



VISION ON FUTURE

2007
ANNUAL REPORT

**CHINA CHIEF CABLE
TV GROUP LTD**
中國3C集團有限公司

[Stock Code : 8153]

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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Corporate Information

Board of Directors

Executive Directors

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

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 and Remuneration Committee

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 Fund Services (Bermuda) 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 2007.

Business Review and Financial Review

Financial review

For the year ended 31 March 2007, the Group recorded a turnover of approximately HK\$13,303,000 (2006: approximately HK\$17,799,000). The decrease was mainly due to the decreased demand of playout, pre-mastering and post-production services from Pay TV channels.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 69% (2006: approximately 70%) of the Group's turnover. There was no new Pay TV channel launched during this year. Thus, the demand for Media Services decreased.

Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 30% (2006: approximately 27%) of the Group's turnover. During the year, three channels were terminated which leads to the drop in the Playout Service income.

Income from provision of TV digitalisation related services amounted to approximately HK\$175,000 (2006: HK\$420,000). The business of Sky Dragon Group has been launched since the fourth quarter of 2004 and the income will be further improved 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\$164,000 for the year ended 31 March 2007 (2006: HK\$46,000).

Chairman's Statement

Business Review and Financial Review *(Continued)*

Financial review *(Continued)*

The Group generated a gross profit of approximately HK\$925,000 (2006: approximately HK\$4,701,000) out of a total turnover of approximately HK\$13,303,000 (2006: approximately HK\$17,799,000). The gross profit margin has been decreased from 26% in 2006 to 7% 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 decreased demand of Media Services as mentioned, contributed to the decrease in 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 (including Hunan Province) will be digitalised. With such large hinterland, immense population, encouraging government policy, the management are optimistic and confident about the future of the digital television market in PRC and will continue to explore new business opportunities for this segment.

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 province-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 50 as at the date of this report.

In order to enlarge the audience base and increase popularity, we are exploring opportunities to enrich the content of programs for the channels. On the other hand, we are waiting for the process of launching digital television network throughout the province by the relevant authority. Management expects that after the launching of digital television network, the number of the subscribers will then increase progressively.

Chairman's Statement

Business Pursuits and Prospects *(Continued)*

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. Management 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.

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

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 2007, the Group has unsecured external borrowing of approximately HK\$58,137,000 and secured borrowing of HK\$500,000 which is secured by the Group's certain fixed assets with net book value of approximately HK\$2.6 million. In turn, the gearing ratio is 100% (2006: 83%) based on the total bank and other loans of approximately HK\$58,637,000 million and the total assets of HK\$58,217,000.

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 2007.

Chairman's Statement

Employee Information

As at 31 March 2007, the Group had 93 full-time employees. Employees costs, including director's emoluments for the year amounted to approximately HK\$10,251,000. 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, 25 June 2007

Directors' and Senior Management's Profile

Executive Directors

Mr. TONG Hing Chi, aged 52, is the Chairman and Managing Director of the Group. Mr. Tong has about 20 years of experience in the entertainment and multimedia industry 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 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 and the Vice Chairman of BIG Media Group Limited, a company listed on the GEM Board. Mr. Tong joined the Group in February 1999.

Mr. LAW Kwok Leung, aged 46, is a major shareholder, founder, Compliance Officer and Chief Executive Officer 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, a company 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 56, 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 from 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.

Non-Executive Director

Mr. CHAN Kwok Sun, Dennis, aged 57, has accumulated more than 25 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 the non-executive director of the Company on 30 January 2001. Mr. Chan is also an executive director of BIG Media Group, a company listed on the GEM Board.

Directors' and Senior Management's Profile

Independent Non-Executive Directors

Mr. SOUSA Richard Alvaro, aged 46, 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 the independent non-executive director of the Company on 30 January 2001.

Mr. CHANG Carl, aged 51, 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. Mr. Chang was appointed as the independent non-executive director of the Company on 19 March 2001.

Mr. NGAI Wai Fung, aged 45, the practicing chartered secretary, is currently the Associate Director and the Head of Listing Service 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 an independent non-executive director of China Life Insurance Company Limited, the Vice President and council member of the Hong Kong Institute of Chartered Secretaries ("HKICS") and the Chairman of 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 and a member of the Association of Chartered Certified Accountant. He also possesses a laws degree, a master degree in Business Administration and a master degree in Corporate Finance. Mr. Ngai was appointed as the independent non-executive director of the Company on 6 October 2004.

