalty income | **8,398** | 11,987 |
| Return on film investment | **–** | 4,800 |
| Sale of merchandised goods | **1,072** | 1,067 |
| Online comic viewing income | **515** | 592 |
| Sale of comic scripts | **74** | 80 |
| Subcontracting income for animation production | **42,043** | – |
| | **156,726** | 102,094 |

## 6. SEGMENT INFORMATION

### Primary reporting format – business segments

The Group is currently organised into two (2007: two) main operating divisions, namely, publications and distributions of comic books and multimedia development. These divisions are the basis on which the Group reports its primary segment information. There are no intersegment sales between the respective segments.

**For the year ended 31 March**

| | **Publications and distributions of comic books** | | **Multimedia development** | | **Group** | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Revenue | **109,675** | 90,032 | **47,051** | 12,062 | **156,726** | 102,094 |
| Segment results | **5,522** | 8,177 | **12,328** | 8,410 | **17,850** | 16,587 |
| Unallocated income | | | | | **3,057** | 1,129 |
| Unallocated expenses | | | | | **(12,396)** | (6,259) |
| Finance costs | | | | | **(226)** | (380) |
| Profit before income tax | | | | | **8,285** | 11,077 |
| Income tax (expense)/credit | | | | | **(2,052)** | 286 |
| Profit for the year | | | | | **6,233** | 11,363 |

## 6. SEGMENT INFORMATION *(Continued)*

### Primary reporting format – business segments *(Continued)*

**As at 31 March**

| | Publications and distributions of comic books | | Multimedia development | | Group | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **180,400** | 178,650 | **140,740** | 77,467 | **321,140** | 256,117 |
| Unallocated assets | | | | | **90,637** | 15,536 |
| Total assets | | | | | **411,777** | 271,653 |
| Segment liabilities | **19,168** | 14,079 | **28,088** | 10 | **47,256** | 14,089 |
| Unallocated liabilities | | | | | **5,635** | 10,861 |
| Total liabilities | | | | | **52,891** | 24,950 |

**For the year ended 31 March**

| | Publications and distributions of comic books | | Multimedia development | | Group | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Capital expenditures | **6,188** | 1,922 | **8,037** | 5,102 | **14,225** | 7,024 |
| Amortisation charges | **1,924** | 888 | **3,559** | 113 | **5,483** | 1,001 |
| Depreciation | **877** | 816 | **697** | – | **1,574** | 816 |
| Other non-cash expenses | **940** | – | **1,423** | – | **2,363** | – |
| Unallocated portion | | | | | **319** | – |
| Total other non-cash expenses | | | | | **2,682** | – |

## 6. SEGMENT INFORMATION *(Continued)*

### Secondary reporting segment – geographical segments

The Group's operations are located in three (2007: three) main geographical areas. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

Sales revenue by geographical markets:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **89,303** | 92,774 |
| PRC | **59,762** | 2,630 |
| Others | **7,661** | 6,690 |
| | **156,726** | 102,094 |

The following table is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

| | **Segment assets** | | **Capital expenditures** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **264,304** | 251,664 | **6,049** | 6,948 |
| PRC | **56,831** | 4,448 | **8,176** | 76 |
| Others | **5** | 5 | **–** | – |
| | **321,140** | 256,117 | **14,225** | 7,024 |

## 7. OTHER REVENUE AND GAINS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Advertising income | **265** | 355 |
| Bank interest income | **1,826** | 530 |
| Gains on disposals of property, plant and equipment | **86** | 135 |
| Government grants | **345** | – |
| Exchange gains, net | **86** | 142 |
| Others | **880** | 102 |
| | **3,488** | 1,264 |

## 8. OPERATING PROFITS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Operating profits are arrived at after charging/(crediting): | | |
| Amortisation of film rights# | **3,051** | – |
| Amortisation of intangible assets## | **2,258** | 827 |
| Amortisation of prepaid lease payments### | **174** | 174 |
| Auditors' remuneration | **1,000** | 680 |
| Cost of inventories recognised as expense | **61,322** | 31,766 |
| Depreciation* | **1,574** | 816 |
| Operating lease payments in respect of rented premises | **1,696** | 851 |
| Allowance for impairment of intangible assets** | **464** | – |
| Allowance for impairment of inventories# | **1,791** | – |
| Allowance for impairment of receivables** | **108** | – |
| Fair value loss on derivative financial instruments** | **319** | – |
| Retirement benefits scheme contributions for employees | **1,944** | 1,030 |
| Other staff costs, including directors' emoluments | **62,813** | 48,217 |
| Amount capitalised in inventories | **(14,156)** | (12,090) |
| Total staff costs charged to income statement | **50,601** | 37,157 |

# *The amounts have been included in cost of sales.*

## *Amortisation of intangible assets of HK$2,158,000 (2007: HK$827,000) has been expensed in cost of sales and HK$100,000 (2007: Nil) in other operating expenses.*

### *The amounts have been included in administrative expenses.*

* *Depreciation of HK$710,000 (2007: HK$126,000) has been expensed in cost of sales and HK$864,000 (2007: HK$690,000) in administrative expenses.*

** *The amounts have been included in other operating expenses.*

## 9. FINANCE COSTS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Interest charges on bank overdrafts and loans wholly repayable within five years | **220** | 251 |
| Effective interest expense on convertible notes *(Note 31)* | **6** | 129 |
| | **226** | 380 |

## 10. INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the locations in which the Group operates.

Income tax of Shanghai Sanding Animation Creation Company Limited ("Shanghai Sanding"), a subsidiary of the Company, is calculated at the rates of income tax prevailing in the PRC. It was charged at progressive rates ranging from 18% to 33% on deemed profits calculated at 10% on turnover.

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong: | | |
| – Current year | **1,223** | 1,027 |
| – Over-provision in respect of prior years | **(20)** | (52) |
| Overseas: | | |
| – Current year | **198** | – |
| | **1,401** | 975 |
| Deferred tax *(Note 21)* | | |
| – Current year | **(329)** | (1,261) |
| – Under-provision in respect of prior years | **980** | – |
| | **651** | (1,261) |
| Total income tax expense/(credit) | **2,052** | (286) |

## 10. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

Reconciliation between tax expense/(credit) and accounting profit at applicable tax rates:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit before income tax | **8,285** | 11,077 |
| Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | **2,700** | 1,939 |
| Tax on turnover of a subsidiary, calculated at the statutory rates ranging from 18% to 33% | **198** | – |
| Tax effect of non-taxable revenue | **(452)** | (1,105) |
| Tax effect of non-deductible expenses | **1,935** | 66 |
| Tax effect of unused tax losses not recognised | **159** | – |
| Tax effect of prior years' unrecognised tax losses utilised this year | **–** | (23) |
| Tax effect from tax exemption/relief | **(4,379)** | – |
| Tax effect on origination of intangible assets | **871** | – |
| Recognition of tax losses previously not recognised | **–** | (1,171) |
| Over-provision of Hong Kong profits tax in prior years | **(20)** | (52) |
| Under-provision of deferred tax in prior years | **980** | – |
| Others | **60** | 60 |
| Income tax expense/(credit) for the year | **2,052** | (286) |

