Notes to the Accounts

1. CORPORATE INFORMATION

Universal Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 27th May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands.

The Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, Cayman Islands.

The Company is listed on the Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below. These policies have been applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The consolidated accounts of Universal Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and financial assets at fair value through profit or loss, which are carried at fair value.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 31, 33 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies, jointly controlled entities and other disclosures.

— HKASs 2, 7, 8, 10, 16, 17, 23, 27, 28, 31, 33 and 38 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. Since the adoption of the share option scheme, the Company had issued a total of 277,400,000 share options, all of which were granted on 1st December 2004 and had vested before 1st January 2005. The Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the new recognition and measurement policies have not been applied to this 277,400,000 share options.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial asset. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was amortised on a straight line basis over a period of 20 years.

In accordance with the provisions of HKFRS 3:

— The Group ceased amortisation of goodwill from 1st January 2005;

— From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

— HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKFRS 3 — prospectively after 1st January 2005.

The adoption of HKAS 39 resulted in an increase in opening reserves at 1st January 2005 by HK$23,178,000 and the details of the adjustments to the balance sheet at 31st December 2005 and for the year then ended are as follows:

	2005
	HK$'000
Decrease in preference share receivable	**176**
Increase in available for sale financial asset	**360**
Decrease in other assets	**240**
Increase in investment in preference shares	**63,578**
Decrease in investment securities	**36,000**
Decrease in preference dividends receivable — non-current	**2,081**
Increase in accumulated losses	**27,441**
Increase in other revenue	**(2,000)**
Decrease in administration expenses	**(2,263)**
Decrease in basic and dilutive earnings per share	**0.06**

No early adoption of the following new Standards in Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKFRS 7 Amendment	Financial Instruments Disclosures
HKAS 39 Amendment	Cashflow Hedge Accounting for Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

(ii) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(iii) Associated companies and jointly controlled entity ("JCE")

Associated companies and JCE are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies and JCE are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associated companies and JCE include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' and JCE's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associated companies and JCE equals or exceeds its interests in the associated companies or JCE, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies or JCE.

Unrealised gains on transactions between the Group and its associated companies or JCE are eliminated to the extent of the Group's interest in the associated companies or JCE. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies and JCE have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings and plant equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment *(Continued)*

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

Buildings outside Hong Kong	25 years
Plant, equipment and other assets	3 to 10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(d) Leases

Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated companies at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associated companies is included in 'investments in associated companies'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

(ii) Programmes and film rights

Programmes and films rights acquired from outsiders are stated at acquisition costs plus film enhancement costs less amortisation ad accumulates impairment losses, if any.

Self-produced programmes and films products are completed programmes and films produced and are stated at the lower of cost and net realisable value. Cost of programmes and film products, accounted for on a programme-by-programme or a film-by-film basis, includes production costs, cost of services, direct labour costs, facilities and raw materials consumed in the creation of a programme or a film.

The costs of programmes and film right is charged to the profit and loss account proportionately to the estimated projected revenues over their expected economic beneficial period ranging from 2 years to 10 years. Additional amortisation will be charged if estimated projected revenues adversely differ form the previous estimation. Estimated projected revenues will be reviewed on a programme-by-programme or film-by-film basis at a regular interval.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangibles *(Continued)*

(ii) Programmes and film rights *(Continued)*

When programmes and film rights are sold, carrying amount of those programmes and film rights is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of programmes and film rights to net realisable value and all losses of programmes and film rights are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of programmes and film rights, arising from an increase in net realisable value, is recognised as a reduction in the amount of write-down of programmes and film rights recognised as an expense in the year in which the reversal occurs.

(iii) Programmes and films production in progress

Programmes and film production in progress are accounted for on a programme-by-programme or film-by-film basis and are stated at cost less any impairment in value. Cost of programmes or films under production includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a programme or a film. Upon completion, these programmes or films under production will be reclassified as programmes or film rights.

(f) Financial Assets

From 1st January 2004 to 31st December 2004:

The Group classified its investment securities, other than subsidiaries and associated companies, as non-trading securities and trading securities.

(i) Investment securities

Investment securities, represent investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long-term purposes, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial Assets *(Continued)*

(ii) Short-term investments

Short-term investments are carried at their fair values as at the balance sheet date. Unrealised gains or losses arising from the changes in fair values of Short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reevaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group 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 trade and other receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial Assets *(Continued)*

Purchases and sales of investments are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are carried at cost less accumulated impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises software solutions. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Translation of foreign currencies *(Continued)*

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of investments, are taken to shareholders' equity. When a foreign operation is sold, the exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(i) Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for investment. A provision for impairment of trade and other receivables is established when is objective evidence that the Group will not be able to collect all amount 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 recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Contingent liabilities and contingent assets *(Continued)*

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services, net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Management fee income is recognised on an accrual basis when the related services are rendered.

Securities trading income is recognised when the title has passed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

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

Dividend income is recognised when the right to receive payment is established.

Media revenue include revenue from sale of television programmes, advertising and commission income as well as income from licensing and sub-licensing of programmes and film rights.

Revenue from the sale of television programmes is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the television programmes are delivered to customers and the title has passed.

Advertising and commission income are recognised when services are rendered and revenue can be reliably measured.

Income from licensing and sub-licensing of programs and film rights is recognised upon the delivery of the pre-recorded audio visual products and the materials for video features to the customers, in accordance with the terms of the underlying contracts.

In case where income from licensing and sub-licensing of film rights is contingent to the receipt of revenue from the box of offices, income is only recognised when it is probable that the licensing fee will be received, which is normally when the event has occurred.

(o) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave, maternity and other non-accumulating compensated absences are not recognised until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Retirement benefit costs

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective on 1st December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they became payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

The Company's subsidiaries in the People's Republic of China (the "PRC") except Hong Kong are members of the state-managed retirement benefits scheme operated by the government of the PRC except Hong Kong. The retirement scheme contributions, which are based on a certain percentage of the salaries of the subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

(iii) Share-based compensation

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(iii) Share-based compensation *(Continued)*

In the current period, the Group has applied HKFRS 2 "Share-based payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares of rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

(p) Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion portion. This is recognised and included in shareholder's equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Segment reporting *(Continued)*

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

(r) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(s) Share capital

Ordinary shares are classified as equity.

