CHINA CHIEF CABLE TV GROUP LTD

中國3C集團有限公司

(Stock Code : 8153)

2006 ANNUAL REPORT

VISION OF FUTURE

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Board of Directors

Executive Directors

Mr. Tong Hing Chi *(Chairman)*
Mr. Law Kwok Leung *(CEO)*
Mr. Feng Xiao Ping
Ms. Fan Wei

Non-Executive Director

Mr. Chan Kwok Sun, Dennis

Independent Non-Executive Directors

Mr. Sousa Richard Alvaro
Mr. Chang Carl
Mr. Ngai Wai Fung

Compliance Officer

Mr. Law Kwok Leung

Company Secretary

Mr. Chan Lun Ho

Authorised Representatives

Mr. Tong Hing Chi
Mr. Law Kwok Leung

Qualified Accountant

Ms. Tang Kam Ping, *CPA (Aust), CPA*

Audit Committee

Mr. Sousa Richard Alvaro *(Chairman)*
Mr. Chang Carl
Mr. Ngai Wai Fung

Remuneration Committee Members

Mr. Sousa Richard Alvaro *(Chairman)*
Mr. Chang Carl
Mr. Ngai Wai Fung

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

1/F., Mei Ah Centre
28 Chun Choi Street
Tseung Kwan O Industrial Estate
Kowloon, Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited

Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

Auditors

Hopkins CPA Limited
Certified Public Accountants, Hong Kong

Legal Advisers

As to Bermuda Law:

Conyers Dill & Pearman

As to Hong Kong Law:

Sidley Austin Brown & Wood

Stock Code

8153

Website of the Company

www.m21.com.hk

Chairman's Statement

Dear shareholders,

On behalf of the Board of Directors of China Chief Cable TV Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I would like to present the annual results of the Group for the year ended 31 March 2006.

Business Review and Financial Review

Financial review

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$17,799,000 (2005: approximately HK$14,758,000). The increase was mainly due to the increased demand of playout, pre-mastering and post-production services generated from various new Pay TV channels launched.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 70% (2005: approximately 54%) of the Group's turnover. Such increase was mainly contributed to the increased number of playout channels as mentioned above.

Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 27% (2005: approximately 43%) of the Group's turnover. The number of playout channels increased while the percentage to the Group's turnover decreased, this was attributed to the discount granted to a customer whose number of playout channels operating with the Company was continuously increasing. Despite such discount, increased channels has bring along ancillary services such as editing, subtitling, sound mixing etc, this has in turn lead to an increase in the income from Media Services.

Income from provision of TV digitalisation related services amounted to approximately HK$374,000 (2005: HK$472,000). The business of Sky Dragon Group has been launched since the fourth quarter of 2004 and the income will be further increased as a result of the process of launching digital television network across the PRC by the PRC government.

Hunan Digital Television Technology Company Limited ("Hunan Digital"), a subsidiary of Sky Dragon, has entered into a Technical Support Agreement and a Supplemental Agreement (the "Agreements") on 2 August 2004 and 26 August 2004 respectively with Hunan Provincial Television Network Company Limited ("Hunan TV") pursuant to the Agreements Hunan Digital will provide digitalisation-related technical support services and packed TV programs to Hunan TV. As Hunan TV owns 30% interest of Hunan Digital, the transactions under the Agreements constitutes Continuing Connected Transactions (the "Transactions") under the GEM Listing Rules. Independent shareholders' approval has been obtained in a special general meeting held on 20 November 2004. Details of the Transactions have been set out in the circular dated 4 November 2004. Income contributed by the above Transactions amounted to approximately HK$46,000 for the year ended 31 March 2006 (2005: HK$5,000).

Chairman's Statement

Business Review and Financial Review *(Continued)*

Financial review *(Continued)*

The Group generated a gross profit of approximately HK$4,701,000 (2005: approximately HK$5,332,000) out of a total turnover of approximately HK$17,799,000 (2005: approximately HK$14,758,000). The gross profit margin has been decreased from 36% in 2005 to 26% in the current year, mainly due to the fact that not much income has been generated from the provision of TV digitalisation related services, which has been acquired by the Group since August 2004, yet while certain direct costs such as depreciation and salary expenses has to be incurred. This, together with the discount granted to a customer of Playout Services as mentioned, contributed to the decrease in gross profit margin. Following the approval from the relevant authority in April 2006 in respect of the pricing of set-top boxes in the PRC, it is expected that installation of those set-top boxes to subscribers will commence progressively shortly and the progressive rate of increase of income from the provision of TV digitalisation related services will soon improve the gross profit margin.

Business Pursuits and Prospects

The Group acquired a new business for the provision of TV digitalisation related services in August 2004 in order to expand its business scope in the PRC and grabbed the opportunities of network digitalisation in the PRC. At present, the PRC government is in the process of launching the digital television network to completely phase out the prevailing analog television network gradually across the country by Year 2015. It is expected that from 2005 to 2008, the cable television networks in the direct-controlled cities and provinces in the eastern, middle and western parts of the PRC will be digitalised. With such large hinterland, immense population, encouraging government policy, the Directors are optimistic and confident about the future of the digital television market in PRC.

Hunan TV, the authorised digital television network operator in Hunan Province, owns and operates a fibre optic trunk network covering 14 major districts in Hunan (the "First Tier Network"). The First Tier Network is connected to fibre optic trunk networks in 108 cities and counties in Hunan (the "Second Tier Network"). The First Tier Network and the Second Tier Network together form a nation-wide cable television network in Hunan, covering over 4 million households in the territory which is the source of income by virtue of sharing of the subscription fee from these households with Hunan TV after deducting a fee to Second Tier Network Operators. In order to provide digital television services to subscribers, the Second Tier Network Operators must enter into agreement with Hunan TV on the sharing of subscription fee. As required by the circular dated 4 November 2004, the number of Second Tier Network Operators who has not yet reached agreement with Hunan TV is 81 as at the date of this report.

Business Pursuits and Prospects *(Continued)*

The income from our core business, Media Services are growing continuously due to the increase in number of playout channels related to the boom in Pay TV industry started since 2004, which created demand for the Group's services and generated opportunities for the Group to take on more channels at an optimal cost. The Directors expected that the number of channels will further increase in Hong Kong and due to the complete success in the Hong Kong market, the Group has considered the feasibility of managing playout channels in the South East Asia countries (especially those with large Chinese-related population) and the Group is now managing a playout channel in Malaysia started from early September 2005. The channel was running smoothly since then. This encouraging start has further strengthen the confidence of the Group on targeting the South East Asia market.

As the Pay TV market has been getting more complicated with the emergence of broadband network, the demand for audiovisual contents as well as its quality increases dramatically. The Directors believed that it is a good opportunity to capitalise on its expertise and experience in audiovisual technology, and to pursue the concept of providing media service as a whole. In fact, the Group's capacity of media service and digitised platform is near saturation. Therefore, the Group is considering to further invest in related servers and equipment to satisfy such growing demand.

During the year, the Group has signed an agreement with Hospital Management and Research Division of the Ministry of Health, the PRC and China Quality Standard Research Centre - Quality Certification Centre under General Administration of Quality Supervision, Inspection and Quarantine of the PRC to form a joint venture ("JV") named as Beijing Medical Standardization Database Company Limited.