## 11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2007: ten) directors were as follows:

| | Directors' fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 March 2008** | | | | |
| *Executive directors:* | | | | |
| Tong Kai Lap (redesignated as non-executive director on 1 November 2007) | **180** | **942** | **7** | **1,129** |
| Wan Siu Lun | **180** | **1,457** | **12** | **1,649** |
| Wong Chun Keung | **180** | **1,144** | **12** | **1,336** |
| Ko Chi Keung (redesignated as non-executive director on 1 October 2007) | **180** | **456** | **6** | **642** |
| Kwong Chi Tak | **180** | **660** | **12** | **852** |
| *Non-executive director:* | | | | |
| Zheng Hao Jiang | **180** | **–** | **–** | **180** |
| *Independent non-executive directors:* | | | | |
| Choy Sze Chung, Jojo (appointed on 15 October 2007) | **83** | **–** | **–** | **83** |
| Lam Kwok Cheong (appointed on 15 October 2007) | **83** | **–** | **–** | **83** |
| Tsui Pui Hung (appointed on 15 October 2007) | **83** | **–** | **–** | **83** |
| Ho Yiu Ming (resigned on 15 October 2007) | **98** | **–** | **–** | **98** |
| Kwong Chi Keung (resigned on 15 October 2007) | **98** | **–** | **–** | **98** |
| Ma Fung Kwok (resigned on 15 October 2007) | **98** | **–** | **–** | **98** |
| Total | **1,623** | **4,659** | **49** | **6,331** |

## 11. DIRECTORS' EMOLUMENTS *(Continued)*

| | Directors' fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Year ended 31 March 2007 | | | | |
| *Executive directors:* | | | | |
| Tong Kai Lap | 180 | 1,614 | 12 | 1,806 |
| Wan Siu Lun | 180 | 1,082 | 12 | 1,274 |
| Wong Chun Keung | 180 | 841 | 12 | 1,033 |
| Ko Chi Keung | 180 | 780 | 12 | 972 |
| Kwong Chi Tak | 180 | 660 | 12 | 852 |
| *Non-executive directors:* | | | | |
| Zhang Li Chen (resigned on 30 September 2006) | 60 | – | – | 60 |
| Zheng Hao Jiang (appointed on 3 October 2006) | 60 | – | – | 60 |
| *Independent non-executive directors:* | | | | |
| Ho Yiu Ming | 180 | – | – | 180 |
| Kwong Chi Keung | 180 | – | – | 180 |
| Ma Fung Kwok | 180 | – | – | 180 |
| Total | 1,560 | 4,977 | 60 | 6,597 |

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year.

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are reflected in the analysis presented in note 11 above. The total emoluments of the remaining two (2007: two) highest paid individuals were as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **6,722** | 8,404 |
| Retirement benefits scheme contributions | **18** | 24 |
| | **6,740** | 8,428 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2008** | 2007 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | – |
| HK$3,000,001 to HK$3,500,000 | **–** | – |
| HK$3,500,001 to HK$4,000,000 | **–** | 1 |
| HK$4,000,001 to HK$4,500,000 | **–** | – |
| HK$4,500,001 to HK$5,000,000 | **1** | 1 |
| | **2** | 2 |

## 13. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$6,585,000 (2007: HK$11,370,000), a profit of HK$1,110,000 (2007: HK$12,914,000) has been dealt with in the financial statements of the Company.

## 14. DIVIDENDS – GROUP AND COMPANY

### Dividends attributable to the year

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim dividend of HK0.2 cent per share (2007: HK0.2 cent per share) | **2,169** | 1,862 |
| Proposed final dividend of nil (2007: HK0.2 cent per share) *(Note (i))* | | |
| – to existing shareholders | **–** | 1,865 |
| – to other shareholders *(Note (ii))* | **–** | 216 |
| | **–** | 2,081 |
| | **2,169** | 3,943 |

*Note:*

(i) The directors do not recommend the payment of a final dividend for the year ended 31 March 2008. The final dividend proposed after 31 March 2007 had not been recognised as a liability at 31 March 2007, but reflected as an appropriation of retained earnings for the year ended 31 March 2007.

(ii) Subsequent to 31 March 2007 and up to the date of approval of the financial statements for the year ended 31 March 2007, an aggregate of 8,000,000 ordinary shares were issued pursuant to the conversion of convertible notes and the placement of 100,000,000 ordinary shares to Super Empire Investments Limited (collectively the "New Shares"). The holders of the New Shares were also entitled to the proposed final dividend for the year ended 31 March 2007 pursuant to the relevant provisions in the Company's Bye-laws. Accordingly, final dividends of HK$216,000 for the year ended 31 March 2007 were paid to the holders of the New Shares.

### Dividend attributable to previous financial year, approved and paid during the year

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Final dividend in respect of the previous financial year, of HK0.2 cent per share (2007: HK0.2 cent per share) | **2,081** | 1,855 |

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| *Earnings* | | |
| Profit attributable to the equity holders of the Company | **6,585** | 11,370 |
| Effective interest expense on convertible notes | **6** | 129 |
| Profit used to determine diluted earnings per share | **6,591** | 11,499 |

| | **Number of shares** | |
|---|---|---|
| | **2008** | 2007 |
| *Shares* | | |
| Weighted average number of shares for the purposes of basic earnings per share | **1,037,645,795** | 918,045,752 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **1,357,509** | 4,114,756 |
| Convertible notes | **2,819,996** | 13,859,668 |
| Weighted average number of shares for the purposes of diluted earnings per share | **1,041,823,300** | 936,020,176 |

## 16. PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Buildings HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2006 | | | | |
| Cost | 6,227 | 1,936 | 527 | 8,690 |
| Accumulated depreciation | (245) | (1,200) | (455) | (1,900) |
| Net carrying amount | 5,982 | 736 | 72 | 6,790 |
| Year ended 31 March 2007 | | | | |
| Opening net carrying amount | 5,982 | 736 | 72 | 6,790 |
| Additions | – | 638 | 1,310 | 1,948 |
| Disposals | – | – | (23) | (23) |
| Depreciation | (161) | (414) | (241) | (816) |
| Closing net carrying amount | 5,821 | 960 | 1,118 | 7,899 |
| At 31 March 2007 and 1 April 2007 | | | | |
| Cost | 6,227 | 2,574 | 1,599 | 10,400 |
| Accumulated depreciation | (406) | (1,614) | (481) | (2,501) |
| Net carrying amount | 5,821 | 960 | 1,118 | 7,899 |
| **Year ended 31 March 2008** | | | | |
| Opening net carrying amount | 5,821 | 960 | 1,118 | 7,899 |
| Exchange differences | – | 301 | 32 | 333 |
| Additions | – | 421 | 326 | 747 |
| Acquisition of subsidiaries | – | 5,842 | 526 | 6,368 |
| Disposals | – | – | (182) | (182) |
| Depreciation | (161) | (959) | (454) | (1,574) |
| **Closing net carrying amount** | 5,660 | 6,565 | 1,366 | 13,591 |
| **At 31 March 2008** | | | | |
| Cost | 6,227 | 9,197 | 2,219 | 17,643 |
| Accumulated depreciation | (567) | (2,632) | (853) | (4,052) |
| **Net carrying amount** | 5,660 | 6,565 | 1,366 | 13,591 |

## 16. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

The Group's buildings are situated in Hong Kong and are held under medium term lease.

All of the Group's buildings were pledged to secure general banking facilities granted to the Group *(note 30)*.

