Notes to the Accounts

1 Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRS", which term collectively includes Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK-INT")) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). They have been prepared under the historical cost convention except that, as set out in note (e) below, available-for-sale financial assets are stated at fair value.

The preparation of these accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in note 3.

(i) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards/interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, are effective for annual periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated accounts; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will adopt HK(IFRIC)-Int 9 from 1 January 2007. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not expected to have any significant impact on the Group's consolidated accounts.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(i) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated accounts.

- HK(IFRIC)-Int11-HKFRS2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int11 states that share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity settled. The Group will apply HK(IFRIC)-Int11 in the financial year beginning 1 January 2008 and it is not expected to have any significant impact on the Group's consolidated accounts.

- HKFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 provides for a new mechanism in the identification of reportable segments based on management reporting system. This standard also sets out criteria for the aggregation of two or more operating segments and the quantitative thresholds for segmental disclosures. The Group will adopt HKFRS 8 in the financial year beginning 1 January 2009, and it is not expected to have any impact on the Group's consolidated accounts.

(ii) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretation to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC)-Int12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int12 sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements, which involve private sector participation in the development, financing, operation and maintenance of governmental infrastructure. Since the Group is not involved in such arrangements, HK(IFRIC)-Int12 is not relevant to the Group's operations.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations or not having significant impact on the Group's consolidated accounts

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations or do not have a significant impact on the Group's accounts:

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group, 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 profit and loss 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 interest. 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 profit and loss account.

All significant intercompany transactions and balances within the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 the carrying value of goodwill.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(b) Consolidation *(continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the interests 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.

(c) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition, net of accumulated impairment losses, if any.

(d) Associated companies

An associated company is a company, not being a subsidiary and a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies, goodwill and intangible assets recognised on acquisition, net of accumulated amortisation of intangible assets other than goodwill and impairment losses, if any.

(e) Investments

The Group classifies its investments in the following categories: 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 re-evaluate this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(ii) 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.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(e) Investments *(continued)*

Purchases and sales of investments are recognised on trade-date, the date of which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. 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. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, or discounted cash flow analysis refined to reflect the issuer's specific circumstances. Investments in equity instruments that do not have a quoted market price in an active market and those fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less 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 profit and loss account, is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Fixed assets are depreciated at rates sufficient to write-off their costs less accumulated impairment losses, if any, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Properties	over the lease terms of 20 to 79 years
Leasehold improvements	over the shorter of their useful lives or the lease terms of 2 to 5 years
Computer equipment	20% - 33$^1/_3$%
Outdoor media assets	5% - 20%
Office equipment, studio and broadcasting equipment, furniture, fixtures and motor vehicles	10% - 33$^1/_3$%

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(f) Fixed assets *(continued)*

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 profit and loss account during the financial period in which they are incurred.

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

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Intangible assets

(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, jointly controlled entity or associated company at the date of acquisition. Goodwill on acquisition of jointly controlled entities and associated companies is included in interests in jointly controlled entities and interests in associated companies, respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing.

(ii) Other intangible assets

Other intangible assets including concession rights, copyrights, licence rights and royalties, publishing rights, purchased programme and film rights, software, customer base and technology know-how. Cost of other intangible assets are initially recognised and measured at fair value. Other intangible assets with definite useful lives are amortised on a straight-line basis over the respective period of the operating right. Other intangible assets with indefinite useful lives are not subject to amortisation and are tested annually for impairment.

Principal annual rates are as follows:

Concession rights	5% – $33^1/_3$%
Licence rights and royalties	28%
Publishing rights	6% – 50%
Software, customer base and technical know-how	20% – 100%

Purchased programme and film rights are amortised on an individual basis based on the amount of revenues earned in proportion to management's estimate of the actual revenue in respect to the purchased programme and film rights.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, and 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 (i.e. cash-generating units).

(i) Operating leases

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.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of 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 profit and loss account.