Preference shares are classified as equity as it does not represent a contractual obligation to deliver cash or another financial assets, nor to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. FINANCIAL RISK MANAGEMENT

(i) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The group manages its cash flow interest-rate risk by issuing borrowings at fixed rates.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

(c) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollar.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The currencies used by the Group are mainly Renminbi and Hong Kong dollars which both had relatively stable exchange rates during the year.

(d) Liquidity risk

The Group manages its liquidity position by maintaining sufficient cash for its operations and draws on bank loans as necessary.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying amounts of the Group's financial assets which mainly include bank and cash balances, trade receivables, other receivables; and financial liabilities, which mainly include trade payables, short-term loans, approximate their fair values due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believe to be reasonable under the circumstances.

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

(i) Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment, and test intangible assets that are subject to amortisation when there is indicator for impairment in accordance with the accounting policy stated in note 2e(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) Recoverability of preference dividends receivable

The recoverable amount of preference dividends receivable is assessed by taking into account the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to it.

5. TURNOVER AND REVENUES

The Group is principally engaged in the media related businesses, the trading of home audio and video equipment and components, securities trading, and provision of computer telephony integration engineering and IP related services. Revenues recognised during the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Media	**10,359**	—
Sales of goods	**19,384**	18,180
Share trading	**1,387**	16,561
Provision of computer telephony integration engineering and IP related services	**2,561**	3,889
	33,691	38,630
Other revenues:		
Preference dividend income from an associated company	**5,036**	5,813
Unrealised gain on financial assets at fair value through profit or loss	**2,000**	—
Income from maintenance services	**381**	—
Commission income	**—**	65
Interest income	**3,098**	36
Management fee income from:		
Associated companies	**—**	144
Others	**—**	212
Miscellaneous	**16**	10
	10,531	6,280
Total revenues	**44,222**	44,910

6. SEGMENT INFORMATION

Primary reporting format — business segments

The Group is organised into four main business segments:

(i)	Media related business	—	production of television dramas, investment in movie production, advertising agency and advertisement production;
(ii)	Home Audio	—	trading of home audio and video equipment and components;
(iii)	Telecommunications	—	provision of computer telephony integration engineering and IP related services; and
(iv)	Share Trading	—	securities trading.

There are no sales between the business segments.

Notes to the Accounts

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments *(Continued)*

	2005				
	Media related business *HK$'000*	**Home audio** *HK$'000*	**Tele-communications** *HK$'000*	**Share trading** *HK$'000*	**Total** *HK$'000*
Turnover	10,359	19,384	2,561	1,387	33,691
Segment results	4,747	(3,700)	60	(48)	1,059
Write off of trade receivables					(30)
Net gain on dilution of interests in an associated company					10,637
Gain on exchange difference					2,205
Unallocated costs					(10,171)
					3,700
Finance costs					(3,634)
Share of loss of a jointly controlled entity	(13,700)	–	–	–	(13,700)
Unallocated share of losses of associated companies					(8,223)
Loss before taxation					(21,857)
Taxation					(330)
Loss for the year					(22,187)
Minority interests					–
Loss attributable to equity holders of the Company					(22,187)
Segment assets	277,852	4,665	4,433	12,000	298,950
Interests in associated companies					19,663
Interests in a jointly controlled entity					
— current					67,692
— non-current					56,130
Unallocated assets					90,583
Total assets					533,018
Segment liabilities	23,440	255	472	–	24,167
Unallocated liabilities					82,003
					106,170
Capital expenditure					
Allocated	63,453	–	–	–	63,453
Unallocated	–	–	–	–	245
Depreciation					
Allocated	–	181	72	–	253
Unallocated	–	–	–	–	23
Amortisation					–

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments *(Continued)*

	2004			
	Home Audio *HK$'000*	Tele-communications *HK$'000*	Share Trading *HK$'000*	Total *HK$'000*
Turnover	18,180	3,889	16,561	38,630
Segment results	(3,092)	(354)	1,249	(2,197)
Write back unrealised loss of short-term investments				3,946
Write off of bad debts				(1,589)
Net gain on dilution of interests in an associated company				14,289
Loss on sale of subsidiaries				(836)
Impairment of investment in joint venture				(2,468)
Unallocated costs				(2,552)
				8,593
Finance costs				(2,563)
Unallocated share of losses of associated companies				(14,869)
Loss before taxation				(8,839)
Taxation				(1,092)
Loss for the year				(9,931)
Minority interests				—
Loss attributable to equity holders of the Company				(9,931)
Segment assets	21,168	5,229	535	26,932
Investment in associated companies				15,683
Unallocated assets				51,699
Total assets				94,314
Segment liabilities	32,313	755	1,534	34,602
Unallocated liabilities				5,803
				40,405
Capital expenditure				
Allocated				0
Unallocated				517
Depreciation				
Allocated	262	29	0	291
Unallocated				134
Amortisation				52

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

The Group operates in two geographical areas:

(i) Hong Kong — Trading of home audio and video equipment and components and securities trading; and

(ii) Mainland China — Media businesses and provision of computer telephone integration engineering and IP related services.

There are no sales between the geographical segments.

	2005			
	Turnover *HK$'000*	Segment results *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong	20,771	(1,098)	107,249	245
Mainland China	12,920	4,798	406,106	253,251
	33,691	3,700	513,355	253,496
Interest in associated companies			19,663	
			533,018	

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

2004	Turnover *HK$'000*	Segment results *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong	34,741	8,947	71,766	517
Mainland China	3,889	(354)	6,865	—
	38,630	8,593	78,631	517
Interest in associated companies			15,683	
			94,314	

7. FINANCE COSTS

	Group 2005 *HK$'000*	Group 2004 *HK$'000*
Interest expenses on:		
Bank loan	**48**	—
Other loans	**—**	—
Interest accretion on convertible note	**3,069**	—
Amount due to a fellow subsidiary		
— repayable within one year	**517**	396
— wholly repayable within one to five years	**—**	2,167
	3,634	2,563