## 17. PREPAID LEASE PAYMENTS – GROUP

The Group's prepaid lease payments represent leasehold land in Hong Kong under medium term lease as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Opening net carrying amount | **8,532** | 8,706 |
| Amortisation | **(174)** | (174) |
| Closing net carrying amount | **8,358** | 8,532 |
| Current portion | **(174)** | (174) |
| Non-current portion | **8,184** | 8,358 |

The Group's entire interests in the leasehold land were pledged to secure general banking facilities granted to the Group *(note 30)*.

## 18. INTANGIBLE ASSETS – GROUP

| | Copyrights | Trademarks | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | |
| At 1 April 2006 | 3,213 | 151 | 3,364 |
| Acquisition of a subsidiary | 5,000 | – | 5,000 |
| Additions | 76 | – | 76 |
| At 31 March 2007 and 1 April 2007 | 8,289 | 151 | 8,440 |
| Exchange differences | 56 | – | 56 |
| Acquisition of subsidiaries | 1,160 | – | 1,160 |
| Additions | 5,950 | – | 5,950 |
| At 31 March 2008 | 15,455 | 151 | 15,606 |
| **Accumulated amortisation** | | | |
| At 1 April 2006 | 1,390 | 116 | 1,506 |
| Charge for the year | 792 | 35 | 827 |
| At 31 March 2007 and 1 April 2007 | 2,182 | 151 | 2,333 |
| Charge for the year | 2,258 | – | 2,258 |
| Provision for impairment | 464 | – | 464 |
| At 31 March 2008 | 4,904 | 151 | 5,055 |
| **Net carrying amount** | | | |
| **At 31 March 2008** | **10,551** | **–** | **10,551** |
| At 31 March 2007 | 6,107 | – | 6,107 |

## 19. INTERESTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted shares at cost | **150,298** | 150,298 |
| Due from subsidiaries | **121,809** | 76,635 |

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries at 31 March 2008 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Class of share held | Nominal value of issued share capital/ registered capital | Percentage of issued/registered capital held by the Company | Principal activities |
|---|---|---|---|---|---|
| Jade Dynasty Holdings Limited | British Virgin Islands | Ordinary | US$10,000 | 100%* | Investment holding |
| Dragon Animation Limited | Hong Kong | Ordinary | HK$100 | 51% | Development of animation and related products |
| Jade Dynasty Comics Development Limited | Hong Kong | Ordinary | HK$2 | 100% | Publications of comic books |
| Jade Dynasty Publications Limited | Hong Kong | Ordinary | HK$30,000,000 | 100% | Publications of comic books and investment holding |
| KINGcomics.com Limited | Hong Kong | Ordinary | HK$2 | 100% | Provision of online comic viewing services and sale of related merchandised goods |
| Rising Dragon Publications Limited | Hong Kong | Ordinary | HK$100 | 100% | Sale of merchandised goods |
| Yuk Long Animation Limited | Hong Kong | Ordinary | HK$30,000,000 | 100% | Development of animation and games |

## 19. INTERESTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY *(Continued)*

| Name of subsidiary | Place of incorporation/ registration | Class of share held | Nominal value of issued share capital/ registered capital | Percentage of issued/registered capital held by the Company | Principal activities |
|---|---|---|---|---|---|
| Yuk Long Publishing (International) Limited | Hong Kong | Ordinary | HK$10,000 | 100% | Publications of comic books |
| Yuk Long Cultural Development (Shenzhen) Limited | The PRC | Registered capital | HK$1,000,000 | 100% | Digital graphic design and software development |
| Suzhou Hongyang Cartoon Production Limited ("Suzhou Hongyang")** | The PRC | Registered capital | US$1,500,000 | 51% | Production of animation |
| Shanghai Sanding Animation Creation Company Limited** | The PRC | Registered capital | RMB3,000,000 | 100%^ | Production of animation |
| Nanjing Hongying Anmie-cartoon Entertainment Company Limited ("Nanjing Hongying")** | The PRC | Registered capital | RMB10,000,000 | 100%^ | Production of animation and distribution of animation |
| 廣東賢泰圖書有限公司*** | The PRC | Registered capital | RMB2,000,000 | 100%^^ | Publications of comic books |

* *Other than this subsidiary which is directly held by the Company, all other subsidiaries are indirectly held by the Company.*

** *These subsidiaries were acquired by the Group during the year.*

*** *This subsidiary was newly established by the Group during the year.*

^ *Upon completion of the acquisition of these companies, the Group has appointed nominees as the registered owners of these companies. The Company's subsidiary, Yuk Long Cultural Development (Shenzhen) Limited, has entered into contractual agreements to obtain the control over the entire business operation and management and is entitled to all profits of, and assume the risk of these companies.*

^^ *The Group has appointed nominees as the registered owners of this company upon its establishment. The Company's subsidiary, Yuk Long Cultural Development (Shenzhen) Limited, has entered into contractual agreements to obtain the control over the entire business operation and management and is entitled to all profits of, and assume the risk of this company.*

The above table lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 20. GOODWILL – GROUP

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Opening carrying amount | **124,539** | 124,539 |
| Acquisition of subsidiaries | **16,655** | – |
| Closing carrying amount | **141,194** | 124,539 |

For the years ended 31 March 2007 and 2008, management of the Group determines that there is no impairment of goodwill.

The carrying amount of goodwill is allocated to the following cash generating units:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Publications and distributions of comic books | **124,539** | 124,539 |
| Multi-media development | **16,655** | – |
| | **141,194** | 124,539 |

The basis of the recoverable amount and its major underlying assumptions are summarised below:

The recoverable amount of goodwill related to publications and distributions of comic books is determined based on value in use calculations. The key assumptions for the value in use calculations are discount rate and expected changes in selling prices and direct costs in the future. Management estimates discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The discount rate used is 7.2% (2007: 7.2%). The growth rate is based on industry growth forecast. Selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cashflow forecast derived from the most recent financial budgets approved by management for the next five years at growth rate of 3% and extrapolates cashflow for the following ten years at zero growth rate. After considering the relevant comic business has a history of over 30 years with a steady stream of operating profits in the past, the directors considered the adoption of a 15-years forecast period is appropriate.

## 20. GOODWILL – GROUP *(Continued)*

The recoverable amount of goodwill related to multi-media development is determined based on value in use calculations. The key assumptions for the value in use calculations are discount rate and expected changes in selling prices and direct costs in the future. Management estimates discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The discount rate used is 15%. The growth rate is based on industry growth forecast. Selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cashflow forecast derived from the most recent financial budgets approved by management for the next five years at growth rate of 4% and extrapolates cashflow for the following ten years at zero growth rate.

Apart from the considerations described in determining the value in use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

## 21. DEFERRED TAX – GROUP AND COMPANY

Deferred taxation is calculated in full on temporary differences under the liability method at rates of taxation prevailing in the locations in which the Group operates.