(l) Employee benefits

(i) Pension obligations

The Group operates a number of defined contribution and defined benefit plans and the assets of which are generally held in separate trustees administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are expensed as incurred.

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. Actuarial gains and losses are recognised directly in equity through the consolidated statement of recognised income and expense.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(l) Employee benefits *(continued)*

(ii) Equity compensation benefits

The Group operates equity-settled, share-based compensation plans. For share options granted after 7 November 2002 and not yet vested on 1 January 2005, 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 at the grant date. At each balance sheet date, the Group 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 profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

No compensation cost is recognised in relation to share options granted on or before 7 November 2002, or that have already fully vested on 1 January 2005.

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

(m) Borrowings

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 security 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 profit and loss account over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in equity.

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 balance sheet date.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 investment in subsidiaries, associated companies and jointly controlled entities except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(o) 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) 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.

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 is 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.

(q) Revenue recognition

Revenue from sale of services is recognised when the services are rendered.

Revenue from 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.

Revenue from advertising is recognised over the period when the advertisement is placed.

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

(r) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the accounts 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 accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(r) Translation of foreign currencies *(continued)*

(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 profit and loss account.

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

(iii) Group companies

The results and financial position of all 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:

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

(2) income and expense for each profit and loss account are translated at average exchange rates; and

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

Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on acquisition of a foreign entity on or after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at closing rate. For those acquisitions made prior to 1 January 2005, goodwill and fair value adjustments arising on the acquisition are expressed in the acquiring company's functional currency.

(s) Segment reporting

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

Unallocated costs represent corporate expenses, including depreciation and amortisation and net of corporate interest income. Segment assets consist primarily of fixed assets, other non-current assets, goodwill, available-for-sale financial assets, inventories, trade and other receivables and operating cash. Segment liabilities comprise operating liabilities, consideration payables, pension obligations and exclude items such as taxation payable and corporate borrowings. Capital expenditure comprises additions to fixed assets and other intangible assets.

In respect of geographical segment reporting, sales are based on the country in which the business is operated. Total assets and capital expenditure are based on the location of the assets.

Notes to the Accounts

1 Principal Accounting Policies *(continued)*

(t) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term high liquid investments and bank overdrafts, if any.

(u) Share capital

Ordinary shares are classified as equity. 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.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, price risk, cash flow and fair value interest rate risk and foreign currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(i) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, and listed debt securities. The Group has no significant concentrations of credit risk. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Sales of products and services are made to customers with appropriate credit history. Investments are normally only in liquid securities (except for where entered into for long term strategic purposes). Transactions involving derivative financial instruments are with counterparties with sound credit ratings.

(ii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure the maintenance of sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and longer term.

(iii) Price risk

The Group's available-for-sale financial assets are measured at fair value at each balance sheet date. Management manages the price risk exposure by maintaining a portfolio of investments with different risk profiles.

Notes to the Accounts

2 Financial Risk Management *(continued)*

(a) Financial risk factors *(continued)*

(iv) Cash flow and fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The key exposure of the Group to these risks originates from the interest-bearing borrowings.

Apart from the convertible bonds as mentioned in note 33 to the accounts, total bank loans of HK$29,971,000 held by the Group as at 31 December 2006 were with fixed interest rates, of which HK$29,509,000 are fully repayable within one year. The total bank loans with floating rates held by the Group as at 31 December 2006 amounted to HK$2,696,820,000, of which the interest repricing dates are all within one year.

Management of the Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(v) Foreign currency risk

The Group mainly operates in the Greater China region and is exposed to foreign currency exchange risk arising from various foreign currencies, primarily the Renminbi and New Taiwan dollar. Foreign exchange risk on net investments in foreign currencies is managed primarily through borrowings denominated in the relevant foreign currencies.

(b) Fair value estimation

The fair value of financial instruments traded in active markets 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 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. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, or discounted cash flow analysis refined to reflect the issuer's specific circumstances.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of long-term financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market rate that is available to the Group for similar financial instruments.