8. LOSS BEFORE TAXATION

Loss before taxation is stated after crediting and charging the following:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Crediting		
Net other operating expenses including:		
Write-back of provision for inventory	—	116
Write-back of unrealised loss of short-term investments	—	3,946
VAT refund	—	323
Charging		
Cost of inventories sold	**26,233**	18,049
Cost of services provided	**826**	2,407
Depreciation	**295**	425
Auditors' remuneration	**2,316**	495
Operating lease rentals — land and buildings	**1,518**	703
Loss on sale of subsidiaries	—	836
Staff costs (excluding directors' remuneration, *note 12(a)*):		
Wages and salaries	**3,293**	2,099
Unutilised annual leave	—	19
Termination benefits	—	58
Long service payment	**344**	—
Contributions to defined Contribution Mandatory Provident fund:		
Current year	**102**	73
Underprovided in prior year	—	57
Amortisation of intangibles:		
Goodwill	—	52
Programmes and film rights	**5,265**	—
Write-off of inventories	—	112
Provision for impairment of trade receivables	**626**	—
Write-off of trade receivables	**30**	1,589
Loss on disposal of property, plant and equipment	—	47
Provision for deposit for investment in joint venture	—	2,468
Exchange (loss)/gain, net	**(2,205)**	124

9. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit of the year (2004: 17.5%). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

9. TAXATION *(Continued)*

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:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(21,857)**	(8,839)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**(3,825)**	(1,547)
Effect of different rates in other countries	**(1,544)**	1,342
Income not subject to taxation	**(4,607)**	(3,550)
Expenses not deductible for taxation purposes	**5,833**	4,490
Unrecognised tax losses	**4,473**	357
Taxation charge	**330**	1,092

Deferred income tax assets are not unrecognised for tax losses carry forward to the extent that the realisation of the related tax benefit through the future taxable profits is not probable. As at 31st December 2005, the Group had unrecognised tax losses of approximately HK$277,959,000 (2004: HK$274,321,000) to carry forward against future taxable income of which HK$16,452,000 tax losses will expire in 2009. The rest are eligible for carrying forward indefinitely, subject to Inland Revenue Department approval.

10. LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK$6,375,000 (2004: loss of HK$1,827,000).

11. LOSS PER SHARE

Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Loss attributable to equity holders of the Company *(HK$'000)*	**22,187**	9,931
Weighted average number of ordinary shares in issue *(thousands)*	**7,355,352**	3,274,293
Basic loss per share *(HK cents per share)*	**0.30**	0.30

11. LOSS PER SHARE *(Continued)*

Diluted

Diluted loss per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible note and share options. The convertible note is assumed to have been converted into ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

There were no potential ordinary shares from share options granted and from the convertible note at 31st December 2005. The conversion of all potential ordinary shares arising from share options granted by the Company and convertible note would have an anti-dilutive effect on the loss per share for the year ended 31st December 2005.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Fees:		
Non-executive directors:	**696**	471
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	**4,347**	2,305
Contributions to Mandatory Provident Fund	**35**	15
	5,078	2,791

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of each Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Others benefits	Employer's contribution to pension scheme	Total
Mr. Ko Chun Shun, Johnson	–	2,053	79	–	12	2,144
Mr. Dong Ping*	–	660	–	–	–	660
Mr. Shen Ka Yip, Timothy*	–	880	–	–	11	891
Mr. Tsoi Tong Hoo, Tony	120	600	75	–	12	807
Mr. Cheong Chow Yin	144	–	–	–	–	144
Mr. Wilton Timothy Carr Ingram	144	–	–	–	–	144
Dr. Wong Yau Kar, David	144	–	–	–	–	144
Mr. Yuen Kin	144	–	–	–	–	144

* Appointed in 2005

The remuneration of each Director for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Others benefits	Employer's contribution to pension scheme	Total
Mr. Ko Chun Shun, Johnson	—	1,776	79	—	12	1,867
Mr. Tsoi Tong Hoo, Tony	—	450	—	—	3	453
Mr. Cheong Chow Yin	144	—	—	—	—	144
Mr. Wilton Timothy Carr Ingram	144	—	—	—	—	144
Dr. Wong Yau Kar, David	144	—	—	—	—	144
Mr. Yuen Kin	144	—	—	—	—	144

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

(a) Other than as presented above, for 2004 and 2005 there were:

(i) no arrangement under which a director waived or agreed to waive any remuneration;

(ii) no emoluments were paid by the Group to the directors as an inducements to join or upon joining the Group, or as compensation for loss of office; and

(iii) no share options of the Company have been granted to directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the two (2004: three) individuals during the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**615**	862
Contributions to Mandatory Provident Fund	**24**	36
	639	898

The emoluments fell within the following bands:

	Group	
	2005	2004
Emolument bands		
HK$NIL— HK$1,500,000	**2**	3
HK$1,500,001 — HK$2,000,000	**—**	—
	2	3

13. PROPERTY, PLANT AND EQUIPMENT

	Group		
	Buildings outside HK *HK$'000*	Plant, equipment and other assets *HK$'000*	Total *HK$'000*
Cost			
At 1st January 2005	2,907	8,318	11,225
Additions	—	245	245
Write-offs	—	(76)	(76)
Disposal of subsidiaries *(note 32(b))*	(2,907)	—	(2,907)
At 31st December 2005	—	8,487	8,487
Accumulated depreciation			
At 1st January 2005	810	7,895	8,705
Charge for the year	19	276	295
Write-offs	—	(306)	(306)
Disposal of subsidiaries *(note 32(b))*	(829)	—	(829)
At 31st December 2005	—	7,865	7,865
Net book value:			
At 31st December 2005	—	622	622

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Group		
	Buildings outside HK	Plant, equipment and other assets	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1st January 2004	2,907	8,518	11,425
Additions	—	517	517
Write-offs	—	(367)	(367)
Disposals	—	(250)	(250)
Disposal of subsidiaries *(note 32(b))*	—	(100)	(100)
At 31st December 2004	2,907	8,318	11,225
Accumulated depreciation			
At 1st January 2004	696	8,169	8,865
Charge for the year	114	311	425
Write-offs	—	(367)	(367)
Disposals	—	(203)	(203)
Disposal of subsidiaries *(note 32(b))*	—	(15)	(15)
At 31st December 2004	810	7,895	8,705
Net book value:			
At 31st December 2004	2,097	423	2,520

Depreciation expense of HK$295,000 (2004: HK$425,000) has been expensed in administration expenses.