The total investment of the JV is RMB50 million and the Group owns a 9% stake. The JV will help standardize medical terminology and records in the PRC through compiling books and e-platform. The JV will tap into a network of more than 500,000 hospitals and clinics which are slated to carry out digitalization according to the policy of the Ministry of Health, the PRC. Through the e-platform, the JV aims for a seamless integration of all the medical information of the patients nationwide and allows the insurance companies and government bodies to keep track of the very latest information up to the minute search. The JV is pending complete registration and approval from authorities of its incorporation.

The Group will continue to endeavour its best effort in keeping its established brand in Hong Kong and will also adopt an aggressive approach towards the bright digital television market in the PRC.

Chairman's Statement

Liquidity and Financial Resources

The group used to finance its operation using internally generated cashflows. However, the acquisition of Sky Dragon and the related capital investments in certain digital television equipments and machineries, together with the increased number of playout channels induce the need for certain debt financing. Therefore, as at 31 March 2006, the Group has unsecured external borrowing of approximately HK$54.3 million and secured borrowing of HK$500,000 which is secured by the Group's certain fixed assets with net book value of approximately HK$5.3 million. In turn, the gearing ratio became 83% (2005: 70%) based on the total bank and other loans of approximately HK$54.8 million and the total assets of HK$66,416,000.

The Group's bank balances and borrowings are denominated in Hong Kong dollars and Renminbi and the Group has no significant exposure to foreign currency fluctuations.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 March 2006.

Employee Information

As at 31 March 2006, the Group had 104 full-time employees. Employees costs, including director's emoluments for the year amounted to approximately HK$11,474,000. Remuneration is reviewed annually and employees are rewarded on a performance related basis. In addition to the basic salaries, a wide range of benefits, including medical coverage, provident funds, training and development programmes and long service awards are also provided on an ongoing basis to employees of the group. The Group has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

Tong Hing Chi
Chairman

Hong Kong, 27 June 2006

Directors' and Senior Management's Profile

Executive Directors

Mr. TONG Hing Chi, aged 51, is the Chairman and Managing Director of the Group. Mr. Tong has over 18 years' experience in the home entertainment industry, particularly multimedia and optical disc manufacturing, in Hong Kong and overseas. Mr. Tong is responsible for the strategic planning and development of the Group. Mr. Tong is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He is also the managing director of Mei Ah Entertainment Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Tong joined the Group in February 1999.

Mr. LAW Kwok Leung, aged 45, is a major shareholder, founder, Compliance Officer and Chief Executive Office of the Group. Mr. Law is responsible for the formulation of corporate strategies, including initiation of video-compression-related research and development projects of the Group. Mr. Law holds an honoured Bachelor of Science degree in Mathematics with Operational Research from the University of London and a Master's degree in Business Administration from the University of Greenwich. Mr. Law is a member of the Chartered Institute of Marketing, a fellow member of the Institute of Analysts and Programmers and full member of the Institute of Management. He is also an independent non-executive director of BIG Media Group Limited (formerly known as B&S Entertainment Holdings Limited (listed on the GEM Board)), Before establishing the Group, Mr. Law has been involved in the consultancy of audiovisual compression, transmission of audiovisual signals over the Internet and video-on-demand licensing. Mr. Law has over 20 years of experience in the advanced technology. Mr. Law joined the Group in February 1999.

Mr. FENG Xiao Ping, aged 55, is a director of Sky Dragon Digital Television and Movies Limited and Hunan Digital Television Technology Company Limited (collectively "Sky Dragon"), being subsidiaries of the Company engaged in the development of digital set-top boxes and the system platform for the newly launched digital television network in the PRC. Mr. Feng is also one of the founders and an executive director of Crossprofit Development Limited, a company principally engaged in investment holding, property investment in Hong Kong and in the PRC and operation of toll highways in the PRC through its fellow companies and subsidiaries. During the period form 1998 to 2002, Mr. Feng was the director and chief executive officer of Asia Television Limited, a free-to-air terrestrial television broadcaster licensed in Hong Kong. Mr. Feng joined the Group on 29 April 2005.

Ms. FAN Wei, aged 50, has substantial years of experience in the media industry. She has been the Deputy General Manager of Sky Dragon Digital Television and Movies Limited, a wholly-owned subsidiary acquired by the Company in August 2004, since June 2003. Prior to that, she had been the Deputy General Manager of ATV Enterprises Limited from 2000 to 2003 and was responsible for TV content distribution. She had also been the Manager (overseas division) of Yue Xiu Enterprises Limited and was responsible for the branch operating in France. Ms. Feng is also an executive director of China Motion Telecom International Limited. Ms. Fan possesses a Master Degree in Business Administration from the Murdoch University in Australia. Ms. Fan joined the Group on 1 February 2005.

Directors' and Senior Management's Profile

Non-Executive Director

Mr. CHAN Kwok Sun, Dennis, aged 56, has accumulated more than 24 years of execution experience in sales, marketing and production in the entertainment business, including with Disney and Era International Film and Distribution (Taiwan) and as an independent movie producer. He is currently the honorary committee of Hong Kong Performing Artists Guild. Mr. Chan is a shareholder of Sino Regal Holding Limited, a founder and an Initial Management Shareholder of the Company. Mr. Chan was appointed as a non-executive director on 30 January 2001.

Independent Non-Executive Directors

Mr. SOUSA Richard Alvaro, aged 45, was qualified as a solicitor of the High Court of Hong Kong in May 1996 and is now a solicitor of Messrs. Chan, Lau and Wai. Mr. Sousa was appointed as an independent non-executive director on 30 January 2001.

Mr. CHANG Carl, aged 50, holds a bachelor's degree of Arts (Honours) from the University of Hong Kong. Mr. Chang has vast experience in the broadcasting, publishing and other media related industries. Prior joining to the Group as an independent non-executive director, Mr. Chang was the chief executive officer of Tom.com Limited, a company listed in Hong Kong. Mr. Chang has been an executive director and the chief executive officer of See Corporation Limited (formerly known as Ruili Holdings Limited), a company listed in Hong Kong, since 24 August 2004. Mr. Chang was appointed as an independent non-executive director on 19 March 2001.

Mr. NGAI Wai Fung, aged 44, the practising chartered secretary, is currently the Associate Director and the Head of Listing Services of KCS Limited and the non-executive Chairman of Top Orient Group of Companies. Prior to that, he had worked in various senior capacities of Executive Director, Chief Financial Officer and Company Secretary for a number of listed companies. He is also the Vice President and council member of the Hong Kong Institute of Chartered Secretaries ("HKICS") and the Chairman of its China Affairs Committee.

Mr. Ngai is the Fellow of the HKICS and the Institute of Chartered Secretaries and Administrators, and the member of Hong Kong Securities Institute and Institute of Directors. He also possesses a laws degree, a master degree in Business Administration and a master degree in Corporate Finance. Mr. Ngai was appointed as a non-executive director on 6 October 2004.

Directors' and Senior Management's Profile

Senior Management

Ms. TANG Kam Ping, aged 33, is the Financial Controller of the Group and the Qualified Accountant of the Company. Ms. Tang is responsible for all financial and accounting matters including budgetary control and internal control procedures of the Group. Ms. Tang holds a Bachelor of Business Degree in Accountancy and is a member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Ms. Tang has over 9 years of auditing and accounting experience. Ms. Tang joined the Group in November 2005.

Mr. CHAN Lun Ho, aged 36, is the Company Secretary of the Company with effect from August 2002. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 14 years of auditing and accounting experience.

Report of the Directors

The directors present their annual report together with the financial statements of the Company and its subsidiaries ("Group") for the year ended 31 March 2006.