Notes to the Accounts

3 Critical Accounting Estimates and Judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom exactly 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 related to goodwill impairment, defined benefit retirement obligations and fair value of share options granted are contained in notes 17, 34 and 37 to the accounts, respectively. Other key sources of estimation uncertainty are as follows:

(a) Income taxes

The Group is subject to income taxes in various jurisdictions. As at 31 December 2006, the total income tax provision and deferred tax liabilities of the Group amounted to HK$56,858,000 and HK$11,617,000, respectively. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Provision for sales return

Turnover is stated net of sales return provision. Sales return provision is made by the Group upon the delivery of goods to the customers when the significant risks and rewards of ownership of the goods are transferred to the customers. As at 31 December 2006, the provision for sales return of the Group amounted to HK$17,806,000. This provision is recognised by the Group based on the best estimates by management with reference to past experience and other relevant factors. Any difference between this estimate and the actual return will impact the Group's result in the period in which the actual return is determined.

(c) Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of provision made as at 31 December 2006 was HK$79,638,000 (2005: HK$69,708,000). If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Notes to the Accounts

4 Turnover, Revenue and Segment Information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out on pages 130 to 135.

Turnover and revenues recognised during the year are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Provision of wireless internet services, online advertising, commercial enterprise solutions and internet access	1,370,862	1,370,738
Magazine and book circulation, sales of publication advertising and other related products	948,063	1,034,859
Advertising sales of outdoor media assets and provision of outdoor media services	391,166	412,280
Event organisation, advertising and sponsorship sales in relation to sports events and programmes	112,250	208,487
Advertising sales in relation to satellite television channel operations and provision of broadcasting post production services	88,573	78,953
	2,910,914	3,105,317
Interest income		
– available-for-sale financial assets	66,051	77,865
– bank and others	43,354	10,223
	109,405	88,088
Total revenues	3,020,319	3,193,405

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Primary reporting format – business segments

The Group is organised into five main business segments:

- Internet Group – provision of wireless internet services, online advertising, commercial enterprise solutions, and internet access.
- Publishing Group – magazine and book circulation, sales of publication advertising and other related products.
- Outdoor Media Group – advertising sales of outdoor media assets and provision of outdoor media services.
- Sports Group – event organisation, advertising and sponsorship sales in relation to sports events and programmes.
- Television and Entertainment Group – advertising sales in relation to satellite television channel operations and provision of broadcasting post production services.

Secondary reporting format – geographical segments

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

Hong Kong	–	Internet Group, Publishing Group, Sports Group and Television and Entertainment Group
Mainland China	–	Internet Group, Publishing Group, Outdoor Media Group, Sports Group and Television and Entertainment Group
Taiwan and other Asian countries	–	Internet Group and Publishing Group

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Primary reporting format – business segments *(continued)*

	Year ended 31 December 2006					
	Internet group HK$'000	Publishing group HK$'000	Outdoor media group HK$'000	Sports group HK$'000	Television and entertainment group HK$'000	Group HK$'000
Total gross segment turnover	1,371,177	950,858	391,166	113,314	93,951	2,920,466
Inter-segment turnover	(315)	(2,795)	–	(1,064)	(5,378)	(9,552)
Turnover	1,370,862	948,063	391,166	112,250	88,573	2,910,914
Segment profit/(loss) before amortisation and depreciation	379,384	119,898	37,436	(22,330)	(15,536)	498,852
Amortisation and depreciation	(77,683)	(21,233)	(30,660)	(581)	(34,314)	(164,471)
Segment profit/(loss)	301,701	98,665	6,776	(22,911)	(49,850)	334,381
Provision for impairment of assets	(36,044)	–	–	(11,000)	–	(47,044)
Share of losses of jointly controlled entities	(758)	–	–	–	–	(758)
Share of profits less losses of associated companies	(212)	10,088	–	(899)	–	8,977
Unallocated costs						(22,467)
Operating profit before net gain on deemed disposals of interests in subsidiaries						273,089
Net gain on deemed disposals of interests in subsidiaries	–	–	24,601	–	–	24,601
Operating profit						297,690
Finance costs						(145,070)
Profit before taxation						152,620
Taxation						(33,005)
Profit after taxation						119,615
Attributable to:						
Minority interests						87,654
Equity holders of the Company						31,961