14. INTANGIBLE ASSETS

	Goodwill	Programmes and film rights	Programmes and film production in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004				
Cost	2,075	—	—	2,075
Accumulated amortisation	(390)	—	—	(390)
Net book amount	1,685	—	—	1,685
Year ended 31st December 2004				
Opening net book amount	1,685	—	—	1,685
Disposal of subsidiaries	(1,633)	—	—	(1,633)
Amortisation expense *(Note 8)*	(52)	—	—	(52)
Closing net book amount	—	—	—	—
At 31st December 2004				
Cost	2,075	—	—	2,075
Accumulated amortisation	(442)	—	—	(442)
Disposal of subsidiaries	(1,633)	—	—	(1,633)
Net book amount	—	—	—	—
Year ended 31st December 2005				
Opening net book amount	—	—	—	—
Acquisition of subsidiary *(Note 32(c))*	189,798	—	—	189,798
Additions *(Note 36(ii))*	—	50,591	12,862	63,453
Adjustment to translation reserve	—	(29)	—	(29)
Amortisation expense	—	(5,265)	—	(5,265)
Closing net book amount	189,798	45,297	12,862	247,957

14. INTANGIBLE ASSETS *(Continued)*

	Goodwill HK$'000	Programmes and film rights HK$'000	Programmes and film production in progress HK$'000	Total HK$'000
At 31st December 2005				
Cost	189,798	50,562	12,862	253,222
Accumulated amortisation	—	(5,265)	—	(5,265)
Net book amount	189,798	45,297	12,862	247,957

In 2004, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over twenty years. The amortisation of positive goodwill for the year ended 31st December 2004 was included in "other operating expenses" in the consolidated income statement.

As explained further in note 2e(i), with effect from 1st January 2005 the Group no longer amortises goodwill. In accordance with the transitional provision set out in HKFRS 3, the accumulated amortisation of goodwill as at 1st January 2005 has been eliminated against the cost of goodwill as at that date.

Amortisation of HK$5,265,000 (2004: nil) is included in the cost of sales.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and business segment as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Media related businesses — Mainland China	**189,798**	—

Media related businesses — Mainland China

The recoverable amount of the CGU is determined on value in use basis. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

14. INTANGIBLE ASSETS *(Continued)*

Media related businesses — Mainland China *(Continued)*

Key assumptions used for value in use basis:

	2005	2004
	%	%
— Gross margin	**27**	N/A
— Growth rate	**0**	N/A
— Discount rate	**15**	N/A

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares at cost	**193,018**	193,018
Provision for impairment loss	**(140,000)**	(140,000)
	53,018	53,018
Amount due from subsidiaries — non-current	**372,619**	—
	425,637	53,018

The balances with subsidiaries are unsecured, interest-free and are not repayable within one year.

Particulars of the principal operating subsidiaries are set out in note 40 to the accounts.

16. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Beginning of the year	**7,660**	8,240
Share of losses of associated companies	**(8,223)**	(14,869)
Net gain on dilution of interests in an associated companies	**10,637**	14,289
Share of proceed from employee share option scheme	**1,566**	—
Share of net assets	**11,640**	7,660
Goodwill on acquisition of associated companies less amortisation	**8,023**	8,023
	19,663	15,683
Market value of listed investments	**173,378**	164,312
Investments at cost:		
Listed shares, in Hong Kong	**276,514**	276,514
Unlisted shares, in the PRC	**1,636**	1,636
	278,150	278,150

16. INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

The principal associated companies at 31st December 2005 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly 2005	Interest held indirectly 2004	Principal activities and place of operation
(i) DVN GROUP					
DVN (Holdings) Limited	Bermuda, limited company	HK$58,283,849 ordinary	**19.45%**	21.95%	Investment holding
DVN (Group) Limited	British Virgin Islands, limited company	US$10 ordinary US$15,000,000 preference	**19.45%**	21.95%	Investment holding
DVN (Management) Limited	Hong Kong, limited company	HK$2 ordinary	**19.45%**	21.95%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong, limited company	HK$2 ordinary	**19.45%**	21.95%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
Telequote Date International Limited	Hong Kong, limited company	HK$10,000 ordinary	**19.42%**	21.95%	Provision of International financial market information and selective consumer date in Hong Kong
DVN Technology (Shenzhen) Co. Limited	People's Republic of China, wholly-owned foreign investment enterprise	HK$3,000,000	**19.42%**	21.95%	Development of hardware and software in relation to digital broadcasting in PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China, equity joint venture	RMB100,000,000	**13.59%**	15.37%	Trading of digital broadcasting equipment and related products in products in PRC

16. INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly 2005	Interest held indirectly 2004	Principal activities and place of operation
(i) DVN GROUP *(Continued)*					
Digital Video Networks Company Limited	People's Republic of China, wholly-owned foreign investment enterprise	US$7,000,000	**19.42%**	21.95%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
(ii) 北京電發網博科技有限公司					
北京電發網博科技有限公司	People's Republic of China, co-operative joint venture	US$5,000,000	**35.00%**	21.95%	Provision of IP Telephone services co-operative joint venture

(*) Chinese name translated to English is for identification purpose only

Extracts of the operating results and financial position of the DVN Group, a major associated company of the Group, which are based on their audited accounts for the year ended 31st December 2005, are as follows:

Operating results for the year

	2005 **HK$'000**	2004 HK$'000 (restated)
Turnover	**304,618**	169,236
Loss for the year	**39,734**	61,569

16. INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Summary of consolidated balance sheet as at 31st December

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Fixed assets	**20,404**	36,343
Intangible assets	**30,880**	28,075
Investment in a jointly controlled entity	**6,410**	6,685
Minority interests	**(117,761)**	(117,761)
Shareholders' equity	**173,543**	146,651
Interest in associated companies	**6,682**	—
Available-for-sale financial assets	**956**	956
Current assets	**339,576**	210,426
Current liabilities	**(231,321)**	(135,754)
Non current liability	**(44)**	(80)
Minority interests	**(117,761)**	(117,761)
Shareholders' equity	**55,782**	28,890

Notes to the Accounts

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

The Company has a 50% interest in a jointly controlled entity, Asia Union Film and Media, an unlisted company incorporated in the PRC, which provides investment in television drama and film production and advertising production in the PRC.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**(11,672)**	—
Loan to a jointly controlled entity	**67,802**	—
	56,130	—

The non-current portion of the amount due from jointly controlled entity is unsecured, interest bearing at prevailing market rates and not repayable in the coming twelve months.