Change of Name

Pursuant to a special resolution passed on 5 August 2005, the name of the Company was changed from M21 Technology Limited to China Chief Cable TV Group Limited.

Principal Activity and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 27.

The directors do not recommend the payment of a dividend for the year.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 15 to the financial statements.

Share Capital

Details of the share capital of the Company are set out in note 26 to the financial statements.

Distribution Reserves

As at 31 March 2006, the Company had no distributable reserves available for distribution to shareholders of the Company.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 68.

Purchase, Sale or Redemption of Securities

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

Share Option

1. Share Option Scheme

Pursuant to the written resolutions of the shareholders of the Company dated 20 March 2001, a Share Option Scheme (the "Scheme") was adopted by the Company. Details of the Scheme are as follows:

(a) Purposes of the Scheme

The purposes of the Scheme are to recognise the contribution made by the executive directors and the employees of the Group and to retain the services of the employees who will make valuable contribution to the Company.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may offer to grant share options ("Options") to any full-time employees (the "Employee"), including any executive director of the Group, to subscribe for shares in the Company.

Share Option *(Continued)*

1. Share Option Scheme *(Continued)*

(c) Maximum Number of Shares Available for Issue under the Scheme

The maximum number of shares available for issue under the Scheme is 30% of the issued share capital of the Company from time to time, excluding for this purpose from the calculation of issued share capital (i) any shares issued pursuant to the exercise of the Options under the Scheme or pursuant to the exercise of Options under any other scheme; and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) above during a period of 10 consecutive years from the date of adoption of the Scheme.

(d) Maximum Entitlement of Each Participant

No Employee shall be granted an Option which, if exercised in full, would result in such Employee's maximum entitlement exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

(e) Exercisable Period of Options

Pursuant to the Scheme, an Option may be exercised in whole or in part in the manner provided in the Scheme by a grantee giving notice in writing to the Company at any time during a period commencing one year after the date of grant of the Option, to be notified by the Board of the Company to the grantee, which shall be not less than 3 years nor more than 10 years from the date an Option is offered (the "Offer Date").

(f) Payment on Acceptance of Option Offer

Pursuant to the Scheme, a sum of HK$1.00 is payable by the Employee on acceptance of the Option offer.

Report of the Directors

Share Option *(Continued)*

1. Share Option Scheme *(Continued)*

(g) Basis of Determining the Subscription Price

The subscription price for the shares in relation to Options to be granted under the Scheme shall be determined by the Board and notified to an Employee and shall be at least the highest of:

(i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheet on the Offer Date;

(ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the shares of the Company.

(h) Remaining Life of the Scheme

The Scheme will be valid and effective for a period of ten years from the date of adoption of the Scheme.

The Scheme will remain valid until 19 March 2011.

No share options were granted under the Scheme since its adoption on 20 March 2001.

2. Other Share Option

Pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004 and the successful signing of the Technical Support Agreement between Hunan Digital Television Technology Company Limited ("Hunan Digital"), a subsidiary of the Company and Hunan Television Technology Company Limited ("Hunan TV"), a minority shareholder of Hunan Digital, the Company has granted an option ("Option") to Sky Dragon Digital Television and Movies Holdings Limited ("Sky Dragon"), a company owned by Mr. Feng Xiao Ping, a director of the Company to subscribe for 30 million shares of the Company at an exercise price of HK$0.788 per share.

Share Option *(Continued)*

2. Other Share Option *(Continued)*

The Option was granted as an incentive for Sky Dragon, being a past shareholder of Hunan Digital to procure Hunan Digital to enter into the Technical Support Agreement with Hunan TV (Sky Dragon had subsequently sold all its indirect interest in Hunan Digital to the Company pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004).

On 2 August 2004, the Technical Support Agreement was signed and the Option is exercisable at any time in three equal proportion to subscribe the shares of the Company from February 2005, August 2005 and February 2006 respectively and up until five years from 2 August 2004.

Directors

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

Executive directors

Mr. TONG Hing Chi
Mr. LAW Kwok Leung
Mr. FENG Xiao Ping (appointed on 29 April 2005)
Ms. FAN Wei

Non-executive director

Mr. CHAN Kwok Sun, Dennis

Independent non-executive directors

Mr. SOUSA Richard Alvaro
Mr. CHANG Carl
Mr. NGAI Wai Fung

In accordance with the Company's bye-laws, Mr. TONG Hing Chi, Mr. LAW Kwok Leung, Ms. FAN Wei, Mr. FENG Xiao Ping, and Mr. NGAI Wai Fung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

Directors' Service Contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as disclosed under note 31 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company or 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.

Save as disclosed under "Share Option", at no time during the year was the Company or its subsidiaries a party to any arrangement 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.

Biographical Details of Directors and Senior Management

Brief biographical details of directors and senior management (including those of company secretary, qualified accountant and compliance officer of the Company) are set out on pages 7 to 9.

Report of the Directors

Directors' and Chief Executives' Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 31 March 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary shares of HK$0.01 each in the Company

Name of directors	Personal interests	Corporate interests	Other interests
Mr. TONG Hing Chi	7,812,500	—	—
Mr. LAW Kwok Leung	7,812,500	80,000,000 *(note (a))*	—
Mr. FENG Xiao Ping	—	31,718,750 *(note(b))*	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 *(note (a))*

Notes:

(a) 80,000,000 shares are held by Sino Regal Holding Limited ("SRH"), a company in which Mr. LAW Kwok Leung and Mr. CHAN Kwok Sun, Dennis have equity interests of 70% and 30% therein respectively.

(b) 31,718,750 shares are held by Sino Unicorn Technology Limited ("Sino Unicorn"), a company in which Mr. FENG Xiao Ping has an indirect interest of 51% rherein.

Save as disclosed above and "Share Option", the directors do not have any interests or short positions in the shares of the Company.

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of shareholders	Number of shares	Percentage of share capital *(%)*
SRH	80,000,000	25.6
Sino Unicorn	31,718,750	10.15
Random Services Limited ("Random Services") *(note (a))*	31,718,750	10.15
Yang Fuguang *(note (a))*	31,718,750	10.15

Note:

(a) Sino Unicorn is 51% and 49% owned by Random Services and Yang Fuguang respectively. The shares referred to herein relate to the same parcel of shares, held by Sino Unicorn.

Save as disclosed above and "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 31 March 2006.

Connected Transactions

In accordance with an ordinary resolution passed on a special general meeting dated 20 November 2004, the transactions under the Technical Support Agreement and the Supplemental Agreement entered into between Hunan Digital and Hunan TV and the relevant annual cap amount have been approved by the shareholders of the Company. During the year, the revenue of the Group from the Technical Support Agreement and the Supplemental Agreement was approximately HK$46,000.

Report of the Directors

Connected Transactions *(Continued)*

The independent non-executive directors of the Company have reviewed the connected transactions and confirmed that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned;

(3) in accordance with the relevant agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) in the manner that the annual cap amounts of HK$31,000,000 for the Technical Support Agreement and the Supplemental Agreement for the Provision of digitalization-related technical support services and packed TV programs to Hunan TV have not been exceeded.

The related party transactions as disclosed in note 31 to the financial statements also constitute continuing connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), and are exempted from reporting announcement and independent shareholders' approval requirement in accordance with Chapter 20 of the GEM Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

Pension Scheme Arrangement

The Group provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong in compliance with the requirements under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("MPF Scheme Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of the employee's relevant income as defined in the MPF Scheme Ordinance up to a maximum of HK$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$5,000 per month. The MPF contributions from the employer are 100% fully and immediately vested in the employees as accrued benefits once they are paid. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. There is no forfeited contribution that may be used by the Group to reduce the existing level of contributions. For the year ended 31 March 2006, the employer's pension cost charged to the income statement is HK$279,000.