Senior Management

Ms. TANG Kam Ping, aged 34, 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 10 years of auditing and accounting experience. Ms. Tang joined the Group in November 2005.

Mr. CHAN Lun Ho, aged 37, 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 member of the Hong Kong Institute of Certified Public Accountants. He has over 15 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 2007.

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 16 to the financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 6 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 26.

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 27 to the financial statements.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 25 to the financial statements.

Distribution Reserves

As at 31 March 2007, the Company had no distributable reserves available for distribution to shareholders of the Company.

Report of the Directors

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 67.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company or any subsidiary 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.

Report of the Directors

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.

Report of the Directors

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.

On 21 June 2007, Sky Dragon exercised 10 million of the share options.

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

Ms. FAN Wei

(resigned on 29 July 2006)

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. CHAN Kwok Sun, Dennis and Mr. SOUSA Richard Alvaro 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 30 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 8.

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 2007, 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 <i>(note (a))</i>	—
Mr. FENG Xiao Ping	—	31,718,750 <i>(note(b))</i>	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 <i>(note (a))</i>

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% therein.

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

Report of the Directors

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 2007, 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 2007.

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\$164,000.

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\$123,000,000 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 30 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 2007, the employer’s pension cost charged to the income statement is HK\$ 257,000.

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	41%
— five largest suppliers combined	85%

Sales

— the largest customer	67%
— five largest customers combined	87%

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.

Report of the Directors

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. Four 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 20 to 23 of the annual report.

Auditors

The financial statements have been audited by Hopkins CPA Limited who retire and, being eligible, offer themselves for reappointment.

On behalf of the board

Tong Hing Chi

Chairman

Hong Kong 25 June 2007

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 2007, 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 2007.

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 3 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 2007, the Board comprised seven Directors, including three 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.

Under code provision A.4.1, 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.

Corporate Governance Report

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 (<i>Chairman</i>)	4/4
Mr. Law Kwok Leung (<i>Chief Executive Officer</i>)	4/4
Mr. Feng Xiao Ping	3/4
Non-executive Director	
Mr. Chan Kwok Sun, Dennis	4/4
Independent Non-executive Directors	
Mr. Sousa Richard Alvaro	3/4
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.

Corporate Governance Report

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.

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

Members	Attendance
Mr. Sousa Richard Alvaro	4/4
Mr. Ngai Wai Fung	3/4
Mr. Chang Carl	1/4

Corporate Governance Report

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 2007 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 2007, the Committee met to discuss the remuneration related matters. Mr. Sousa Richard Alvaro and Mr. Chang Carl 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 independent auditor's report on page 24 to 25. An amount of approximately HK\$323,000 (2006: HK\$288,000) was charged to the Group's income statement for the year ended 31 March 2007. There was no significant non-audit service assignment undertaken by the external auditors during the year.

Independent Auditor's Report



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

HOPKINS CPA LIMITED

- 25/F Man Yee Building
- 68 Des Voeux Road Central
- Hong Kong

Independent Auditor's Report to the Shareholders of

China Chief Cable TV Group Limited

(Incorporated in Bermuda with limited liability)

Report on the financial statements

We have audited the consolidated financial statements of the Company set out on pages 26 to 66, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Independent Auditor's Report

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's results and cash flows for the year then ended in accordance with HKFRS and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hopkins CPA Limited

Certified Public Accountants

Albert Man-Sum Lam

Practising Certificate Number P02080

Hong Kong, 25 June 2007

Consolidated Income Statement

Year ended 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
Turnover	6	13,303	17,799
Cost of sales		(12,378)	(13,098)
Gross profit		925	4,701
Other revenue	6	82	154
General, administrative and other expenses		(15,058)	(16,338)
Loss from operations	7	(14,051)	(11,483)
Finance costs	8	(3,653)	(3,194)
Loss before taxation		(17,704)	(14,677)
Taxation	9	643	—
Loss attributable to equity holders of the company	10	(17,061)	(14,677)
Basic loss per share	11	(5.5 cents)	(4.7 cents)