The movement on the net deferred tax (liabilities)/assets during the year is as follows:

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **4,353** | 3,092 |
| Deferred taxation credited to income statement | **329** | 1,261 |
| Under-provision in respect of prior years | **(980)** | – |
| At end of the year | **3,702** | 4,353 |

## 21. DEFERRED TAX – GROUP AND COMPANY *(Continued)*

The movement in deferred tax assets/(liabilities) (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

### Deferred tax liabilities

| | Group | | | |
|---|---|---|---|---|
| | **Accelerated tax depreciation HK$'000** | **Tax losses HK$'000** | **Intangible assets HK$'000** | **Total HK$'000** |
| At 1 April 2006, 31 March 2007 and 1 April 2007 | – | – | – | – |
| Credited/(charged) to income statement | 103 | 82 | (871) | (686) |
| **At 31 March 2008** | **103** | **82** | **(871)** | **(686)** |

### Deferred tax assets

| | Group | | | Company |
|---|---|---|---|---|
| | **Accelerated tax depreciation HK$'000** | **Tax losses HK$'000** | **Total HK$'000** | **Tax losses HK$'000** |
| At 1 April 2006 | – | 3,092 | 3,092 | **979** |
| Credited/(charged) to income statement | – | 1,261 | 1,261 | **(99)** |
| At 31 March 2007 and 1 April 2007 | – | 4,353 | 4,353 | **880** |
| Credited/(charged) to income statement | (112) | 1,127 | 1,015 | **(45)** |
| Under/(over)-provision in respect of prior years | 107 | (1,087) | (980) | **–** |
| **At 31 March 2008** | **(5)** | **4,393** | **4,388** | **835** |

## 21. DEFERRED TAX – GROUP AND COMPANY *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

At the balance sheet date, the Group has estimated unused tax losses of HK$36,267,000 (2007: HK$28,744,000) available for offset against future taxable profits. Deferred tax assets have been recognised in respect of HK$23,772,000 (2007: HK$26,263,000) of such losses as the directors consider that the realisation of these deferred tax assets through the future taxable profits of those subsidiaries which incurred these tax losses is probable. No deferred tax asset has been recognised in respect of the remaining HK$12,495,000 (2007: HK$2,481,000) due to the unpredictability of future profit streams of those subsidiaries which incurred these remaining tax losses.

## 22. TRADE RECEIVABLES – GROUP

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, and net of impairment losses, is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **11,167** | 15,353 |
| 31 – 60 days | **4,200** | 5,606 |
| 61 – 90 days | **915** | 1,769 |
| Over 90 days | **3,447** | 10,121 |
| | **19,729** | 32,849 |
| *Less:* Trade receivables due over one year | **–** | (1,597) |
| Trade receivables due within one year | **19,729** | 31,252 |

The Group's sales to its customers are mainly on credit. Except as detailed below, the credit period is generally for a period of two to three months for major customers. The Group seeks to maintain strict control over its outstanding trade receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

On 9 January 2007, the Group had entered into an agreement with one of the major customers that approximately HK$8,597,000 of the trade debts due from this customer is to be settled by 18 equal instalments. As at 31 March 2007, approximately HK$1,597,000 due from this customer were to be settled over one year from 31 March 2007.

## 22. TRADE RECEIVABLES – GROUP *(Continued)*

The carrying amount of trade receivables is considered a reasonable approximation of fair value as this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, the Group's trade receivables are individually reviewed to determine if impaired. The amount of impairment loss of individually impaired receivables, if any, is recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowance is recognised. As at 31 March 2007 and 2008, no specific impairment allowance has been made. The Group does not hold any collateral over these balances.

Ageing analysis of trade receivables that are not impaired is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **17,534** | 31,803 |
| Not more than 1 year past due | **2,195** | 1,046 |
| | **19,729** | 32,849 |

Trade receivables that were neither past due nor impaired related to certain customers from whom there was no recent history of default.

Trade receivables that were past due but not impaired related to independent customers that had a good track record with the Group. Based on the past experience, management believed that no impairment allowance is necessary in respect of these balances as there had not been a significant change in credit quality and the balances were considered fully recoverable.

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – GROUP AND COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits | **50,572** | 318 | **50,000** | – |
| Prepayments | **12,599** | 8,779 | **918** | 346 |
| Amounts due from a related party/ related parties *(Note (i))* | **4,881** | 2,000 | **–** | – |
| Other receivables | **4,952** | 142 | **–** | – |
| | **73,004** | 11,239 | **50,918** | 346 |
| Deposits classified as non-current *(Note (ii))* | **(50,000)** | – | **(50,000)** | – |
| Current portion | **23,004** | 11,239 | **918** | 346 |

*Notes:*

(i) The related party/parties is/were relative(s) to executive directors of the Company, Mr. Wong Chun Keung and Mr. Tong Kai Lap. The amounts due are unsecured, interest fee and repayable on demand.

(ii) As at 31 March 2008, the Group had made deposits of HK$50,000,000 (2007: Nil) in respect of an acquisition of subsidiaries as disclosed in note 41(i).

## 24. INVENTORIES – GROUP

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials and consumables | **457** | 1,005 |
| Work-in-progress | **59,012** | 61,146 |
| Merchandised goods and comic books | **405** | 3,147 |
| | **59,874** | 65,298 |

The work-in-progress represents production and other direct costs in relation to the production of animations.

## 25. FILM RIGHTS – GROUP

The film rights represent production and direct costs of completed animations less amortisation. As at 31 March 2008, there was no allowance for impairment on film rights (2007: Nil).

## 26. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity derivative – Call option classified in current assets | **2,428** | – |
| Equity derivative – Put option classified in current liabilities | **2,317** | – |

During the year ended 31 March 2008, the Group has entered into an option deed in respect of further interests in an acquisition of subsidiaries (note 34). The equity derivatives are not designated as hedging instrument according to HKAS 39 and are measured at fair value valuated by a firm of independent professional valuers in Hong Kong by using the Black-Scholes-Merton Option Pricing Model. The inputs into the model for the value of the derivative financial instruments as at 31 March 2008 were as follow:

| | **2008** | |
|---|---|---|
| | **Call option** | **Put option** |
| Risk free rate | **1.014%** | **1.014%** |
| Stock price (HK$'000) | **10,186** | **10,186** |
| Exercise price (HK$'000) | **10,186** | **10,186** |
| Volatility | **57.27%** | **57.27%** |
| Expected option life | **1.08 year** | **1.08 year** |

## 27. PLEDGED BANK DEPOSITS AND CASH AT BANKS AND IN HAND – GROUP AND COMPANY

Certain of the Company's and the Group's bank deposits have been pledged to secure general banking facilities granted to the Group *(note 30)*. As at 31 March 2008, the deposits bore fixed interest rates ranging from 1.60% to 4.63% per annum (2007: 3.60% to 3.92% per annum). The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

Bank balances earn interest at floating rates based on daily bank deposit rates. At 31 March 2008, the Group's cash at banks and in hand of approximately HK$24,234,000 (2007: HK$330,000) were denominated in Renminbi ("RMB") which is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 28. TRADE PAYABLES - GROUP

The following is an aged analysis of trade payables at the balance sheet date:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| 0 – 30 days | **2,842** | 4,044 |
| 31 – 60 days | **1,873** | 1,977 |
| 61 – 90 days | **2,218** | 1,880 |
| Over 90 days | **3,010** | 1,771 |
| | **9,943** | 9,672 |

## 29. RECEIPTS IN ADVANCE, ACCRUED CHARGES AND OTHER PAYABLES – GROUP AND COMPANY

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 | **2008** **HK$'000** | 2007 HK$'000 |
| **Current portion:** | | | | |
| Receipts in advance | **14,524** | – | **–** | – |
| Accrued charges | **20,413** | 4,156 | **498** | 178 |
| Amount due to a minority shareholder of a subsidiary *(Note (i))* | **160** | – | **–** | – |
| Other payables | **590** | 441 | **–** | – |
| | **35,687** | 4,597 | **498** | 178 |
| **Non-current portion:** | | | | |
| Deferred government grants *(Note (ii))* | **1,506** | – | **–** | – |
| Rental expenses payable *(Note (iii))* | **642** | – | **–** | – |
| | **2,148** | – | **–** | – |

*Notes:*

(i) The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

(ii) Pursuant to the investment agreement entered into with 南京高新技術產業開發區管理委員會, the Group was entitled to receive government grants based on 15% of paid-up capital injected in Nanjing Hongying within 3 years from the date of its establishment. The grants are to be used in the business development of Nanjing Hongying. Pursuant to the agreement, Nanjing Hongying's operating tenure should not be less than 15 years during which the principal place of business should be retained in 南京高新技術產業開發區. The government grants received were amortised over 15 years accordingly.