The consolidated accounts of the jointly controlled entity at 31st December 2005 were as follows.

	Group
	2005
	HK$'000
Assets:	
Non-current assets	**280,444**
Current assets	**66,541**
	346,985
Liabilities:	
Current liabilities	**(303,935)**
Long-term liabilities	**(143,329)**
	(447,264)
Net liabilities	**(100,279)**

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(Continued)*

	Period from 1st June 2005 to 31st December 2005 *HK$'000*
Income	58,343
Expenses	(117,141)
Loss for the period	(58,798)

The principal jointly controlled entity companies at 31st December 2005 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly 2005	2004	Principal activities and place of operation
(i) AUFM GROUP					
Asia Union Film and Media *(*)*	People's Republic of China, limited liability company	RMB120,000,000	**49%**	—	Investment in television drama and film production and advertising production, in the PRC
Hai Nan Haishi Tourist Satellite TV Media Co., Ltd *(*)*	People's Republic of China, limited liability company	RMB115,963,100	**24.01%**	—	Production and editing of television programs for the Travel Channel, in the PRC
Beijing Ying Shi Film & Television Art Limited Liability Company *(*)*	People's Republic of China, limited liability company	RMB500,000	**29.40%**	—	Television Drama production in the PRC
Beijing Hua Yi Qian Si Advertising Company Limited *(*)*	People's Republic of China, limited liability company	RMB5,000,000	**26.95%**	—	Advertisement production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited *(*)*	People's Republic of China, limited liability company	RMB1,020,000	**24.99%**	—	Advertisement production in the PRC

* Chinese name translated to english is for identification purpose only.

18. AVAILABLE FOR SALE FINANCIAL ASSET

	Group
	2005
	HK$'000
Beginning of the year — reclassified from other assets	2,065
Opening adjustment on adoption of HKAS 39	120
	2,185
Less: Disposal on sale of subsidiary	(1,825)
End of year	360

19. INVESTMENT IN PREFERENCE SHARES AND PREFERENCE DIVIDEND RECEIVABLE

	Group
	2005
	HK$'000
Investment in preference shares represent:	
Beginning of the year — reclassified from investment securities	36,000
Opening adjustment due to the adoption of HKAS 39	25,139
	61,139
Split into:	
— Available-for-sale portion	48,750
— Derivative portion	12,389
	61,139
Changes in fair value of derivative portion	2,439
End of year	63,578

19. INVESTMENT IN PREFERENCE SHARES AND PREFERENCE DIVIDEND RECEIVABLE

(Continued)

Investment represents 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company. These preference shares are exchangeable, after current year adjustment, to approximately 28,147,700 ordinary shares of DVN, a listed associated company, at an adjusted conversion price of HK$4.13 per share, and are subject to adjustment. Fixed cumulative cash dividend on preference shares is receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year.

	Group
	2005
	HK$'000
Preference dividend receivable represents:	
Preference shares receivable	**21,797**
Opening adjustment due to adoption of HKAS 39	**(2,081)**
	19,716
Additions	**5,036**
Repayments	**(2,000)**
Fair value loss	**(176)**
	22,576
Less: current portion	**(7,680)**
Non-current portion	**14,896**

Dividend income receivable represents cumulative dividend from DVN (Group) Limited Preference shares, calculated based on the discounted cashflow on the expected date of receipt of payment.

20. INVESTMENT SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed shares, at costs		
— outside Hong Kong	–	23,414
Unlisted shares, at costs		
— outside Hong Kong	–	143,508
	–	166,922
Less: Provision for impairment loss		
— listed shares	–	23,414
— unlisted shares	–	107,508
	–	130,922
	–	36,000
Market value of listed investment	–	1,287

Pursuant to the adoption of HKAS 39, the above equity securities were reclassified from "Investment Securities" to "Investment in Preference Shares" splitted between available-for-sale portion and derivative portion, with effect from 1st January 2005 *(note 19)*.

21. OTHER ASSETS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Club debentures	–	2,065

Pursuant to the adoption of HKAS 39, the above equity securities were reclassified from "Other Assets" to "Available-for-sale financial assets" with effect from 1st January 2005 *(note 18)*.

22. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Finished goods	**10**	105

At 31st December 2005, the carrying amount of inventories that are stated at net realised value amounted to HK$10,000 (2004: HK$105,000).

23. TRADE RECEIVABLES

At 31st December 2005, the aging analysis of trade receivables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 — 3 months	**1,091**	1,125
4 — 6 months	**86**	85
Over 6 months	**—**	477
	1,177	1,687

The majority of the Group's sales are on credit with credit terms of 30-90 days. The balance is with one customer, who has demonstrated good credit history in the past years.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS/SHORT-TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong	**12,000**	—

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other gain/(losses) in the financial statements.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayment, deposits and other receivables	**20,964**	305	**1**	1
Amounts due from subsidiaries of the jointly controlled entity *(note a)*	**4,742**	—	**—**	—
	25,706	305	**1**	1

Note:

a. Amounts due from subsidiaries of the jointly controlled entity is interest free, unsecured and repayable on demand.

26. TRADE PAYABLES

At 31st December 2005, the aging analysis of trade payables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 — 3 months	**—**	18
4 — 6 months	**1**	—
Over 6 months	**33**	320
	34	338

27. OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits received, accrued charges and other payables	**5,615**	2,178	**1,061**	155
Amount due to a fellow subsidiary *(note (i))*	**18**	24,705	**—**	—
Amount due to an associated company *(note (ii))*	**470**	335	**—**	—
Amount due to a subsidiary of the jointly controlled entity *(note (iii))*	**6,237**	—	**—**	—
Provision for legal fees and settlement of legal dispute	**—**	6,757	**—**	—
	12,340	33,975	**1,061**	155

(i) The amount due to a fellow subsidiary at 31st December 2005 bears interest at Hong Kong dollar prime rate plus 2.5% per annum, unsecured and is repayable on demand.