Major Suppliers and Customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	36%
— five largest suppliers combined	81%
Sales	
— the largest customer	69%
— five largest customers combined	90%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above, except that Mr. TONG Hing Chi has an indirect equity interest of approximately 0.4% in three of the five largest customers (including the largest customers).

Directors' Interest in Competing Business

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which compete or may compete with the business of the Group.

Audit Committee

The Company has established an audit committee comprising three independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The present members of the audit committee are Mr. Sousa Richard Alvaro, Mr. Carl Chang and Mr. Ngai Wai Fung. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. Two meetings were held during the current financial year and the annual results have been reviewed by the audit committee.

Corporate Governance Report

Corporate governance report of the Company is set out on pages 21 to 24 of the annual report.

Auditors

The accounts of the Company for the year ended 31 March 2004 was audited by PricewaterhouseCoopers ("PwC''). In July 2004, PwC retired as auditors of the Company and CCIF CPA Ltd. (formerly known as Charles Chan, Ip & Fung CPA Ltd.) was appointed to fill the vacancy. In May 2006, CCIF CPA Ltd. resigned as the auditors of the Company and Hopkins CPA Limited was appointed in June 2006 pursuant to an ordinary resolution to fill the vacancy.

A resolution for the appointment of Hopkins CPA Limited as the auditors of the Company will be eligible, offer proposed at the forthcoming annual general meeting.

On behalf of the board

Tong Hing Chi
Chairman

Hong Kong, 27 June 2006

Corporate Governance Report

Compliance with the Code on Corporate Governance Practices

The Company's corporate governance practices are based on the principles and the code provisions (the "Code") as set out in the Code on Corporate Governance Practices as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 March 2006, with the exception of the deviation in respect of the appointment term of non-executive directors as mentioned below.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the year ended 31 March 2006.

Board of Directors

The directors acknowledge their responsibilities for the preparation of accounts, which shall give a true and fair view of the state of affairs of the Group. Details of the basis of preparation of accounts are set out in note 1 to the accounts. The Board is also responsible for formulating the Group's long-term strategy, determining and approving the Group's significant transactions and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. Other decisions are to be delegated to management. As at 31 March 2006, the Board comprised eight Directors, including four executive Directors (including the Chairman), one non-executive Director and three independent non-executive Directors. Biographies of the Directors are set out in pages 7 to 8.

There is no non-compliance with rules 5.05(1) and (2) of the GEM Listing Rules and there is no relationship among members of the Board and no relationship among the members of the board.

Under code provision A4.1, non-executive directors should be appointed for specific term, There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-law of the Company. Accordingly the Company considers that sufficient measures have been taken to dealt with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

Board of Directors *(Continued)*

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

The Board held a board meeting for each quarter. Details of the attendance of the Board are as follows:

	Attendance
Executive Directors	
Mr. Tong Hing Chi *(Chairman)*	4/4
Mr. Law Kwok Leung *(Chief Executive Officer)*	4/4
Mr. Feng Xiao Ping	4/4
Ms. Fan Wei	4/4
Non-executive Director	
Mr. Chan Kwok Sun, Dennis	4/4
Independent Non-executive Directors	
Mr. Sousa Richard Alvaro	2/4
Mr. Chang Carl	1/4
Mr. Ngai Wai Fung	4/4

Chairman and the Chief Executive Officer

Under the code provision A.2.1, the roles of chairman and chief executive officer are separate and are not performed by the same individual. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer, supported by the senior management, is responsible for managing the Group's responsibilities, the business, implementing major strategies, making day-to-day decisions and coordinating overall business operations.

Nomination of Directors

No nomination committee was established by the Company.

The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or any additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

During the year, Mr. Feng Xiao Ping, the director and former shareholder of Sky Dragon sub-group (acquired in 2004) was appointed as an executive director of the Company following the above-mentioned nomination procedures and policies.

Board Committees

To assist the Board in discharge of its duties, the Board is supported by two board committees. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the Audit Committee are (a) to review the Group's annual reports, interim reports and quarterly reports; (b) to discuss and review with the auditors of the Company on the scope and findings of the audit; and (c) to supervise the financial reporting process and internal control procedures of the Group. The audit committee consists of all of the Company's independent non-executive directors, namely Mr. Sousa Richard Alvaro, Mr. Chang Carl and Mr. Ngai Wai Fung. The chairman of the committee is Mr. Sousa Richard Alvaro.

The audit committee held 2 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Sousa Richard Alvaro	2/2
Mr. Ngai Wai Fung	2/2
Mr. Chang Carl	1/2

Board Committees *(Continued)*

(1) Audit Committee *(Continued)*

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 March 2006 have been reviewed by the audit committee, which is of opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

(2) Remuneration Committee

The Company has established the Remuneration Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary duties are (a) make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; and (b) establish a formal and transparent procedure for developing policy on such remuneration.

The remuneration committee consists of all of the Company's independent non-executive directors, namely Mr. Sousa Richard Alvaro, Mr. Chang Carl and Mr. Ngai Wai Fung. The chairman of the committee is Mr. Sousa Richard Alvaro.

In June 2006, the Committee met to discuss the remuneration related matters. Mr. Sousa Richard Alvaro and Mr. Ngai Wai Fung attended the meeting. During the meeting, the performance of executive directors was assessed, and the remuneration of whom and the policy of which was discussed and approved.

Auditors' Remuneration

The statement by the auditors of the Company about their reporting responsibilities is set out in the auditors' report on page 25 to 26. An amount of approximately HK$288,000 (2005: HK$180,000) was charged to the Group's income statement for the year ended 31 March 2006. There was no significant non-audit service assignment undertaken by the external auditors during the year.

Auditors' Report

HOPKINS
(Incorporating the business of Albert Lam & Co. CPA)

HOPKINS CPA LIMITED
25/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

To the Shareholders of
China Chief Cable TV Group Limited
(Formerly Known as M21 Technology Limited)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 27 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of its result and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hopkins CPA Limited
Certified Public Accountants

Albert Lam
Practising Certificate Number P02080

Hong Kong, 27 June 2006

Consolidated Income Statement

Year ended 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
Turnover	7	**17,799**	14,758
Cost of sales		**(13,098)**	(9,426)
Gross profit		**4,701**	5,332
Other revenue	7	**154**	833
Share-based payment	2(a)	**—**	(6,000)
General, administrative and other expenses		**(16,338)**	(13,681)
Loss from operations	8	**(11,483)**	(13,516)
Finance costs	9	**(3,194)**	(1,433)
Loss from ordinary activities before taxation		**(14,677)**	(14,949)
Taxation	10	**—**	(19)
Loss attributable to shareholders	11	**(14,677)**	(14,968)
Basic loss per share	12	**(4.7 cents)**	(4.79 cents)