(iii) Pursuant to the rental agreement entered into between 南京高新技術經濟開發總公司 and Nanjing Hongying (the "Rental Agreement"), Nanjing Hongying leases the office premises from 南京高新技術經濟開發總公司 for a period of 5 years from 8 February 2006 to 7 February 2011. Pursuant to the Rental Agreement, Nanjing Hongying is entitled to an initial rent-free period of 3 years. This lease incentive received is recognised in the income statement as an integral part of the aggregate net lease payments.

## 30. BANK BORROWINGS – GROUP AND COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Current** | | | | |
| Bank overdrafts, unsecured | **80** | 1,369 | **80** | 363 |
| Bank loans, secured | **850** | 1,500 | **–** | 1,500 |
| Bank loans, unsecured | **–** | 688 | **–** | – |
| | **930** | 3,557 | **80** | 1,863 |

The effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are:

| | **2008** | 2007 |
|---|---|---|
| Bank overdrafts, unsecured | **Hong Kong Dollar Prime Rate + 0.5%** | Hong Kong Dollar Prime Rate + 0.5% |
| Bank loans, secured | **HIBOR + 2.0%** | HIBOR + 2.0% |
| Bank loans, unsecured | **Hong Kong Dollar Prime Rate – 2.0%** | Hong Kong Dollar Prime Rate – 2.0% |

At 31 March 2008, the banking facilities of the Group were secured by the charges over the Group's entire buildings *(note 16)* and interests in leasehold land *(note 17)* and certain bank deposits *(note 27)* and corporate guarantees executed by the Company. The Group's bank borrowings are denominated in HK$.

## 31. CONVERTIBLE NOTES – GROUP AND COMPANY

Convertible notes (the "Notes") of the Group and of the Company were issued on 19 October 2004 upon completion of the purchase of 49% equity interests in Jade Dynasty Holdings Limited. The Notes were convertible into ordinary shares of the Company at a price of HK$0.5 (subject to adjustments) and matured on 18 October 2007 (the "Maturity Date").

The Notes bore interest on the outstanding principal from the date of issue to the date of redemption or conversion at a rate of 2% per annum payable in arrear semi-annually.

The Group might elect to repay the outstanding principal under the Notes prior to the Maturity Date provided that the amount of principal repaid under each Note shall not exceed (i) within the first year of issue, one-third of the original principal amount of such Note; and (ii) within the second year of issue, two-thirds of the original principal amount of such Note. The fair value of early redemption right of the Notes was insignificant.

Unless converted by the noteholder or repaid by the Group before the Maturity Date, the Group would repay the Notes in cash without premium or discount representing the outstanding principal, accrued and unpaid interest in accordance with the terms and conditions of the Notes at the Maturity Date.

The Notes contained two components, liability and equity elements. Upon the application of HKAS 32 Financial Instruments: Disclosure and Presentation, the Notes were split between the liability and equity elements, on a retrospective basis, in the year ended 31 March 2005. The equity element is presented in equity as "capital reserve". The effective interest rate of the liability component was 2.15%.

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

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **5,603** | 15,225 |
| Conversion to shares of the Company | **(5,503)** | (9,631) |
| Effective interest expense *(note 9)* | **6** | 129 |
| Over-provision of effective interest expense in prior years | **(101)** | – |
| Interest paid | **(5)** | (120) |
| Balance at end of the year | **–** | 5,603 |

## 32. SHARE CAPITAL – GROUP AND COMPANY

| | *Notes* | Par value of ordinary share HK$ | Number of ordinary shares | Amount HK$'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| At 1 April 2006, 31 March 2007 and 31 March 2008 | | 0.002 each | 250,000,000,000 | 500,000 |
| **Issued and fully paid:** | | | | |
| At 1 April 2006 | | 0.002 each | 844,357,384 | 1,689 |
| Issue of new shares upon conversion of the Notes | | 0.002 each | 19,345,066 | 39 |
| Issue of new shares upon exercise of share options | | 0.002 each | 28,692,000 | 57 |
| Placing of new shares | | 0.002 each | 40,000,000 | 80 |
| At 31 March 2007 | | | 932,394,450 | 1,865 |
| Issue of new shares upon conversion of the Notes | *(1)* | 0.002 each | 11,054,400 | 22 |
| Issue of new shares upon exercise of share options | *(2)* | 0.002 each | 1,904,000 | 3 |
| Placing of new shares | *(3)* | 0.002 each | 100,000,000 | 200 |
| Issue of new shares upon acquisition of subsidiaries | *(4)* | 0.002 each | 40,800,000 | 82 |
| At 31 March 2008 | | | 1,086,152,850 | 2,172 |

*Notes:*

(1) During the year, the Notes with an aggregate principal amount of HK$5,603,000 were converted into 11,054,400 new ordinary shares of HK$0.002 each at a conversion price of HK$0.5 per share.

(2) During the year, 1,904,000 share options were exercised at a subscription price of HK$0.37 per share, resulting in the issue of 1,904,000 new ordinary shares of HK$0.002 each for a total cash consideration of approximately HK$705,000.

(3) On 29 May 2007, 100,000,000 ordinary shares of HK$0.002 each of the Company held by Super Empire Investments Limited ("Super Empire"), a company wholly owned by a major shareholder of the Company, were placed to independent professional investors at prices of HK$0.76 each for a total consideration of HK$76,000,000. On 13 June 2007, 100,000,000 new ordinary shares of HK$0.002 each of the Company were issued and allotted to Super Empire at a price of HK$0.76 each under a placing and subscription agreement entered into by the Company on 29 May 2007.

(4) During the year, 40,800,000 ordinary shares of HK$0.002 each were issued upon acquisition of subsidiaries as part of consideration *(note 34)*.