(ii) The amount due to an associated company is unsecured, interest-free and has no fixed repayment term.

(iii) The amount due to a related company is unsecured, interest free and repayable on demand.

28. LOANS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Wholly repayable within one year:		
Bank loan	**8,621**	—
Other loan	**6,137**	—
	14,758	—

The bank loan is interest bearing at 4.698% per annum, unsecured and repayable on 30th April 2006.

The other loan is interest bearing at 6% per annum, unsecured and repayable on demand.

29. CONVERTIBLE NOTE

On 31st May 2005, the Company issued a convertible note of HK$104.0 million ("First Tranche Convertible Note") which can be converted into 2,122,136,612 ordinary shares at a conversion price of HK$0.049 per share, as part of the consideration to acquire 100% equity interest in Anglo Alliance Co., Ltd. The terms of the First Tranche Convertible Note are disclosed in Note 35.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity portion, as follows:

	Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
Nominal value of convertible note issued during the year	**103,985**	—
Equity portion	**(29,984)**	—
Liability portion at the issuance date	**74,001**	—
Interest accretion	**3,069**	—
Liability portion at 31st December	**77,070**	—

The fair value of the liability portion of the convertible note at 31st December 2005 approximates to their fair values. The fair value is calculated using cash flows discounted at a rate of 7.04% per annum, based on the yield of bonds issued in US dollar with a rating of B, whose maturity is 4 to 6 years.

The residual amount, representing the value of equity component, is included in Shareholders' equity in other reserves.

30. SHARE CAPITAL

	Authorised				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		No. of shares		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1st January 2004 and 31st December 2004	240,760	2,408	5,000,000	50,000	52,408
At 1st January 2005 and 31st December 2005	240,760	2,408	30,000,000	300,000	302,408

	Issued and fully paid				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		No. of shares		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1st January 2004 and 31st December 2004	240,760	2,408	3,274,293	32,743	35,151
At 1st January 2005	240,760	2,408	3,274,293	32,743	35,151
Issue of shares on placing *(i)*	—	—	654,850	6,549	6,549
Issue of shares on acquisition of a subsidiary company *(ii)*	—	—	5,746,571	57,465	57,465
Conversion of preference shares	(240,760)	(2,408)	240,760	2,408	—
At 31st December 2005	—	—	9,916,474	99,165	99,165

30. SHARE CAPITAL *(Continued)*

Ordinary shares

During the year, the Company issued ordinary shares as follows:

(i) On 22nd February 2005, the Company entered into a placing and subscription agreement where a total of 654,850,000 ordinary shares were issued at an issue price of HK$0.12 per share raising net proceeds of about HK$76 million.

(ii) On 31st May 2005, the Company completed the acquisition of 100% equity interest in Anglo Alliance Co., Ltd and its subsidiaries ("Anglo Alliance Group"), for an initial consideration of HK$262.7 million which was satisfied by the issuance of 3,046,570,871 ordinary shares and 2,700,000,000 ordinary shares at an issue price of HK$0.049 and HK$0.042 per share respectively, *(note 35).*

Convertible notes

On 31st May 2005, the Company issued HK$104.0 million First Tranche Convertible Note (as defined in note 35) which can be converted into 2,122,136,612 ordinary shares of the Company at a conversion price of HK$0.049 per share *(note 29 and 35).*

Preference shares

Preference shareholders were entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders were also entitled to receive a non-cumulative cash dividend which would be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

All preference shares were converted into ordinary shares in February 2005.

Share option

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of share options that can be granted 277,429,315 shares, representing 10% of the total number of shares in issue at the time the option scheme was adopted.

30. SHARE CAPITAL *(Continued)*

Share option *(Continued)*

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company.

Movement of share options during the year:

Date of Share Options Granted	Number of share options outstanding as at 1st January 2005	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2005	Exercise period	Exercise price per share
							HK$
1/12/2004	277,400,000	—	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
	277,400,000	—	—	—	277,400,000		

31. RESERVES

Group

	Share Premium	Merger Reserve	Fair Value Revaluation Reserve	Capital Reserve	Currency Translation Reserve	Interests in Associated Companies	Accumulated Losses	Total	Minority interests	Total equity
Balance at 1st January 2004	172,353	860,640	—	—	(171)	—	(1,004,133)	28,689	—	28,689
Loss for the year	—	—	—	—	—	—	(9,931)	(9,931)	—	(9,931)
Balance at 31st December 2004	172,353	860,640	—	—	(171)	—	(1,014,064)	18,758	—	18,758
Balance at 1st January 2005, as per above	172,353	860,640	—	—	(171)	—	(1,014,064)	18,758	—	18,758
Opening adjustment for the adoption of HKAS 39 for Available-for-sale financial assets	—	—	120	—	—	—	—	120	—	120
Opening adjustment for the adoption of HKAS 39 for Preference Dividend Receivable	—	—	—	—	—	—	(2,081)	(2,081)	—	(2,081)
Opening adjustment for the adoption of HKAS 39 for Preference Shares	—	—	—	—	—	—	25,139	25,139	—	25,139
Balance at 1st January 2005, as restated	172,353	860,640	120	—	(171)	—	(991,006)	41,936	—	41,936
Loss for the year	—	—	—	—	—	—	(22,187)	(22,187)	—	(22,187)
Issue of shares — placing	69,639	—	—	—	—	—	—	69,639	—	69,639
Issue share capital — business combination	205,216	—	—	—	—	—	—	205,216	—	205,216
Convertible note — equity component, net of tax	—	—	—	29,984	—	—	—	29,984	—	29,984
Translation exchange	—	—	—	—	1,529	—	—	1,529	—	1,529
Movement in reserves of an associated companies	—	—	—	—	—	1,566	—	1,566	—	1,566
Balance at 31st December 2005	447,208	860,640	120	29,984	1,358	1,566	(1,013,193)	327,683	—	327,683

31. RESERVES *(Continued)*

Company

	Share premium *(ii)* HK$'000	Convertible note HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2004	172,353	—	(146,044)	26,309
Loss for the year	—	—	(1,827)	(1,827)
At 31st December 2004	172,353	—	(147,871)	24,482
At 1st January 2005	172,353	—	(147,871)	24,482
Issue of shares on placing	69,639	—	—	69,639
Acquisition of an associated company	205,216	—	—	205,216
Convertible note — equity component, net of taxes	—	29,984	—	29,984
Loss for the year	—	—	(6,375)	(6,375)
At 31st December 2005	447,208	29,984	(154,246)	322,946

Notes:

(i) The merger reserve of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Universal Appliances Limited pursuant to the group reorganisation in 2002, and the consolidated net asset value of Universal Appliances Limited so acquired. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.