The notes on pages 31 to 66 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	14	15,009	20,910
Intangible assets	15	5,206	5,473
		20,215	26,383
Current assets			
Inventories	17	1,441	1,465
Accounts receivable	18	5,042	6,416
Other receivables and deposits	19	31,223	31,554
Bank balances and cash		296	598
		38,002	40,033
Current liabilities			
Accounts payable	20	1,182	1,075
Other payables and accrued charges		8,699	6,179
Amount due to related companies	22	7,552	5,625
Amount due to a director	22	3,665	2,465
Bank and other loans	23	52,487	10,482
		73,585	25,826
Net current (liabilities)/assets		(35,583)	14,207
Total assets less current liabilities		(15,368)	40,590
Non-current liabilities			
Bank and other loans	23	6,150	44,354
Deferred tax liabilities	24	—	643
		6,150	44,997
Net liabilities		(21,518)	(4,407)
Equity			
Share capital	25	3,125	3,125
Reserves	27(a)	(24,643)	(7,532)
		(21,518)	(4,407)

Approved and authorised for issue by the board of directors on 25 June 2007

On behalf of the board

Tong Hing Chi
Director

Law Kwok Leung
Director

Feng Xiao Ping
Director

The notes on pages 31 to 66 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Interest in subsidiaries	16	11,804	11,804
Current assets			
Other receivables and deposits		118	118
Bank balances		6	6
		124	124
Current liabilities			
Other payables and accrued charges		411	268
Amount due to a subsidiary	21	2,633	2,171
		3,044	2,439
Net current liabilities		(2,920)	(2,315)
Net assets		8,884	9,489
Equity			
Share capital	25	3,125	3,125
Reserves	27(b)	5,759	6,364
		8,884	9,489

Approved and authorised for issue by the board of directors on 25 June 2007

On behalf of the board

Tong Hing Chi
Director

Law Kwok Leung
Director

Feng Xiao Ping
Director

The notes on pages 31 to 66 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	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 2005, as restated	3,125	27,783	(26,643)	(197)	6,000	—	10,068
Exchange differences (<i>Note</i>)	—	—	—	—	—	202	202
Net loss for the year	—	—	(14,677)	—	—	—	(14,677)
At 31 March 2006 and 1 April 2006	3,125	27,783	(41,320)	(197)	6,000	202	(4,407)
Exchange differences (<i>Note</i>)	—	—	—	—	—	(50)	(50)
Net loss for the year	—	—	(17,061)	—	—	—	(17,061)
At 31 March 2007	3,125	27,783	(58,381)	(197)	6,000	152	(21,518)

Note: Exchange differences represent adjustments arising on translation of financial statements of subsidiary outside Hong Kong not recognized in the consolidated income statement.

The notes on pages 31 to 66 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
Cash flows from operating activities			
Loss before taxation		(17,704)	(14,677)
Adjustment for:			
Interest expenses		3,653	3,194
Interest income		(79)	(120)
Bad debts written off		29	—
Depreciation and amortisation		7,906	7,174
		11,509	10,248
Operating loss before working capital change		(6,195)	(4,429)
Decrease/(Increase) in inventories		24	(33)
Decrease/(Increase) in accounts receivable		1,345	(2,846)
Decrease/(Increase) in other receivables and deposits		331	(623)
Increase/(Decrease) in account payable		107	(96)
Increase/(Decrease) in other payable and accrued charges		2,520	(2,246)
Increase in amounts due to related companies		1,927	5,525
Increase in amount due to a director		1,200	2,465
Cash generated from/(used) in operations		1,259	(2,283)
Interest received		79	120
Interest paid		(3,653)	(3,194)
Net cash outflow from operating activities		(2,315)	(5,357)
Cash flows from investing activities			
Purchases of property, plant and equipment		(559)	(1,792)
Purchase of films rights		(310)	(964)
Net cash outflow from investing activities		(869)	(2,756)
Net cash inflow from financing activities	28	974	6,267
Net decrease in cash and cash equivalents		(2,210)	(1,846)
Cash and cash equivalents at the beginning of year		598	1,701
Translation differences		1,908	743
Cash and cash equivalents at end of year		296	598
Analysis of balances of cash and cash equivalents			
Bank balances and cash		296	598

The notes on pages 31 to 66 form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2007

1. General

(a) General information

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").