The notes on pages 32 to 67 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Fixed assets	15	**20,910**	25,407
Intangible assets	16	**5,473**	5,056
		26,383	30,463
Current assets			
Inventories	18	**1,465**	1,432
Accounts receivable	19	**6,416**	3,570
Other receivables and deposits	20	**31,554**	30,931
Bank balances and cash		**598**	1,701
		40,033	37,634
Current liabilities			
Accounts payable	21	**1,075**	1,171
Other payables and accrued charges		**6,179**	8,425
Amount due to related companies	23	**5,625**	100
Amount due to a director	23	**2,465**	—
Bank and other loans	24	**10,482**	500
		25,826	10,196
Net current assets		**14,207**	27,438
Total assets less current liabilities		**40,590**	57,901
Non-current liabilities			
Bank and other loans	24	**44,354**	47,190
Deferred tax liabilities	25	**643**	643
		44,997	47,833
Net (liabilities)/assets		**(4,407)**	10,068
Capital and reserves			
Share capital	26	**3,125**	3,125
Reserves	28(a)	**(7,532)**	6,943
		(4,407)	10,068

Approved and authorised for issue by the board of directors on 27 June 2006

On behalf of the board

Tong Hing Chi
Director

Law Kwok Leung
Director

Feng Xiao Ping
Director

The notes on pages 32 to 67 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	*17*	**11,804**	11,807
Current assets			
Other receivables and deposits		**118**	119
Bank balances		**6**	—
		124	119
Current liabilities			
Other payables and accruals charges		**268**	110
Amount due to a subsidiary	*22*	**2,171**	1,748
		2,439	1,858
Net current liabilities		**(2,315)**	(1,739)
Net assets		**9,489**	10,068
Capital and reserves			
Share capital	*26*	**3,125**	3,125
Reserves	*28(b)*	**6,364**	6,943
		9,489	10,068

Approved and authorised for issue by the board of directors on 27 June 2006

On behalf of the board

Tong Hing Chi
Director

Law Kwok Leung
Director

Feng Xiao Ping
Director

The notes on pages 32 to 67 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Share capital	Share premium	Accumulated losses	Merger reserve	Share-based payment reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004, as previously reported	3,125	27,783	(11,675)	(197)	—	—	19,036
Effect of change in accounting policy — recognition of share-based payment	—	—	—	—	6,000	—	6,000
Net loss for the year	—	—	(14,968)	—	—	—	(14,968)
At 31 March 2005 and 1 April 2005, as restated	3,125	27,783	(26,643)	(197)	6,000	—	10,068
Exchange differences *(Note)*	—	—	—	—	—	202	202
Net loss for the year	—	—	(14,677)	—	—	—	(14,677)
At 31 March 2006	3,125	27,783	(41,320)	(197)	6,000	202	(4,407)

Note: Exchange differences represent adjustments arising on translation of financial statements of subsidiary outside Hong Kong not recognized in the consolidated profit and loss account.

The notes on pages 32 to 67 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
Cash flows from operating activities			
Loss before taxation		**(14,677)**	(14,949)
Adjustment for:			
Interest expenses		**3,194**	1,433
Interest income		**(120)**	(829)
Share based payment		**—**	6,000
Impairment loss of property, plant and equipment		**—**	800
Bad debts written off		**—**	200
Provision for inventories		**—**	112
Depreciation and amortisation		**7,174**	5,412
		10,248	13,128
Operating loss before working capital change		**(4,429)**	(1,821)
(Increase)/Decrease in inventories		**(33)**	363
(Increase)/Decrease in accounts receivable		**(2,846)**	1,902
Increase in other receivables and deposits		**(623)**	(16,969)
Decrease in amounts due from related companies		**—**	253
Decrease in accounts payable		**(96)**	(1,258)
(Decrease)/Increase in other payables and accrued charges		**(2,246)**	3,915
Increase in amounts due to related companies		**5,525**	100
Increase in amounts due to a director		**2,465**	—
Cash used from operations		**(2,283)**	(13,515)
Interest received		**120**	829
Interest paid		**(3,194)**	(1,433)
Net cash outflow from operating activities		**(5,357)**	(14,119)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,792)**	(3,781)
Purchase of films rights		**(964)**	(1,159)
Acquisition of subsidiaries		**—**	1,227
Net cash outflow from investing activities		**(2,756)**	(3,713)
Net cash inflow from financing activities	*29*	**6,267**	19,095
Net (decrease)/increase in cash and cash equivalents		**(1,846)**	1,263
Cash and cash equivalents at the beginning of year		**1,701**	438
Translation differences		**743**	—
Cash and cash equivalents at end of year		**598**	1,701
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**598**	1,701

The notes on pages 32 to 67 form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2006

1. General

(a) Principal activities

The Company is an investment holding company. The Group is principally engaged in the provision of pre-mastering and other media services, the provision of audiovisual playout services in Hong Kong and the development of digital television system platform and provision of related service, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities in the People's Republic of China ("PRC") (collectively known as "TV digitalisation related services").

(b) Going concern

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding the fact that the Group had net loss of approximately HK$14,677,000 for the year ended 31 March 2006 and the outstanding commitments of HK$37,692,000. A substantial shareholder of the Company has agreed to provide financial support to the Group to maintain the Group as a going concern at least up to 31 March 2007. Consequently, the financial statements have been prepared on a going concern basis. The validity of the Group to carry on its business as a going concern is dependent upon future profitable operations of the Group and the adequate funds being available to the Group.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out below and the 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2. Adoption of New and Revised Hong Kong Financial Reporting Standards *(continued)*

The accounting standards which have material effects on the Group are set out below:

(a) Share-based payment

The adoption of HKFRS 2 "Share-based Payment" has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the grant of share options did not result in an expense in the income statement. Effective on 1 April 2005, the Group expensed the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods. Fair value is measured using the Black-Scholes-Merton Option Pricing Model.

The restrospective application of the change in policy has resulted in an increase in the expenses and losses of HK$6 million for the year ended 31 March 2005 and share-based payment reserve at 31 March 2005 (2006 Nil).

(b) Goodwill

In accordance with HKFRS 3 "Business Combinations", goodwill arising on acquisitions is recognized as an asset and reviewed for impairment at least annually or more frequently if there are indications that the carrying value may not be recoverable. Any impairment is recognized immediately in the consolidated income statement and is not subsequently reversed. HKFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognized immediately in the consolidated income statement. HKFRS 3 prohibits the recognition of discount on acquisition in the balance sheet.

Goodwill arising from acquisition prior to 1 January 2005 was amortised over its estimated useful life in previous years. The Group discontinued the amortisation of such goodwill on 31 March 2005.

On disposal of a subsidiary, the profit and loss is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards *(continued)*

(c) Comparative figures

Due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

3. Effects of the Adoption of New Accounting Policies

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors expect that the application of these standards or interpretations will not have any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) — Int 4	Determining Whether an Arrangement Contains a Lease[2]

1. Effective for annual periods beginning on or after 1 January 2007.

2. Effective for annual periods beginning on or after 1 January 2006.

4. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

(a) Consolidation

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

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

Notes to the Financial Statements

31 March 2006

4. Principal Accounting Policies *(continued)*

(a) Consolidation *(continued)*

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of its board of directors, controls more than half of its voting power or holds half of the issued share capital or has power to govern its financial and operating policies.

Investment in subsidiaries are carried in the Company's balance sheet at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Fixed assets

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	10% or lease term, whichever is the shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	10%

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

4. Principal Accounting Policies *(continued)*

(d) Club membership

Club membership is stated at cost less accumulated amortisation and accumulated impairment losses. Club membership is amortised over the period of the membership.

(e) Operating leases

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

(f) Film rights

Film rights acquired by the Group are stated at cost less accumulated amortisation and any impairment losses. The cost of film rights is amortised on a systematic basis over the licence period.