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Primary reporting format – business segments *(continued)*

	Year ended 31 December 2006					
	Internet group HK$'000	Publishing group HK$'000	Outdoor media group HK$'000	Sports group HK$'000	Television and entertainment group HK$'000	Group HK$'000
Segment assets	3,974,986	1,261,094	1,024,608	221,646	217,596	6,699,930
Assets classified as held for sale	93,973	–	–	–	–	93,973
Interests in jointly controlled entities	14,171	–	–	–	–	14,171
Interests in associated companies	1,246	229,847	–	–	–	231,093
Unallocated assets						1,251,556
Total assets						8,290,723
Segment liabilities	287,538	358,022	155,795	45,650	38,182	885,187
Liabilities classified as held for sale	7,920	–	–	–	–	7,920
Unallocated liabilities						3,075,838
Total liabilities						3,968,945
Segment capital expenditure	64,200	12,731	28,869	119	25,560	131,479
Unallocated capital expenditure						1,019
Total capital expenditure						132,498

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Primary reporting format – business segments *(continued)*

	Year ended 31 December 2005					
	Internet group HK$'000	Publishing group HK$'000	Outdoor media group HK$'000	Sports group HK$'000	Television and entertainment group HK$'000	Group HK$'000
Total gross segment turnover	1,371,650	1,034,859	412,280	208,487	81,077	3,108,353
Inter-segment turnover	(912)	–	–	–	(2,124)	(3,036)
Turnover	1,370,738	1,034,859	412,280	208,487	78,953	3,105,317
Segment profit/(loss) before amortisation and depreciation	412,374	113,691	44,229	4,888	(14,312)	560,870
Amortisation and depreciation	(64,135)	(17,132)	(28,243)	(520)	(40,078)	(150,108)
Segment profit/(loss)	348,239	96,559	15,986	4,368	(54,390)	410,762
Provision for receivables, net	38,932	–	–	(46,203)	–	(7,271)
Share of losses of jointly controlled entities	(138)	–	–	–	–	(138)
Share of profits less losses of associated companies	(263)	18,046	–	–	3,446	21,229
Unallocated costs						(89,468)
Operating profit before net gain on deemed disposals of interests in subsidiaries						335,114
Net gain on deemed disposals of interests in subsidiaries	160,335	–	–	–	–	160,335
Operating profit						495,449
Finance costs						(103,973)
Profit before taxation						391,476
Taxation						(40,178)
Profit after taxation						351,298
Attributable to:						
Minority interests						91,772
Equity holders of the Company						259,526

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Primary reporting format – business segments *(continued)*

	Year ended 31 December 2005					
	Internet group HK$'000	Publishing group HK$'000	Outdoor media group HK$'000	Sports group HK$'000	Television and entertainment group HK$'000	Group HK$'000
Segment assets	3,556,519	1,342,073	748,789	323,249	222,151	6,192,781
Interests in jointly controlled entities	14,876	–	–	–	–	14,876
Interests in associated companies	1,459	236,665	–	–	–	238,124
Unallocated assets						1,344,489
Total assets						7,790,270
Segment liabilities	297,862	428,054	118,522	54,726	39,467	938,631
Unallocated liabilities						2,944,356
Total liabilities						3,882,987
Segment capital expenditure	80,064	23,235	38,887	551	37,441	180,178
Unallocated capital expenditure						4,113
Total capital expenditure						184,291