The Company is a limited liability company incorporated in Bermuda and domiciled in Hong Kong. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(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\$17,061,000 for the year ended 31 March 2007 and the outstanding commitments of HK\$37,690,000. 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 2008. 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.

Notes to the Financial Statements

31 March 2007

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“New HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions ⁶

1. Effective for annual periods beginning on or after 1 January 2007.
2. Effective for annual periods beginning on or after 1 January 2009.
3. Effective for annual periods beginning on or after 1 May 2006.
4. Effective for annual periods beginning on or after 1 June 2006.
5. Effective for annual periods beginning on or after 1 November 2006.
6. Effective for annual periods beginning on or after 1 March 2007.

Notes to the Financial Statements

31 March 2007

3. 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 and by the Hong Kong Companies Ordinance.

(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.

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.

Interest 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.

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(c) Goodwill

In accordance with HKFRS 3 “Business Combination”, 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.

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.

(d) Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment is calculated using the straight-line method to allocate cost 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%

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(d) Property, plant and equipment *(continued)*

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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(i) 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.

(j) 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.

(k) 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.

(l) 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.

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(m) 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.

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(m) 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 Company 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.

(n) 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.

Notes to the Financial Statements

31 March 2007

3. Principal Accounting Policies *(continued)*

(o) 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.

(p) 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 consolidated 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.

Notes to the Financial Statements

31 March 2007

4. Financial Risk Management

The Group's major financial instruments include accounts receivable, certain other receivables, bank balances, account payables, certain other payables and accrued liabilities, bank and other loans and amount due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

The Group's credit risk arises mainly from its trade receivables.

The Group manages its credit risk associated with trade receivables through the application of credit approvals and close monitoring procedures.

Further, in order to minimize the credit risk, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

(b) Interest rate risk

The Group's interest rate risk relates primarily to variable-rate bank and other borrowings (see note 23 for details of these borrowings).

The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Notes to the Financial Statements

31 March 2007

5. Critical accounting estimates and judgements

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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) Impairment assessment of property, plant and equipment and other intangible assets

Property, plant and equipment and other intangible assets are stated at cost less accumulated depreciation and identified impairment losses. Property, plant and equipment and other intangible assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

(b) Provision for impairment of receivables

Significant judgement is exercised in the assessment of the collectability of accounts receivables from each customer. In making its judgment, management considers a wide range of factors such as results of follow-up procedures, customers' payment trend including subsequent payments and customers' financial position.

Notes to the Financial Statements

31 March 2007

6. 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	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Provision of pre-mastering and other media services	9,139	12,503
Provision of audiovisual playout services	3,989	4,876
Provision of TV digitalisation related services	175	420
	13,303	17,799
Other revenue		
Interest income	79	120
Others	3	34
	82	154
Total revenues	13,385	17,953

Notes to the Financial Statements

31 March 2007

6. 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.

Notes to the Financial Statements

31 March 2007

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

Business Segment

	For the year ended 31 March 2007			
	Provision of premastering and other media services <i>HK\$'000</i>	Provision of audiovisual playout services <i>HK\$'000</i>	TV digitalisation related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	9,139	3,989	175	13,303
Segment results	1,426	(986)	(8,316)	(7,876)
Unallocated income				4
Unallocated expenses				(6,179)
Loss from operations				(14,051)
Finance costs				(3,653)
Loss before taxation				(17,704)
Taxation				643
Loss attributable to equity holders of the company				(17,061)
Segment assets	6,797	3,080	42,317	52,194
Unallocated assets				6,023
Total assets				58,217
Segment liabilities	1,263	292	67,808	69,363
Unallocated liabilities				10,372
Total liabilities				79,735
Capital expenditure	111	83	239	433
Unallocated capital expenditure				127
				560
Depreciation	1,815	1,807	3,660	7,282

Notes to the Financial Statements

31 March 2007

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

Business Segment *(continued)*

	For the year ended 31 March 2006			
	Provision of premastering and other media services <i>HK\$'000</i>	Provision of audiovisual playout services <i>HK\$'000</i>	TV digitalisation related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 equity holders of the company				(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

Notes to the Financial Statements

31 March 2007

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

Geographical segments

	For the year ended 31 March 2007			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	13,128	440	15,900	321
PRC	175	(8,316)	42,317	239
	<u>13,303</u>	<u>(7,876)</u>	<u>58,217</u>	<u>560</u>
Unallocated income		4		
Unallocated costs		<u>(6,179)</u>		
Loss from operations		<u>(14,051)</u>		