At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that film rights are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the standard cost basis for raw materials and first-in, first-out basis for finished goods, comprises their respective invoiced cost. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

4. Principal Accounting Policies *(continued)*

(h) Accounts receivable

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

(i) Loans and receivables

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

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

4. Principal Accounting Policies *(continued)*

(l) Employee benefits

(i) Employee leave entitlements

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

(ii) Pension obligations

The Company operate deferred contribution provident schemes in Hong Kong. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans the Company pays contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

4. Principal Accounting Policies *(continued)*

(l) Employee benefits *(continued)*

(iii) Share-based compensation

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. Principal Accounting Policies *(continued)*

(n) Revenue recognition

(i) Revenue from the sale of goods is recognised on the transfer of ownership at the point of sales.

(ii) Revenue from the provision of pre-mastering and other media services is recognised when the services are rendered.

(iii) Revenue from the provision of audiovisual playout services is recognised when the services are rendered.

(iv) Revenue from the provision of TV digitalisation related service is recognised when the services are rendered.

(v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

5. Financial Risk Management

5.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company regularly monitor its exposure and currently consider not necessary to hedge any finance risks.

(a) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and credit lines to meet liquidity requirements.

(c) Cash flow and fair value interest rate risk

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

5.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables balances with intercompanies and relate parties are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

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.

6. Critical Accounting Estimates and Judgements

The Company 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.

(a) Estimated impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of properties and equipment, leasehold land and land use rights have been determined based on value-in-use calculations, taking into account latest market information and past experience. These calculation and valuations require the use of judgements and estimate.

7. Turnover, Revenues and Segment Information

The Group is principally engaged in the provision of pre-mastering and other media services, the provision of audiovisual playout services in Hong Kong and the development of digital television system platform and provision of related service, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities in the People's Republic of China ("PRC") (collectively known as "TV digitalisation related services"). Revenues recognised during the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Turnover		
Provision of pre-mastering and other media services	**12,503**	7,941
Provision of audiovisual playout services	**4,876**	6,345
Provision of TV digitalisation related services	**420**	472
	17,799	14,758
Other revenue		
Interest income	**120**	829
Others	**34**	4
	154	833
Total revenues	**17,953**	15,591

7. Turnover, Revenues And Segment Information *(continued)*

Primary report format — business segments

The Group is organised into three main business segments:

— Provision of pre-mastering and other media services — include editing, authoring and digitalisation of audiovisual data processes;

— Provision of audiovisual playout services on audiovisual data; and

— Provision of TV digitalisation related services — development of digital set-top boxes and the system platform for digital TV network and provision of digitalisation related technical support services.

There are no sales or other transactions between the business segments.

Secondary report format — geographical segments

The Group's three business segments operated in two main geographical areas:

— Hong Kong — provision of pre-mastering and other media services and provision of audiovisual playout services;

— PRC — development of digital television system platform and provision of related services, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities.

There are no sales between the geographical segments.

7. Turnover, Revenues and Segment Information *(continued)*

Business Segment

	Provision of Pre-mastering and other media services 2006 HK$'000	Provision of audiovisual playout services 2006 HK$'000	Provision of TV digitalisation related services 2006 HK$'000	Total 2006 HK$'000
Turnover	12,503	4,876	420	17,799
Segment results	5,480	21	(9,398)	(3,897)
Unallocated income				34
Unallocated expenses				(7,620)
Loss from operations				(11,483)
Finance costs				(3,194)
Loss before taxation				(14,677)
Taxation				—
Loss attributable to shareholders				(14,677)
Segment assets	10,005	3,536	46,163	59,704
Unallocated assets				6,712
Total assets				66,416
Segment liabilities	1,087	374	58,348	59,809
Unallocated liabilities				11,014
Total liabilities				70,823
Capital expenditure	386	41	1,316	1,743
Unallocated capital expenditure				49
				1,792
Depreciation	1,784	1,769	3,074	6,627
Unallocated depreciation				—
				6,627

7. Turnover, Revenues and Segment Information *(continued)*

Business Segment *(continued)*

	Provision of Pre-mastering and other media services 2005 *HK$'000*	Provision of audiovisual playout services 2005 *HK$'000*	Provision of TV digitalisation related services 2005 *HK$'000*	Total 2005 *HK$'000*
Turnover	7,941	6,345	472	14,758
Segment results	1,527	2,042	(6,881)	(3,312)
Unallocated income				4
Unallocated expenses				(10,208)
Loss from operations				(13,516)
Finance costs				(1,433)
Loss before taxation				(14,949)
Taxation				(19)
Loss attributable to shareholders				(14,968)
Segment assets	8,442	5,261	48,005	61,708
Unallocated assets				6,389
Total assets				68,097
Segment liabilities	1,123	395	55,093	56,611
Unallocated liabilities				1,418
Total liabilities				58,029
Capital expenditure	1,256	240	2,285	3,781
Unallocated capital expenditure				—
				3,781
Depreciation	1,669	1,650	1,699	5,018
Unallocated depreciation				—
				5,018

Notes to the Financial Statements

31 March 2006

7. Turnover, Revenues and Segment Information *(continued)*

Geographical segments

	2006			
		Segment	**Segment**	**Capital**
	Turnover	**results**	**assets**	**expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**17,379**	**5,501**	**20,254**	**476**
PRC	**420**	**(9,398)**	**46,162**	**1,316**
	17,799	**(3,897)**	**66,416**	**1,792**
Unallocated income		**34**		
Unallocated costs		**(7,620)**		
Loss from operations		**(11,483)**		

	2005			
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	14,286	3,569	20,092	1,496
PRC	472	(6,881)	48,005	2,285
	14,758	(3,312)	68,097	3,781
Unallocated income		4		
Unallocated costs		(10,208)		
Loss from operations		(13,516)		

8. Loss from Operating Activities

The Group's loss from operating activities is stated after charging

	Group	
	2006	2005
	HK$'000	*HK$'000*
Amortisation of club membership	**3**	3
Amortisation of film rights	**544**	270
Amortisation of goodwill	**—**	121
Auditors' remuneration	**288**	180
Bad debts written-off	**—**	200
Cost of inventories sold	**6,381**	4,422
Depreciation	**6,627**	5,018
Operating leases in respect of		
— land and buildings	**1,421**	889
Staff costs (including directors' emoluments) *(note 13)*	**11,474**	8,254
Impairment loss for property, plant and equipment	**—**	800
Provision for inventories	**—**	112

9. Finance Costs

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans	**2,474**	1,029
Interest on other loans	**720**	404
	3,194	1,433

10. Taxation

No provision for Hong Kong profits tax and PRC enterprise income tax has been made in these financial statements as there was no estimated assessable profit for the year (2005: Nil).

The amount of taxation charged to the consolidated income statement represents:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current taxation	**—**	—
Deferred taxation relating to the origination and reversal of temporary differences	**—**	19
Taxation charge	**—**	19

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
		As restated
	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	**(14,677)**	(14,949)
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**(2,568)**	(2,616)
Expenses not deductible for taxation purposes	**1,498**	2,388
Income not subject to taxation	**(160)**	(352)
Utilisation of previously unrecognised tax losses	**(596)**	(368)
Tax losses unrecognised	**1,688**	842
Effect of different tax rates at overseas jurisdiction	**138**	125
Taxation charge	**—**	19

11. Loss Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2006 in the financial statements of the Company is HK$579,000 (2005: net loss of HK$8,968,000).

12. Loss Per Share

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders for the year of HK$14,677,000 (2005: loss of HK$14,968,000) and on 312,500,000 (2005: 312,500,000) ordinary shares in issue during the year.