Notes to the Accounts

4 Turnover, Revenue and Segment Information *(continued)*

Secondary reporting format – geographical segments

	Turnover		Operating profit	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	15,785	73,176	(683)	(11,837)
Mainland China	1,935,824	2,034,354	366,188	444,103
Taiwan and other Asian countries	959,305	997,787	133,347	128,604
	2,910,914	3,105,317	498,852	560,870
Amortisation and depreciation			(164,471)	(150,108)
Provision for receivables, net			–	(7,271)
Provision for impairment of assets			(47,044)	–
Share of losses of jointly controlled entities			(758)	(138)
Share of profits less losses of associated companies			8,977	21,229
Net gain on deemed disposals of interests in subsidiaries			24,601	160,335
Unallocated costs			(22,467)	(89,468)
Operating profit			297,690	495,449

	Total assets		Capital expenditure	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	1,233,390	1,395,645	1,410	3,530
Mainland China	5,745,490	5,072,667	117,340	158,881
Taiwan and other Asian countries	1,311,843	1,321,958	13,748	21,880
Total	8,290,723	7,790,270	132,498	184,291

Notes to the Accounts

5 Provision for Receivables, Net

In 2005, provision for receivables, net represented a provision of HK$46,203,000 for accounts receivables in respect of a sports event, offset by a write-back of provision of HK$38,932,000 made in prior years in respect of loans and advances to certain investee companies.

6 Provision for Impairment of Assets

The amount represented a provision for impairment of assets held for sale of HK$36,044,000 (note 32(a)), and a provision for impairment of goodwill of HK$11,000,000 (note 17(b)). The provision for impairment of goodwill, which is related to the business of a sports event in Mainland China, was made with reference to the expected disposal value of that business less costs to sell.

7 Net Gain on Deemed Disposals of Interests in Subsidiaries

On 28 March 2006, the Group signed a partnership agreement with Singapore Press Holdings Limited ("SPH") under which SPH invested US$26,000,000 (approximately of HK$202,800,000) in the outdoor media business of the Group through investing in TOM Outdoor Media Group Limited ("OMG Holdco") by way of issuance of new shares of OMG Holdco.

As a result of the issuance of new shares of OMG Holdco, the Group's shareholding in OMG Holdco has been diluted to 65% and resulted in a gain of HK$24,601,000.

The amount of net gain on deemed disposals of interests in subsidiaries of HK$160,335,000 in 2005 included a gain as a result of shares issued by TOM Online Inc. ("TOMO") in relation to the acquisition of Puccini International Limited of HK$160,872,000, and a loss on the issuance of shares by Indiagames Limited ("Indiagames"), a subsidiary of the Company, of HK$537,000.

Notes to the Accounts

8 Operating Profit

Operating profit is stated after charging/crediting the following:

	2006 HK$'000	2005 HK$'000
Charging:–		
Depreciation (note 16)	115,895	104,515
Amortisation of other intangible assets (note 18)	52,589	51,046
Amortisation of other intangible assets included in interests in associated companies (note 21)	4,896	4,894
Cost of inventories sold	473,805	509,358
Staff costs (including directors' emoluments) (note 14)	595,857	666,161
Operating leases in respect of:		
– Land and buildings	57,763	49,985
– Other assets	134,789	85,886
Auditors' remuneration	23,797	13,168
Provision for bad and doubtful trade receivables (excluding provision for receivables as mentioned in note 5)	12,862	21,193
Loss on disposal of fixed assets	5,407	7,185
Provision for inventories	25,165	24,616
Crediting:–		
Gain on disposal of available-for-sale financial assets	90	6,233
Gain on partial disposal of an associated company	–	12,336
Gain on exercise of share options of TOMO	19,694	14,177
Net gain on disposal of interests in subsidiaries (note 42(d))	–	6,180
Gain on disposal of a subsidiary (note 42(d))	14,698	–
Dividend income from available-for-sale financial assets	2,465	1,250
Exchange gain, net	12,108	7,433

9 Finance Costs

	2006 HK$'000	2005 HK$'000
Interest and borrowing costs on bank loans	93,853	49,837
Interest and borrowing costs on convertible bonds	50,298	52,709
Interest on other loans, wholly repayable within five years	919	1,427
Total finance costs	145,070	103,973

Notes to the Accounts

10 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates. The amount of taxation charged to the consolidated profit and loss account represents:

	2006 HK$'000	2005 HK$'000
Hong Kong profits tax	–	–
Overseas taxation	37,580	72,029
Over-provision in prior years	(1,994)	(4,688)
Deferred taxation (note 35(c))	(2,581)	(27,163)
Taxation charges	33,005	40,178

Share of associated companies' taxation for the year ended 31 December 2006 of approximately HK$2,683,000 (2005: HK$446,000) has been included in the consolidated profit and loss account as share of profits less losses of associated companies.