	For the year ended 31 March 2006			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	17,379	5,501	20,253	476
PRC	420	(9,398)	46,163	1,316
	<u>17,799</u>	<u>(3,897)</u>	<u>66,416</u>	<u>1,792</u>
Unallocated income		34		
Unallocated costs		<u>(7,620)</u>		
Loss from operations		<u>(11,483)</u>		

Notes to the Financial Statements

31 March 2007

7. Loss from Operating Activities

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

	Group	
	2007	2006
	HK\$'000	HK\$'000
Amortisation of club membership	6	3
Amortisation of film rights	618	544
Auditors' remuneration	323	288
Bad debt written off	29	—
Cost of inventories sold	5,665	6,381
Depreciation	7,282	6,627
Operating leases in respect of		
— land and buildings	1,201	1,421
Staff costs (including directors' emoluments) (note 12)	10,251	11,474

8. Finance Costs

	Group	
	2007	2006
	HK\$'000	HK\$'000
Interest on bank loans	2,827	2,474
Interest on other loans	826	720
	3,653	3,194

Notes to the Financial Statements

31 March 2007

9. 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 (2006: Nil).

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Current taxation	—	—
Deferred taxation relating to the origination and reversal of temporary differences	643	—
Tax credit	643	—

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	
	2007 HK\$'000	2006 HK\$'000
Loss before taxation	(17,704)	(14,677)
Calculated at a taxation rate of 17.5% (2006: 17.5%)	(3,098)	(2,568)
Expenses not deductible for taxation purposes	633	1,498
Income not subject to taxation	—	(160)
Utilisation of previously unrecognised tax losses	(10)	(596)
Tax losses unrecognised	3,262	1,688
Tax effect of temporary differences not recognised	(353)	—
Effect of different tax rates at overseas jurisdiction	(1,077)	138
Tax credit for the year	(643)	—

Notes to the Financial Statements

31 March 2007

10. Loss Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2007 in the financial statements of the Company is HK\$605,000 (2006: net loss of HK\$579,000).

11. Basic loss per share

The calculation of the basic loss per share is based on the Group's loss attributable to equity holders for the year of HK\$17,061,000 (2006: loss of HK\$14,677,000) and on 312,500,000 (2006: 312,500,000) ordinary shares in issue during the year.

No diluted loss per share for 2007 and 2006 has been presented, as the exercise of the outstanding share options of the Company during the years ended 31 March 2007 and 2006 would result in reducing loss per share.

12. Staff Costs (Including Directors' Emoluments)

	Group	
	2007 HK\$'000	2006 HK\$'000
Wages and salaries	9,994	11,195
Pension costs — defined contribution plan	257	279
	10,251	11,474

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

Notes to the Financial Statements

31 March 2007

13. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2006: 8) directors were as follows:

	Fees HK\$'000	Salaries, allowances, and other remuneration HK\$'000	Employer's contributions to retirement benefits schemes HK\$'000	2007 Total emoluments HK\$'000	2006 Total emoluments HK\$'000
Executive Directors					
Mr. Tong Hing Chi (<i>Chairman</i>)	132	—	—	132	125
Mr. Law Kwok Leung	—	774	12	786	741
Mr. Feng Xiao Ping	—	1,305	—	1,305	1,298
Ms. Fan Wei	—	110	5	115	486
Non-executive Directors					
Mr. Chan Kwok Sun, Dennis	—	—	—	—	—
Independent Non-executive Directors					
Mr. Sousa Richard Alvaro	40	—	—	40	30
Mr. Chang Carl	40	—	—	40	30
Mr. Ngai Wai Fung	40	—	—	40	30
Total	252	2,189	17	2,458	2,740

No director waived or agreed to waive any of their emoluments in respect of two years ended 31 March 2007 and 2006.

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.

Notes to the Financial Statements

31 March 2007

13. 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 two (2006: three) directors whose remuneration are reflected in the analysis presented above. The remuneration paid and payable to the remaining three (2006: two) individuals during the year are as follows:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Salaries, allowances and other benefits in kind	945	892
Retirement benefits scheme contributions	34	24
	979	916

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

	2007	2006
HK\$ Nil to HK\$1,000,000	4	4
HK\$1,000,000 to HK\$1,500,000	1	1
	5	5

During the year ended 31 March 2007 and 2006, 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.