No diluted loss per share for 2006 and 2005 has been presented, as the exercise of the outstanding share options of the Company during the years ended 31 March 2006 and 2005 would result in reducing loss per share.

13. Staff Costs (Including Directors' Emoluments)

	Group	
	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	11,195	8,040
Pension costs-defined contribution plan	279	214
	11,474	8,254

The group's review the emoluments payable to staff annually on a performance related basis and makes reference to the market conditions.

14. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2005: 8) directors were as follows:

	Fees *HK$'000*	Salaries, allowances, and other remuneration *HK$'000*	Employer's contributions to retirement benefits schemes *HK$'000*	2006 Total emoluments *HK$'000*	2005 Total emoluments *HK$'000*
Executive Directors					
Mr. Tong Hing Chi *(Chairman)*	125	—	—	125	120
Mr. Law Kwok Leung	—	729	12	741	715
Mr. Feng Xiao Ping	—	1,298	—	1,298	756
Ms. Fan Wei	—	474	12	486	92
Non-executive Directors					
Mr. Chan Kwok Sun, Dennis	—	—	—	—	—
Independent Non-executive Directors					
Mr. Sousa Richard Alvaro	30	—	—	30	30
Mr. Chang Carl	30	—	—	30	30
Mr. Ngai Wai Fung	30	—	—	30	15
Total	215	2,501	24	2,740	1,758

No director waived or agreed to waive any of their emoluments in respect of two years ended 31 March 2006 and 2005.

The directors' emoluments are determined by the Board with reference to their contribution in terms of time, effort and their expertise and will be reviewed on an annual basis.

14. Directors' and Senior Management's Emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group for the year included three (2005: two) directors whose remuneration are reflected in the analysis presented above. The remuneration paid and payable to the remaining two (2005: three) individuals during the year are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**892**	1,645
Retirement benefits scheme contributions	**24**	19
	916	1,664

The number of the highest paid individuals whose remuneration fell within the following band is as follows:

	2006	2005
HK$Nil to HK$1,000,000	**4**	5
HK$1,000,000 to HK$1,500,000	**1**	—
	5	5

During the year ended 31 March 2006 and 2005, no emoluments have been paid by the Group to the directors and the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

15. Fixed Assets

			Group		
	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2005	1,151	31,105	833	1,197	34,286
Translation differences	—	335	13	28	376
Additions	40	1,715	37	—	1,792
At 31 March 2006	**1,191**	**33,155**	**883**	**1,225**	**36,454**
Accumulated depreciation and impairment					
At 1 April 2005	189	8,441	178	71	8,879
Translation differences	—	36	1	1	38
Charge for the year	119	6,212	174	122	6,627
At 31 March 2006	**308**	**14,689**	**353**	**194**	**15,544**
Net book value					
At 31 March 2006	**883**	**18,466**	**530**	**1,031**	**20,910**
At 31 March 2005	962	22,664	655	1,126	25,407

As at 31 March 2006, the net book value of fixed assets pledged to secure certain of the Group's bank and other loans amounted to approximately HK$5,263,000 (2005: HK$7,189,000).

15. Fixed Assets *(continued)*

	Group				
	Leasehold improvements	**Plant and machinery**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2004	994	15,367	210	—	16,571
Acquired on acquisition of subsidiaries	—	12,229	508	1,197	13,934
Additions	157	3,509	115	—	3,781
At 31 March 2005	1,151	31,105	833	1,197	34,286
Accumulated depreciation and impairment					
At 1 April 2004	84	2,911	66	—	3,061
Charge for the year	105	4,730	112	71	5,018
Impairment loss	—	800	—	—	800
At 31 March 2005	189	8,441	178	71	8,879
Net book value					
At 31 March 2005	962	22,664	655	1,126	25,407
At 31 March 2004	910	12,456	144	—	13,510

16. Intangible Assets

	Group			
	Goodwill HK$'000 (Note (i))	Film rights HK$'000	Club membership HK$'000	Total HK$'000
At 1 April 2004	—	—	—	—
Acquired on acquisition of subsidiaries	4,128	—	163	4,291
Additions	—	1,159	—	1,159
Amortisation	(121)	(270)	(3)	(394)
Net book value At 31 March 2005	4,007	889	160	5,056
At 1 April 2005	4,007	889	160	5,056
Additions	—	964	—	964
Amortisation	—	(544)	(3)	(547)
Net book value At 31 March 2006	4,007	1,309	157	5,473

Note:

(i) The carrying amount of goodwill as at 31 March 2006 is HK$4,007,000.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

During the year ended 31 March 2006, management of the Group determines that there are no impairments for the goodwill.

The recoverable amounts of the unit have been determined based on a value in use calculation. That calcuation uses cash flow projections based on financial budgets approved by management covering a ten-year period. Growth rate is assumed in the calculation together with the past performance and management's expectations for the market development.

17. Investments in Subsidiaries

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost *(note (a))*	**13,307**	13,307
Amounts due from subsidiaries *(note (b))*	**21,485**	21,488
	34,792	34,795
Less: Provision for impairment	**(22,988)**	(22,988)
	11,804	11,807

(a) The following is a list of the principal subsidiaries at 31 March 2006

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued share capital	Interest held
Held directly:				
M21 Investment Limited ("M21 Investment")	British Virgin Islands, limited liability company	Investment holding in Hong Kong	400 ordinary shares of US$1 each	100%
Held indirectly:				
M21 Mastertech Company Limited ("Mastertech")	Hong Kong, limited liability company	Provision of broadband services and web hosting services in Hong Kong	2,000 ordinary shares of HK$1 each	100%
M21 Digicast Company Limited ("Digicast")	Hong Kong, limited liability company	Provision of audiovisual playout services on audiovisual data and provision of post-production services in Hong Kong	1,000 ordinary shares of HK$1 each	100%

17. Investments in Subsidiaries *(continued)*

(a) The following is a list of the principal subsidiaries at 31 March 2006 *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital	Interest held
Held indirectly: *(continued)*				
Sky Dragon Digital Television and Movies Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	21,000,000 ordinary shares of HK$1 each	100%
Hunan Digital Television Technology Company Limited ("Hunan Digital")	PRC, limited liability company	Provision of TV digitalization services in the PRC	RMB30,000,000	70%

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18. Inventories

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**268**	297
Finished goods	**1,197**	1,135
	1,465	1,432

19. Accounts Receivable

The Group's credit term granted to trade debtors generally ranges from 15 to 90 days. At 31 March 2006, details of the ageing analysis of accounts receivable were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**2,507**	2,163
30 - 60 days	**356**	95
61 - 90 days	**186**	114
Over 90 days	**3,367**	1,198
	6,416	3,570

20. Other Receivables and Deposits

Included in the balance is a deposit of HK$25,000,000 (2005: HK$24,500,000) paid for the purchase of Cable TV set top boxes in relation to the TV digitalisation network operations.

21. Accounts Payable

At 31 March 2006, details of the ageing analysis of accounts payable were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**229**	541
30 - 60 days	**93**	252
Over 60 days	**753**	378
	1,075	1,171

22. Amount due to a Subsidiary

The amount is unsecured, interest-free and has no fixed terms of repayment.

23. Amount due to Related Companies and a director

(a) Amount due to related companies

The amount due to Hunan TV is unsecured, interest free and no fixed terms of repayment. The amount due to Sky Dragon Digital Television and Movies Holdings Limited is unsecured, 5% interest charge per annum and no fixed terms of repayment.