## 33. RESERVES – COMPANY

| | Share premium HK$'000 | Capital reserve HK$'000 | Contributed Surplus HK$'000 *(Notes (i) and (ii))* | Proposed final dividends HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2006 | 62,912 | 66 | 100,680 | 1,855 | 2,226 | 167,739 |
| Profit for the year | – | – | – | – | 12,914 | 12,914 |
| **Total recognised income for the year** | – | – | – | – | 12,914 | 12,914 |
| Issue of shares upon conversion of convertible notes | 9,634 | (42) | – | – | – | 9,592 |
| Issue of shares upon exercise of share options | 10,513 | – | – | – | – | 10,513 |
| Placing of shares | 29,120 | – | – | – | – | 29,120 |
| Expenses of issues of shares | (989) | – | – | – | – | (989) |
| Final dividend paid for the year ended 31 March 2006 | – | – | – | (1,855) | – | (1,855) |
| Interim dividend paid for the period ended 30 September 2006 | – | – | – | – | (1,862) | (1,862) |
| Proposed final dividends for the year ended 31 March 2007 | – | – | – | 2,081 | (2,081) | – |
| **At 31 March 2007** | 111,190 | 24 | 100,680 | 2,081 | 11,197 | 225,172 |
| Profit for the year | – | – | – | – | 1,110 | 1,110 |
| **Total recognised income for the year** | – | – | – | – | 1,110 | 1,110 |
| Issue of shares upon conversion of convertible notes | 5,505 | (24) | – | – | – | 5,481 |
| Issue of shares upon exercise of share options | 702 | – | – | – | – | 702 |
| Placing of shares | 75,800 | – | – | – | – | 75,800 |
| Issue of new shares upon acquisition of subsidiaries | 22,766 | – | – | – | – | 22,766 |
| Expenses of issues of shares | (2,333) | – | – | – | – | (2,333) |
| Final dividend paid for the year ended 31 March 2007 | – | – | – | (2,081) | – | (2,081) |
| Interim dividend paid for the period ended 30 September 2007 | – | – | – | – | (2,169) | (2,169) |
| **At 31 March 2008** | **213,630** | **–** | **100,680** | **–** | **10,138** | **324,448** |

## 33. RESERVES – COMPANY *(Continued)*

The contributed surplus of the Company consists of:

(i) HK$51,286,000 being the difference between the underlying consolidated net assets of Global Food Culture Group Limited and its subsidiaries and the nominal value of the Company's shares which were issued under a group reorganisation in 1997; and

(ii) pursuant to a special resolution passed at the annual general meeting of the Company on 10 August 2004, the Company reduced its share premium by an amount of approximately HK$286,300,000 in accordance with the provisions of section 46 of the Bermuda Companies Act 1981 and transferred the same amount to the contributed surplus account of the Company. On the same date, the Company applied an amount of approximately HK$236,906,000 from the contributed surplus account against the accumulated losses. The remaining balance of the contributed surplus amounted to HK$49,394,000.

## 34. BUSINESS COMBINATION – GROUP

On 20 August 2007, a wholly-owned subsidiary of the Company, Jade Dynasty Multi-Media Limited ("JDMML"), entered into an agreement with an independent third party for the acquisition of 51% of the equity interests of Suzhou Hongyang through the acquisition of 51% paid up share capital of Super Win Limited ("Super Win"), the immediate holding company of Suzhou Hongyang, the exclusive entitlement to all of the economic benefits and rights to control, management and operate Shanghai Sanding and Nanjing Hongying, for a consideration of HK$31,008,000, including issue of 40,800,000 new ordinary shares of the Company at the closing price at date of issue and cash of HK$8,160,000. The principal activities of Suzhou Hongyang, Shanghai Sanding and Nanjing Hongying are described in note 19 above. The acquisition was completed on 1 November 2007.

On 20 August 2007, JDMML entered into an option deed pursuant to which JDMML is granted a call option to acquire and granted a put option for the minority shareholder of Super Win to sell the remaining 49% of equity interests of Super Win within a specified period according to the relevant terms of the agreement.

Suzhou Hongyang, Shanghai Sanding and Nanjing Hongying contributed aggregate of revenue of approximately HK$42,238,000 and aggregate of net profit of approximately HK$12,348,000 to the Group for the period from 1 November 2007 to 31 March 2008.

If the acquisition had occurred on 1 April 2007, the Group's revenue would have been approximately HK$202,958,000 and profit for the year ended 31 March 2008 would have been approximately HK$10,021,000. These pro forma information are for illustrative purpose only and are not necessarily indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007 nor are they intended to be projection of future results.

## 34. BUSINESS COMBINATION – GROUP *(Continued)*

Details of this transaction were set out in circular to the shareholders of the Company dated 31 August 2007. Details of the net assets acquired and goodwill of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Cash consideration | 8,160 |
| Fair value of new ordinary shares of the Company issued | 22,848 |
| Total purchase consideration | 31,008 |
| Direct cost relating to the acquisition | 1,445 |
| Net fair values of Call Option and Put Option | (430) |
| Fair value of aggregate net assets acquired | (15,368) |
| Goodwill *(Note 20)* | 16,655 |

The fair values of the identifiable assets and liabilities as at 1 November 2007, the date of completion of the acquisition and the corresponding carrying amounts immediately before completion of the acquisition are as follows:

| | **Fair value** HK$'000 | **Acquiree's carrying amount** HK$'000 |
|---|---|---|
| **Suzhou Hongyang** | | |
| Property, plant and equipment | 3,624 | 3,624 |
| Intangible assets | 1,160 | 1,160 |
| Inventories | 10,520 | 10,520 |
| Trade and other receivables | 15,308 | 15,308 |
| Cash and cash equivalents | 1,834 | 1,834 |
| Trade and other payables | (21,537) | (21,537) |
| | | 10,909 |
| Net assets | 10,909 | |
| Minority interests (49%) | (5,345) | |
| Net assets acquired | 5,564 | |

## 34. BUSINESS COMBINATION – GROUP *(Continued)*

| | Fair value | Acquiree's carrying amount |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Shanghai Sanding** | | |
| Property, plant and equipment | 1,106 | 1,106 |
| Inventories | 1,932 | 1,932 |
| Trade and other receivables | 6,231 | 6,231 |
| Cash and cash equivalents | 303 | 303 |
| Trade and other payables | (17,511) | (17,511) |
| | | (7,939) |
| Net liabilities acquired | (7,939) | |
| **Nanjing Hongying** | | |
| Property, plant and equipment | 1,638 | 1,638 |
| Inventories | 24,512 | 24,512 |
| Trade and other receivables | 8,951 | 8,951 |
| Cash and cash equivalents | 5,031 | 5,031 |
| Trade and other payables | (22,389) | (22,389) |
| | | 17,743 |
| Net assets acquired | 17,743 | |
| Aggregate net assets of Suzhou Hongyang, Shanghai Sanding and Nanjing Hongying acquired | 15,368 | |
| Total cash consideration | | (8,160) |
| Direct cost relating to the acquisition | | (1,445) |
| Cash and cash equivalents in subsidiaries acquired | | 7,168 |
| Net outflow of cash and cash equivalents | | (2,437) |

*Notes:*

(i) The fair value of the new ordinary shares of the Company issued was based on the published closing share price at the date of issue.

(ii) The above fair values of the assets and liabilities acquired are determined provisionally based on the information available up to the date of these financial statements. The fair values of the Call Option and Put Option were determined by the directors of the Company with reference to a valuation performed by a firm of independent professional valuers in Hong Kong.

(iii) The goodwill arising from the acquisition is attributable to the anticipated profitability of the market in the PRC and the expected continuing growth of the economy of the PRC.

## 35. OPERATING LEASES – GROUP

### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year | 2,637 | 199 |
| In the second to fifth year inclusive | 2,159 | – |
| | 4,796 | 199 |

Operating lease payments represent rentals payable by the Group for its staff quarters and office premises in the PRC and Taiwan. Leases are mainly negotiated for an average term of one to two years.

## 36. SHARE BASED PAYMENT TRANSACTIONS – GROUP

### Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company held on 7 October 2002 for the primary purpose of providing incentives to directors and eligible employees. The Scheme will expire on 6 October 2012. Under the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, suppliers, customers, advisers or consultants and joint venture partners or business alliances of the Company or any of its subsidiaries to subscribe for shares in the Company.