(ii) The share premium of the Company represents the excess of the fair value of the investment shares over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.

Notes to the Accounts

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) from ordinary activities to net cash inflow/(outflow) from operations

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(21,857)**	(8,839)
Share of loss of jointly controlled entity	**13,700**	—
Share of loss of associated companies	**8,223**	14,869
Interest income	**(104)**	(36)
Depreciation	**295**	425
Provision for the deposit for investment in joint venture	**—**	2,468
Amortisation of intangible assets	**5,265**	52
Unrealised gain on financial assets at fair value through profit or loss	**(2,000)**	—
Disposal of fixed assets	**—**	47
Loss on disposal of subsidiaries	**—**	836
Preference dividend income	**(5,036)**	—
Finance costs	**3,634**	2,563
Changes in fair value of preference shares	**(2,439)**	—
Write-back on fixed asset disposal	**(230)**	—
Net gain on dilution of interest in an associated company	**(10,637)**	(14,289)
Operating loss before working capital changes	**(11,186)**	(1,904)
Decrease in amounts due to associated companies	**—**	(91)
Decrease in short-term investments	**—**	4,605
Decrease in inventories	**95**	796
Increase in amount due from a jointly controlled entity	**(113,003)**	—
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(22,738)**	26,772
Decrease in trade payables, other payables and accrued liabilities	**(21,936)**	(12,605)
Net cash (outflow)/inflow from operations	**(168,768)**	17,573

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Sale of subsidiaries

Details of disposal of subsidiaries:

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Fixed assets	**2,078**	85
Other assets	**1,825**	—
Deposits, prepayments and other receivables	**1**	161
Cash and bank balances	**3**	20
Accrued liabilities and other payables	**(3)**	(1,062)
	3,904	(796)
Write-off of unamortised goodwill	**—**	1,633
Loss on disposal	**—**	(836)
	3,904	1
Represented by:		
Cash consideration	**3,904**	1
Cash and cash equivalents disposed of		
cash inflow/(outflow) from disposal of subsidiaries	**(3)**	(20)
	3,901	(19)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of interests in subsidiaries

Details of acquisition of interests in subsidiaries:

	2005
	HK$'000
Net assets acquired:	
Investment in a jointly controlled entity	**17,549**
Amount due from a jointly controlled entity	**160,937**
Deposits, prepayments and other receivables	**2,154**
Cash and bank balances	**2,000**
Tax liabilities	**(97)**
	182,543
Goodwill	**189,798**
	372,341
Satisfied by:	
Consideration payable	
Issue of shares	**(262,681)**
Convertible note	**(103,985)**
Cash	**5,675**
Cash and cash equivalents in subsidiaries acquired	**(2,000)**
Cash outflow on acquisition	**3,675**

33. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liability as at 31st December 2005 (2004: HK$nil).

34. COMMITMENTS

(a) Commitments under operating leases

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**577**	313
Later than one year and not later than five years	**50**	—
	627	313

	Equipment	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**14**	
Later than one year and not later than five years	**56**	—
	70	—

(b) The Group and the Company had no material capital commitments at 31st December 2005 (2004: HK$Nil).

(c) The Group and the Company entered into an agreement dated 31st May 2005 to acquire 100% equity interest in Anglo Alliance Co., Ltd. and its subsidiaries ("Anglo Alliance Group'). As part of the consideration for the acquisition of Anglo Alliance Group, the Company will issue, under certain conditions, the Second Tranche Convertible Note of up to HK$183.3 million to the vendor *(note 35 (2b)).*

35. BUSINESS COMBINATIONS

On 31st May 2005, the Company completed the acquisition of 100% equity interest in Anglo Alliance Co., Ltd and its subsidiaries ("Anglo Alliance Group"), which in turn holds 50% interest of Asia Union Film and Media and its subsidiaries ("AUFM Group"), for a maximum consideration of HK$550 million, of which:

(1) HK$262.7 million was satisfied by the issuance of 3,046,570,871 ordinary shares and 2,700,000,000 shares at an issue price of HK$0.049 and HK$0.042 per share respectively, and

(2) the remaining of HK$287.3 million, was and will be satisfied as follows:

a. HK$104.0 million was satisfied by issuing a convertible note ("First Tranche Convertible Note") which can be converted into 2,122,136,612 ordinary shares at a conversion price of HK$0.049 per share on the date of issue, and

b. HK$183.3 million may be satisfied by issuing a convertible note ("Second Tranche Convertible Note") which could be converted into 3,741,496,591 ordinary shares at a conversion price of HK$0.049 per share on the date of issue.

The issuance of Second Tranche Convertible Note is conditional and will only be issued, subject to adjustments, if the audited net profit of the Anglo Alliance Group for 12 months period commencing from the completion date (i.e. 31st May 2005) is more than HK$40 million. The amount of the Second Tranche Convertible Note to be issued will be calculated on a prorate basis of the maximum amount of HK$183.3 million of the note that can be issued, times the difference between the excess of the actual audited net profit earning during the 12 months period greater than HK$40 million (up to the maximum of HK$60 million) over HK$20 million (being the difference between the maximum and minimum audited net profit of HK$60 million and HK$40 million, respectively).

Maturity date:

The First Tranche Convertible Note and the Second Tranche Convertible Note will mature on 31st May 2010, being the fifth anniversary of the date of completion of the acquisition of Anglo Alliance Group provided that the accumulated net profit after tax and extraordinary items of the Anglo Alliance Group from 31st May 2005, the date of completion up to the fifth anniversary of the date of completion shall not be less than the aggregate of approximately HK$366.7 million *(see above note (1) and note (2)(a) above)* ("Basic Consideration") and HK$183.3 million *(see note (2)(b) above)* ("Further Consideration"), assuming the maximum amount of the Second Tranche Convertible Note is issued in full.