(b) Amount due to a director

The amount due to a director is unsecured, interest free and no fixed terms of repayment.

24. Bank and Other Loans

All the bank and other loans are wholly repayable within five years:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unsecured bank loans	**44,354**	37,690
Other loans		
Unsecured	**9,982**	9,500
Secured	**500**	500
	54,836	47,690
Current portion	**(10,482)**	(500)
	44,354	47,190

The bank and other loans bear interest at various rates between 5.5% to 2% over Hong Kong prime lending rate per annum.

24. Bank and Other Loans *(continued)*

As at 31 March 2006, the Group's bank and other loans were repayable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**10,482**	500
In the second year	**44,354**	9,500
In the third to fifth year	**—**	37,690
	54,836	47,690

25. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred tax liabilities account is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
At the beginning of year	**643**	624
Defferred taxation charged to consolidateed income statement	**—**	19
	643	643

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$15,379,000 (2005: HK$14,292,000) to carry forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability. Such tax losses have no expiry date.

25. Deferred Taxation *(continued)*

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

Deferred tax liabilities

	Group	
	Accelerated tax depreciation	
	2006	2005
	HK$'000	*HK$'000*
At the beginning of year	**1,459**	1,831
Credited to the consolidated income statement	**—**	(372)
At the end of year	**1,459**	1,459

	Group	
	Tax losses	
	2006	2005
	HK$'000	*HK$'000*
At the beginning of year	**(816)**	(1,207)
Charged to the consolidated income statement	**—**	391
At the end of year	**(816)**	(816)

25. Deferred Taxation *(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. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	**(816)**	(816)
Deferred tax liabilities	**1,459**	1,459
	643	643

26. Share Capital

	2006	2005
	HK$'000	*HK$'000*
Authorised		
700,000,000 ordinary shares of HK$0.01 each	**7,000**	7,000
Issued and fully paid		
312,500,000 ordinary shares of HK$0.01 each	**3,125**	3,125

27. Share Options

(a) Under the share option scheme (the "Share Option Scheme") approved by the shareholders, the Board of the Company may, at its discretion, invite full-time employees including any executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 30% of the issued share capital of the Company from time to time, excluding for this purpose from the calculation of issued share capital (i) any shares issued pursuant to the exercise of options under the Share Option Scheme or pursuant to the exercise of options under any other scheme; and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) above during a period of 10 consecutive years from the date of adoption of the Share Option Scheme.

27. Share Options *(continued)*

(a) *(continued)*

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the Board and shall be at least the highest of (i) the closing price of the shares on the date of grant (the "Offer Date"); (ii) the average closing price of the shares for the five day business days immediately preceding the Offer Date; and (iii) the nominal value of the shares of the Company. The options are exercisable within a period not less than 3 years or more than 10 years from the Offer Date.

No share options were granted under the Share Option Scheme since its adoption on 20 March 2001.

(b) Pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004 and the entering into of the Technical Support Agreement between Hunan Digital and Hunan Provincial Television Network Company Limited, a minority shareholder of Hunan Digital, the Company has granted an option ("Option") to Sky Dragon Digital Television and Movies Holdings Limited on 5 January 2005, a company owned by Mr. Feng Xiao Ping, a director of the company to subscribe for 30 million shares of the Company at an exercise price of HK$0.788 per share. The Option is exercisable at any time in three equal proportion to subscribe the shares of the Company from February 2005, August 2005 and February 2006 respectively and up until five years from 2 August 2004.

The fair value of the Option was calculated by independent valuation company in 2005. Fair value is measured using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Note	
Exercise price		HK$0.788
Risk free rate	*(i)*	2.413%
Expected life	*(ii)*	4 years
Volatility	*(iii)*	88.870%
Expected dividend yield		0%

Note:

(i) The risk free rate is determined by the reference to the Exchange Fund Notes and their expected life.

(ii) Expected life is determined by the historical performance record of the Group.

(iii) The price volatility of the share price of the Company was based on 100 trading days.

None of the Option has been exercised since granted.

28. Reserves

(a) Group

	Share premium	Accumulated losses	Merger reserve	Share-based payment reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note (i))*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	27,783	(11,675)	(197)	—	—	15,911
Net loss for the year, as restated	—	(14,968)	—	—	—	(14,968)
Effect of change in accounting policy — Share-based payment	—	—	—	6,000	—	6,000
At 31 March 2005 and 1 April 2005, as restated	27,783	(26,643)	(197)	6,000	—	6,943
Exchange differences	—	—	—	—	202	202
Net loss for the year	—	(14,677)	—	—	—	(14,677)
At 31 March 2006	27,783	(41,320)	(197)	6,000	202	(7,532)

Note:

(i) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the Company in exchange thereof pursuant to the Group reorganisation on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.

28. Reserves *(continued)*

(b) Company

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Contributed surplus *HK$'000* *(Note(i))*	Total *HK$'000*
At 1 April 2004	19,601	(16,797)	13,107	15,911
Net loss for the year	—	(8,968)	—	(8,968)
At 31 March 2005 and 1 April 2005	19,601	(25,765)	13,107	6,943
Net loss for the year	—	(579)	—	(579)
At 31 March 2006	19,601	(26,344)	13,107	6,364

Note:

(i) The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company in exchange thereof pursuant to the Group reorganisation on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001. Under the Companies Act 1998 of Bermuda (as amended), contributed surplus is available for distribution to shareholders, subject to the condition that 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 account.

29. Notes to the Consolidated Cash Flow Statement

Bank and other loans:

	2006	2005
	HK$'000	*HK$'000*
At the beginning of year	**47,690**	—
Acquired on acquisition of subsidiaries	**—**	28,595
Translation difference	**879**	—
Bank and other loans raised	**6,267**	19,095
At the end of year	**54,836**	47,690

30. Capital Commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Authorised but not contracted for:		
Hunan Cable TV digitalisation network system	**30,322**	30,322
Contracted but not provided for:		
Hunan Cable TV digitalisation network system	**7,368**	7,368
Total commitments	**37,690**	37,690

The Company had no significant commitments at the balance sheet date.

31. Related Party Transaction

Save as disclosed in note 23 to the financial statements, the Group had the following significant related party transaction:

		Group	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Interest payment	*(i)*	**201**	—

Note:

(i) It represents interest on amount due to a related company, Sky Dragon Digital Television and Movies Holdings Limited, which is unsecured and interest-bearing at a yearly rate of 5%. Mr. Feng Xiao Ping, a director of the Company, has beneficial interest in the related company.

Other Financial Information

Financial Summary

	Year ended 31 March 2006	As restated Year ended 31 March 2005	Year ended 31 March 2004	As restated Year ended 31 March 2003	Year ended 31 March 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
(Loss)/profit attributable To shareholders	**(14,677)**	(14,968)	1,844	(2,536)	(5,785)

	As at 31 March 2006	As restated As at 31 March 2005	As at 31 March 2004	As restated As at 31 March 2003	As at 31 March 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**66,416**	68,097	21,489	19,700	24,653
Total liabilities	**(70,823)**	(58,029)	(2,453)	(2,508)	(4,925)
	(4,407)	10,068	19,036	17,192	19,728

The figures for the year ended 31 March 2003 have been restated pursuant to the adoption of SSAP 12 (revised) which has no material impact for the year ended 31 March 2002 or before and accordingly no prior year adjustment was put through in these financial years.

The figures for the year ended 31 March 2005 have been restated pursuant to the adoption of HKFRS 2. Prior year adjustment was put through in this financial year which increased HK$6 million losses.