At 31 March 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was nil (2007: 3,116,000), representing nil (2007: 0.3%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholder or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per each grant of options. Options may be exercised from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company and will not be less than the highest of the closing price of the shares on the Stock Exchange on the date of grant, the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares.

## 36. SHARE BASED PAYMENT TRANSACTIONS – GROUP *(Continued)*

### Equity-settled share option scheme *(Continued)*

The following table discloses details of the Company's share options held by the Company's directors, the Group's employees and other registered holders and movements in such holdings during both years.

| | Option type | Date of grant | Exercisable period | Exercise price HK$ | Number of share options: At 1 April 2006 | Exercised during the year | Lapsed during the year | At 31 March 2007 | Exercised during the year | Lapsed during the year | At 31 March 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Directors | 2004 | 2.4.2004 | 22.4.2004 to 21.4.2007 | 0.363 | 2,204,000 | (2,196,000) | – | 8,000 | – | (8,000) | – |
| | 2005 | 6.1.2005 | 21.1.2005 to 20.1.2008 | 0.370 | 4,304,000 | (1,200,000) | – | 3,104,000 | (1,904,000) | (1,200,000) | – |
| | | | | | 6,508,000 | (3,396,000) | – | 3,112,000 | (1,904,000) | (1,208,000) | – |
| Employees | 2004 | 2.4.2004 | 22.4.2004 to 21.4.2007 | 0.363 | 300,000 | (296,000) | – | 4,000 | – | (4,000) | – |
| | | | | | 300,000 | (296,000) | – | 4,000 | – | (4,000) | – |
| Consultants, advisors, customers, shareholders and business associates | 2004 | 2.4.2004 | 22.4.2004 to 21.4.2007 | 0.363 | 4,000,000 | (4,000,000) | – | – | – | – | – |
| | 2005 | 6.1.2005 | 21.1.2005 to 20.1.2008 | 0.370 | 21,000,000 | (21,000,000) | – | – | – | – | – |
| | | | | | 25,000,000 | (25,000,000) | – | – | – | – | – |
| | | | | | 31,808,000 | (28,692,000) | – | 3,116,000 | (1,904,000) | (1,212,000) | – |

The Group has not applied HKFRS 2 to share options granted on or after 7 November 2002 and vested before 1 April 2005 in accordance with the relevant transitional provisions. All the share options granted under the Scheme were vested on the date of grant. Because all the share options outstanding as at 1 April 2005 had vested before 1 April 2005, the application of HKFRS 2 has had no impact on the Group's result for the current or prior accounting periods.

Accordingly, the financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

## 36. SHARE BASED PAYMENT TRANSACTIONS – GROUP *(Continued)*

### Equity-settled share option scheme *(Continued)*

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.63.

At 31 March 2008, the Company had no outstanding (2007: 3,116,000) share options. As at 31 March 2007, exercise in full of such share options would result in the issue of 3,116,000 additional shares.

## 37. RELATED PARTY TRANSACTIONS – GROUP

(a) During the year, except as disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties:

| | *Notes* | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Payment of comic script fee and bonus to a shareholder | *(i)* | **4,668** | 4,716 |
| Payment of salary and administrative fees to related parties | *(ii)* | **1,173** | 1,422 |
| Payment of consultancy fee to related parties | *(iii)* | **545** | – |

*Notes:*

(i) During the year, the Group paid comic script fee and bonus to Mr. Wong Chun Loong, in the capacity as chief creative officer pursuant to the relevant service agreement signed with the Group.

(ii) During the years ended 31 March 2008 and 31 March 2007, the Group paid salary and administrative expenses to certain relatives of two directors of the Company, Mr. Tong Kai Lap and Mr. Wong Chun Keung. The amounts paid to these related parties are for the purpose of normal course of business. No individual persons received over HK$1,000,000 in each of the year.

(iii) The entire consultancy fee of HK$545,000 were paid to two companies, one of which is controlled by Mr. Tong Kai Lap and his family members and the other is controlled by Mr. Ko Chi Keung and his family members.

(iv) The directors of the Company considered they are the key management of the Group. Details of their remuneration are set out in note 11.

## 38. GUARANTEES – COMPANY

As at 31 March 2008, the Company has executed corporate guarantees to certain banks with respect to general banking facilities granted to certain subsidiaries of the Company of approximately HK$10,850,000 (2007: HK$15,378,000). At the balance sheet date, no provision for the Company's obligation under the guarantee contracts has been made as the directors considered that it was not probable that the repayments of the bank borrowings would be in default.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk (including principally changes in interest rates and currency exchange rates), credit risk and liquidity risk. Generally, the Group employs conservative strategies regarding its risk management. As the Group's exposure to market risk is kept to a minimum level, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

### 39.1 Fair value interest rate risk

The Group's exposure to fair value interest rate risk mainly arises on pledged bank deposits and convertible notes due to fluctuation of prevailing market rates. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors consider the Group's exposure to fair value interest rate risk is not significant since the pledged bank deposits are within short maturity period and all the convertible notes were converted into the shares of the Company during the year.

### 39.2 Cash flow interest rate risk

The Group's and the Company's cash flow interest rate risk relates primarily to bank balances and bank borrowings. Bank balances and bank borrowings at variable market rates expose the Group and the Company to cash flow interest rate risk. The Group and the Company have not used any interest rate swaps in order to mitigate its exposure associated with the cash flow interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. Details of the Group's and the Company's bank borrowings have been disclosed in note 30.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.3 Interest rate sensitivity analysis

At 31 March 2008, if a general increase of 50 basis points in interest rates is estimated, with all other variables held constant, the profit after tax for the year and retained profits of the Group would increase by approximately HK$177,000 (2007: HK$30,000). The assumed change has no significant impact on the Group's other components of equity.

A general decrease of 50 basis points in interest rates would have had the equal but opposite effect on the profit after tax for the year and retained profits to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the year and had been applied to the abovementioned financial instruments at that date and throughout the year constantly. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 March 2007.

As the Company has no significant interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

### 39.4 Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheets which are summarised in note 39.6 below. None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

All the Group's bank balances are deposited with major banks located in Hong Kong, Taiwan and the PRC.

The Group trades mainly with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The carrying amounts of the trade receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group is exposed to concentration of credit risk. During the year, sales made to a major customer represented about 31% of the Group's total revenue (2007: 49%). Trade receivables from this customer represented about 51% of the Group's total trade receivables as at 31 March 2008 (2007: 64%). The Group's concentration of credit risk by geographical locations is mainly in Hong Kong.

The Company is not exposed to significant concentration of credit risk.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.5 Foreign currency risk

The Group's mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are mainly HK$ or RMB. Certain trade receivables of those subsidiaries with HK$ as their functional currency are denominated in foreign currencies, mainly United States dollars ("US$") and Taiwan Dollar ("NT$"). The other subsidiaries with RMB as their functional currency transacted mainly in RMB and thus are not subject to significant foreign currency risk. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US$ and NT$, against the functional currency at the relevant Group entities. The Group currently does not have a foreign currency hedging policy.

*Currency exchange rate sensitivity analysis*

At 31 March 2008, the Group's foreign currency denominated financial assets and liabilities, translated into HK$, are as follows:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Financial assets HK$'000** | **Financial liabilities HK$'000** | **Net exposure HK$'000** | Financial assets HK$'000 | Financial liabilities HK$'000 | Net exposure HK$'000 |
| NT$ | **3,081** | **–** | **3,081** | 3,921 | – | 3,921 |
| US$ | **605** | **–** | **605** | – | – | – |

At 31 March 2008, if a general appreciation of 5% in HK$ against NT$ and US$ respectively is estimated, with all other variables held constant, the profit after tax for the year and retained profits of the Group would decrease by approximately HK$184,000 (2007: HK$196,000). The assumed change has no significant impact on the Group's other components of equity.