Notes to the Financial Statements

31 March 2007

14. Property, Plant and Equipment

	Leasehold improvements	Plant and machinery	Group Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At 1 April 2006	1,191	33,155	883	1,225	36,454
Translation differences	—	1,011	36	77	1,124
Additions	50	485	24	—	559
At 31 March 2007	1,241	34,651	943	1,302	38,137
Accumulated depreciation and impairment					
At 1 April 2006	308	14,689	353	194	15,544
Translation differences	—	278	12	12	302
Charge for the year	123	6,962	68	129	7,282
At 31 March 2007	431	21,929	433	335	23,128
Net book value	810	12,722	510	967	15,009

As at 31 March 2007, the net book value of property, plant and equipment pledged to secure certain of the Group's bank and other loans amounted to approximately HK\$2,601,000 (2006: HK\$5,263,000).

Notes to the Financial Statements

31 March 2007

14. Property, Plant and Equipment *(continued)*

	Leasehold improvements	Plant and machinery	Group Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	883	18,466	530	1,031	20,910

Notes to the Financial Statements

31 March 2007

15. Intangible Assets

	Group			Total HK\$'000
	Goodwill HK\$'000 (Note (i))	Film rights HK\$'000	Club membership HK\$'000	
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
At 1 April 2006	4,007	1,309	157	5,473
Additions	—	310	—	310
Amortisation	—	(618)	(6)	(624)
Translation differences	—	37	10	47
Net book value				
31 March 2007	4,007	1,038	161	5,206

Note:

- (i) The carrying amount of goodwill as at 31 March 2007 is HK\$4,007,000.

For the purpose 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 2007, management of the Group determines that there are no impairments of the goodwill.

The recoverable amounts of the unit have been determined based on a value in use calculation. That calculation 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.

Notes to the Financial Statements

31 March 2007

16. Interest in Subsidiaries

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost (note (a))	13,307	13,307
Amounts due from subsidiaries (note (b))	21,485	21,485
	34,792	34,792
Less: Provision for impairment	(22,988)	(22,988)
	11,804	11,804

(a) The following is a list of the principal subsidiaries at 31 March 2007

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%

Notes to the Financial Statements

31 March 2007

16. Interest in Subsidiaries *(continued)*

(a) The following is a list of the principal subsidiaries at 31 March 2007 *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued share capital	Interest held
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.

17. Inventories

	Group	
	2007 HK\$'000	2006 HK\$'000
Raw materials	181	268
Finished goods	1,260	1,197
	1,441	1,465

Notes to the Financial Statements

31 March 2007

18. Accounts receivable

The Group's credit term granted to trade debtors generally ranges from 15 to 90 days. At 31 March 2007, details of the ageing analysis of accounts receivable were as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Current	467	2,507
30 — 60 days	295	356
61 — 90 days	91	186
Over 90 days	4,189	3,367
	5,042	6,416

19. Other Receivable and Deposits

Included in the balance is a deposit of HK\$26,650,000 (2006: HK\$25,000,000) paid for the purchase of Cable TV set top boxes in relation to the TV digitalisation network operations.

20. Accounts payable

At 31 March 2007, details of the ageing analysis of accounts payable were as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Current	371	229
30 — 60 days	70	93
Over 60 days	741	753
	1,182	1,075

21. Amount due to a Subsidiary

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

Notes to the Financial Statements

31 March 2007

22. 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.

23. Bank and Other Loans

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Unsecured bank loans	47,151	44,354
Other loans		
Unsecured	10,986	9,982
Secured	500	500
	58,637	54,836
Current portion	(52,487)	(10,482)
	6,150	44,354

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

Notes to the Financial Statements

31 March 2007

23. Bank and Other Loans *(continued)*

As at 31 March 2007, the Group's bank and other loans were repayable as follows:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Within one year	52,487	10,482
In the second year	6,150	44,354
	58,637	54,836

24. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

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

	Group	
	2007	2006
	HK\$'000	HK\$'000
At the beginning of year	643	643
Deferred taxation credited to consolidated income statement	(643)	—
At the end of year	—	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\$26,501,000 (2006: HK\$15,379,000) 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.