35. BUSINESS COMBINATIONS *(Continued)*

(2) the remaining of HK$287.3 million, was and will be satisfied as follows: *(Continued)*

Maturity date: *(Continued)*

In the event that the above proviso is not fulfilled, the maturity date shall be the date falling on the fifth business day after the issuance of the financial statements for a financial year in which the accumulated net profit after tax and extraordinary items of the Anglo Alliance Group from the date of completion up to that financial year shall be more than or equal to aggregate amount of the Basic Consideration and the Further Consideration.

Both convertible notes can be converted into new shares in whole or in part at any time after issue of the convertible note.

Interest:

Both the First Tranche Convertible Note and the Second Tranche Convertible Notes are interest free up to the fifth anniversary of the date of completion of the UHL SP agreement and thereafter bear interest at a rate equal to the prime rate quoted by the Hongkong and Shanghai Banking Corporation.

Transferability:

Both the First Tranche Convertible Note and the Second Tranche Convertible Notes will not be listed on any stock exchange but will be freely transferable in whole or in part.

The acquired business contributed revenues of HK$10,359,233 and net profit of HK$9,334,863 to the Group for the period from 1st March 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, Group revenue would have been HK$33,691,000 and loss before allocations would have been HK$22,181,000.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
— Consideration payable	
Issue of shares	262,681
Convertible note	103,985
— Direct costs relating to the acquisition	5,675
Total purchase consideration	372,341
Fair value of net assets acquired — shown below	182,543
Goodwill *(Note 14)*	189,798

35. BUSINESS COMBINATIONS *(Continued)*

The goodwill is attributable to the future expected profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the media business in Beijing.

The fair value of the shares issued was based on the published share price.

The assets and liabilities arising from the acquisition are as follows:

	Aggregated fair value *HK$'000*	Acquirees' aggregated carrying amount *HK$'000*
Cash and cash equivalents	2,000	2,000
Amount due from a jointly controlled entity	160,937	160,937
Investment in a jointly controlled entity	17,549	17,549
Trade receivables, deposits, prepayment and other receivables	2,154	2,154
Taxation	(97)	(97)
Net assets acquired	182,543	182,543
Purchase consideration paid up to 31st December 2005	(5,675)	
Cash and cash equivalents of acquisition of subsidiaries	2,000	
Net cash outflow in respect of acquisition of subsidiaries	(3,675)	

There were no acquisitions during the year ended 31st December 2004.

36. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(i) Year-end balances arising from advancement of funds

(a)

	2005 HK$'000	2004 HK$'000
Payables to a fellow subsidiary — non-current	—	5,000
Payables to a fellow subsidiary — current	18	24,705
Amount due to an associated company *(note 27)*	470	335
Amount due to a subsidiary of the jointly controlled entity *(note 27)*	6,237	—

(1) During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK$29 million (2004: HK$34 million) *(note 27)*.

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances for the year ended 31st December 2005 amounted to HK$517,000 (2004: HK$2,563,000).

(2) The amounts due to an associated company is unsecured, interest free and has no fixed repayment term *(note 27)*.

(3) The amounts due to a subsidiary of the jointly controlled entity is unsecured, interest free and has no fixed repayment term *(note 27)*.

(b)

	2005 HK$'000	2004 HK$'000
Amount due from a related party - current	4,742	—

The amounts due from a related party is interest free, unsecured and has no fixed repayment term.

(ii) Related party transactions

During the year, the Group entered into the following related party transactions with a jointly controlled entity:

	2005 HK$'000
Purchase of programs and film rights	34,574
Purchase of revenue receivable rights of certain programs and films	17,252
Purchases of investment in a film	12,561

(iii) Amount due from a jointly controlled entity is unsecured, interest bearing at prevailing market rates and repayable on demand.

(iv) Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 12(a) and certain of the highest paid employees is disclosed in note 12(b).

Notes to the Accounts

37. POST BALANCE SHEET EVENT

On 1st January 2006, a subsidiary of the Company acquired 100% interests of Beijing HuaYi Qian Si Advertising Company Limited ("Qian Si") for a consideration of RMB2,750,000. Qian Si was originally a 55% owned subsidiary of AUFM, a jointly controlled entity of the Group. Qian Si is principally engaged in the advertising agency business.

38. ULTIMATE HOLDING COMPANY

The directors of the Company consider Kwan Wing Holdings Limited, incorporated in British Virgin Islands, as being the ultimate holding company.

39. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th April 2006.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Anglo Alliances Co. Ltd	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
Beijing E-Pay Net Technology Co. Ltd.	PRC, co-operative joint venture	US$2,680,000 ordinary	70%	Provision of communication Services in the PRC
Beijing Jiya Telecommunication Engineering Co Ltd	PRC, co-operative joint venture	US$2,680,000 ordinary	70%	Provision of computer telephony integration engineering service in the PRC
Barnwell Enterprises Limited	Hong Kong, limited company	HK$2 ordinary	100%	Administrative services in Hong Kong
Beijing Hua Yi Hao Ge Media Culture Co., Ltd.(*)	PRC, co-operative joint venture	RMB30,000,000	98%	Investment holding

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Global Assets Limited	Hong Kong, limited company	HK$5,000,000 ordinary	100%	Group treasury and trading of audio and video equipments and components in Hong Kong
Million Way Enterprises Limited	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
Netbroad Communication Limited	British Virgin Islands, limited company	HK$1 ordinary	100%	Investment holding
Orient Venture Limited	Hong Kong, limited company	HK$2 ordinary	100%	Investment holding
Prime Pacific International Limited	British Virgin Islands, limited company	US$50,000 ordinary	67%	Investment holding
Smoothline Limited	Hong Kong, limited company	HK$7,500,000 ordinary	100%	Design, manufacturing and marketing of telecommunication products — inactive
Super China Development Limited	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
Universal Appliances Limited	Hong Kong, limited company	HK$499,373,000 ordinary HK$43,337,000 Preference	#100%	Investment holding

 # Shares held directly by the Company

** Chinese name translated to English is for identification purpose only.*

Except for Barnwell Enterprises Limited and Global Assets Limited, all other statutory accounts for year ended 31st December 2005 are not audited by PricewaterhouseCoopers.