A general depreciation of the same percentage in HK$ against NT$ and US$ would have had the equal but opposite effect on the profit after tax for the year and retained profits to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above has been determined assuming that the change in currency exchange rates had occurred at the beginning of the year and had been applied to the abovementioned financial instruments at that date and throughout the year constantly. The percentage increase or decrease represents management's assessment of a reasonably possible change in currency exchange rates over the period until the next annual balance sheet date.

As the Company does not have significant exposure to foreign currency risk, the Company's income and operating cash flows are substantially independent of changes in foreign currency rates.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the directors of the Company, the Group does not have any significant liquidity risk exposure.

The following table summarises the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows:

**Group**

| | **On demand HK$'000** | **Less than one year HK$'000** | **One year or above HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **At 31 March 2008** | | | | |
| Trade payables | **–** | **9,943** | **–** | **9,943** |
| Accrued charges, amount due to a minority shareholder of subsidiary and other payables | **21,163** | **–** | **–** | **21,163** |
| Bank borrowings | **80** | **850** | **–** | **930** |
| Long term other payables | **–** | **–** | **642** | **642** |
| | **21,243** | **10,793** | **642** | **32,678** |

| | On demand HK$'000 | Less than one year HK$'000 | One year or above HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31 March 2007 | | | | |
| Trade payables | – | 9,672 | – | 9,672 |
| Accrued charges, amount due to a minority shareholder of subsidiary and other payables | 4,597 | – | – | 4,597 |
| Bank borrowings | 1,369 | 2,188 | – | 3,557 |
| Convertible notes | – | 5,603 | – | 5,603 |
| | 5,966 | 17,463 | – | 23,429 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.6 Liquidity risk *(Continued)*

**Company**

| | **On demand HK$'000** | **Less than one year HK$'000** | **One year or above HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **At 31 March 2008** | | | | |
| Accrued charges and other payables | **498** | **–** | **–** | **498** |
| Bank borrowings | **80** | **–** | **–** | **80** |
| | **578** | **–** | **–** | **578** |

| | On demand HK$'000 | Less than one year HK$'000 | One year or above HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31 March 2007 | | | | |
| Accrued charges and other payables | 178 | – | – | 178 |
| Bank borrowings | 363 | 1,500 | – | 1,863 |
| Convertible notes | – | 5,603 | – | 5,603 |
| | 541 | 7,103 | – | 7,644 |

### 39.7 Fair value

The fair values of the Group's and the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group takes reference to professional valuations where necessary and uses a variety of method and makes assumptions that are based on market conditions existing at each balance sheet date.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.8 Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at the balance sheet dates are also analysed into the following categories. See notes 3.12 and 3.20 for explanations about how the category of financial instruments affects their subsequent measurement.

*Financial assets*

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Derivative financial instruments | **2,428** | – | **–** | – |
| Loans and receivables | | | | |
| – Trade receivables | **19,729** | 32,849 | **–** | – |
| – Amounts due from a related party/related parties and other receivables | **9,833** | 2,142 | **–** | – |
| – Due from subsidiaries | **–** | – | **121,809** | 76,635 |
| Pledged bank deposits | **4,406** | 4,258 | **3,294** | 3,190 |
| Cash and bank balances | **27,172** | 5,299 | **44** | 3,332 |
| | **63,568** | 44,548 | **125,147** | 83,157 |

*Financial liabilities*

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Derivative financial instruments | **2,317** | – | **–** | – |
| Financial liabilities measured at amortised cost | | | | |
| – Trade payables | **9,943** | 9,672 | **–** | – |
| – Accrued charges, amount due to a minority shareholder of a subsidiary and other payables | **21,805** | 4,597 | **498** | 178 |
| Bank borrowings | **930** | 3,557 | **80** | 1,863 |
| Convertible notes | **–** | 5,603 | **–** | 5,603 |
| | **34,995** | 23,429 | **578** | 7,644 |

## 40. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current years.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital. Total debt is calculated as bank loans and overdraft, as shown in the consolidated balance sheet. Total capital is calculated as total equity, as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level.

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Total debt** | | |
| Bank borrowings | **930** | 3,557 |
| Convertible notes | **–** | 5,603 |
| | **930** | 9,160 |
| **Total capital** | **358,886** | 246,703 |
| **Total debt to capital ratio** | **0.3%** | 3.8% |

## 41. NON-ADJUSTING POST BALANCE SHEET EVENTS – GROUP AND COMPANY

(i) On 22 February 2008, the Group entered into a sale and purchase agreement (the "S&P") with an independent third party, to acquire the exclusive entitlements to all of the economic benefits derived from the dealership of Bentley cars, Lamborghini cars and Rolls – Royce cars and rights to control, manage and operate Beijing Mei He Zhen Yong Motors Trading Limited and Beijing De Te Motors Trading Limited at consideration of HK$402,000,000, comprising cash of HK$50,000,000, issue of 400,000,000 ordinary shares of the Company and convertible notes with principal amount of HK$264,000,000. Details of this transaction were set out in the circular to the shareholders of the Company dated 20 March 2008. The transaction was completed on 26 June 2008. Due to the lack of HKFRS specific data at the completion date of this acquisition, the carrying amount of the acquirees' asset, liabilities and contingent liabilities cannot be determined reliably.

(ii) Subsequent to the year end date, the Company incorporated a subsidiary in Hong Kong (the "New Subsidiary"). On 9 July 2008, the New Subsidiary entered into a dealership contract with an independent third party to obtain the dealership of a branded watch in the PRC. This dealership contract contained no consideration and was completed upon signing of the contract.

(iii) On 14 July 2008, the Group entered into a sale and purchase agreement with an independent third party to sell the office premises in Hong Kong at a cash consideration of HK$32,000,000. Under this sale and purchase agreement, the Group will leaseback the office premises from the buyer for the lease period of three years with monthly rental of HK$288,000. Up to the date of this financial statements, HK$3,200,000 has been received by the Group. The completion date of this transaction is expected to be on 15 August 2008.

(iv) On 22 July 2008, the Group entered into a sale and purchase agreement with a minority shareholder of a subsidiary to acquire the remaining 49% interest in each of Dragon Animation Holdings Limited and Dragon Animation Limited at an aggregate consideration of HK$4,900,000. This transaction was completed on the same date of this sale and purchase agreement.

# Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Revenue | 166,465 | 107,307 | 102,214 | 102,094 | **156,726** |
| Profit for the year attributable to the equity holders of the Company | 13,534 | 11,043 | 13,538 | 11,370 | **6,585** |

## ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Total assets | 64,368 | 210,709 | 235,269 | 271,653 | **411,777** |
| Total liabilities | (9,727) | (94,213) | (47,106) | (24,950) | **(52,891)** |
| | 54,641 | 116,496 | 188,163 | 246,703 | **358,886** |
| Equity attributable to equity holders of the Company | 54,641 | 116,496 | 188,163 | 244,260 | **351,450** |
| Minority interests | – | – | – | 2,443 | **7,436** |
| | 54,641 | 116,496 | 188,163 | 246,703 | **358,886** |