Notes to the Financial Statements

31 March 2007

24. 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	
	2007	2006
	HK\$'000	HK\$'000
At the beginning of year	1,459	1,459
Credited to the consolidated income statement	(1,459)	—
At the end of year	—	1,459

Deferred tax assets

	Group	
	Tax losses	
	2007	2006
	HK\$'000	HK\$'000
At the beginning of year	(816)	(816)
Charged to the consolidated income statement	816	—
At the end of year	—	(816)

Notes to the Financial Statements

31 March 2007

24. 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	
	2007	2006
	HK\$'000	HK\$'000
Deferred tax assets	—	(816)
Deferred tax liabilities	—	1,459
	—	643

25. Share Capital

	2007	2006
	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

26. 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.

Notes to the Financial Statements

31 March 2007

26. 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:

	<i>Note</i>	
Exercise price		HK\$0.788
Risk free rate	<i>(i)</i>	2.413%
Expected life	<i>(ii)</i>	4 years
Volatility	<i>(iii)</i>	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.

Save as disclosed in note 31 to the financial statements, none of the Option has been exercised since granted.

Notes to the Financial Statements

31 March 2007

27. Reserves

(a) Group

	Share-based					Total HK\$'000
	Share premium	Accumulated losses	Merger reserve	payment reserve	Exchange reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2005, as restated	27,783	(26,643)	(197)	6,000	—	6,943
Exchange difference	—	—	—	—	202	202
Net loss for the year	—	(14,677)	—	—	—	(14,677)
At 31 March 2006 and 1 April 2006	27,783	(41,320)	(197)	6,000	202	(7,532)
Exchange differences	—	—	—	—	(50)	(50)
Net loss for the year	—	(17,061)	—	—	—	(17,061)
At 31 March 2007	27,783	(58,381)	(197)	6,000	152	(24,643)

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.

Notes to the Financial Statements

31 March 2007

27. Reserves (continued)

(b) Company

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(Note(i))</i>	Total <i>HK\$'000</i>
At 1 April 2005	19,601	(25,765)	13,107	6,943
Net loss for the year	—	(579)	—	(579)
At 31 March 2006 and 1 April 2006	19,601	(26,344)	13,107	6,364
Net loss for the year	—	(605)	—	(605)
At 31 March 2007	19,601	(26,949)	13,107	5,759

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.

Notes to the Financial Statements

31 March 2007

28. Notes to the Consolidated Cash Flow Statement

Bank and other loans:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
At the beginning of year	54,836	47,690
Translation difference	2,827	879
Bank and other loans raised	974	6,267
At the end of year	58,637	54,836

29. Capital Commitments

	Group	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
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.

Notes to the Financial Statements

31 March 2007

30. Related Party Transaction

Save as disclosed in note 22 to the financial statements, the Group had the following significant related party transaction:

		Group	
	Note	2007 HK\$'000	2006 HK\$'000
Interest payment	(i)	302	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.

31. Subsequent Event

On 21 June 2007, Sky Dragon Digital Television and Movies Holdings Limited ("Sky Dragon"), a company owned by Mr. Feng Xiao Ping, a director of the Company exercised share option to subscribe 10,000,000 shares of the Company at an exercise price of HK\$0.788 per share. The Option was granted pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004.

Other Financial Information

Financial Summary

	Year ended 31 March 2007 HK\$'000	Year ended 31 March 2006 HK\$'000	As restated Year ended 31 March 2005 HK\$'000	Year ended 31 March 2004 HK\$'000	As restated Year ended 31 March 2003 HK\$'000
Results					
(Loss)/profit attributable To shareholders	(17,061)	(14,677)	(14,968)	1,844	(2,536)

	As at 31 March 2007 HK\$'000	As at 31 March 2006 HK\$'000	As restated As at 31 March 2005 HK\$'000	As at 31 March 2004 HK\$'000	As restated As at 31 March 2003 HK\$'000
Assets and liabilities					
Total assets	58,217	66,416	68,097	21,489	19,700
Total liabilities	(79,735)	(70,823)	(58,029)	(2,453)	(2,508)
	(21,518)	(4,407)	10,068	19,036	17,192

The figures for the year ended 31 March 2003 have been restated pursuant to the adoption of SSAP 12 (revised).

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.