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	152,620	391,476
Calculated at a taxation rate of 17.5% (2005: 17.5%)	26,709	68,508
Effect of different applicable taxation rates in other countries	(61,175)	(75,884)
Income not subject to taxation	(32,941)	(60,772)
Expenses not deductible for taxation purposes	40,516	39,693
Utilisation of previously unrecognised temporary difference	–	(1,403)
Utilisation of previously unrecognised tax losses	(2,105)	(3,395)
Recognition of previously unrecognised temporary differences	(3,536)	–
Tax losses not recognised	66,520	72,330
Results of associated companies and jointly controlled entities	(1,438)	(3,691)
Withholding tax	6,463	7,448
Temporary differences not recognised	(4,014)	2,032
Over provision in prior years	(1,994)	(4,688)
Taxation charge	33,005	40,178

The weighted average applicable tax rate was 21.63% (2005: 10.26%). The increase is mainly caused by the reduction of amount of income not subject to taxation for the year, and the change in the profitability of the Group's subsidiaries under different respective applicable tax rates.

Notes to the Accounts

11 Profit Attributable to Equity Holders of the Company

The net loss of the Company is HK$285,992,000 (2005: HK$5,787,000) and is included in determining the profit attributable to the equity holders of the Company in the consolidated profit and loss account. The loss of the Company for the year ended 31 December 2006 included a provision for impairment in interests in subsidiaries amounting to HK$273,894,000 (2005: HK$Nil).

12 Dividends

No dividends had been paid or declared by the Company during the year (2005: HK$Nil).

13 Earnings per Share

(a) Basic

The calculation of the basic earnings per share is based on consolidated profit attributable to equity holders of the Company of HK$31,961,000 (2005: HK$259,526,000) and the weighted average of 3,893,270,558 (2005: 3,890,885,006) ordinary shares in issue during the year.

(b) Diluted

Diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2005 and 2006 as the exercise price of the outstanding share options granted by the Company were higher than the average market price of the share of the Company, and the conversion of the outstanding convertible bonds would have an anti-dilutive effect on earnings per share.

14 Staff Costs, including Directors' Emoluments

	2006 HK$'000	2005 HK$'000
Wages and salaries	546,509	590,224
Pension costs – defined contribution plans	19,616	19,977
Pension costs – defined benefit plans (note 34(b))	4,258	6,589
Share-based compensation (note 37(c))	25,474	49,371
	595,857	666,161

Notes to the Accounts

15 Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefit in kind HK$'000	Discretionary bonuses HK$'000	Contributions to retirement benefit schemes HK$'000	Sub-total HK$'000	Share compensation costs# HK$'000	Fees returned to the Company HK$'000	Total HK$'000
Current executive directors								
Ms. Tong Mei Kuen, Tommei	100	2,250	10,750	150	13,250	242	(50)	13,442
Ms. Mak Soek Fun, Angela	77	1,645	369	115	2,206	–	(37)	2,169
Past executive director								
Mr. Sing Wang	7	1,143	971	–	2,121	98	(4)	2,215
Independent non-executive directors and members of Audit Committee								
Mr. Cheong Ying Chew, Henry	100	–	–	–	100	–	–	100
Ms. Wu Hung Yuk, Anna	100	–	–	–	100	–	–	100
Mr. James Sha	100	–	–	–	100	–	–	100
Non-executive director and member of Audit Committee								
Mrs. Lee Pui Ling, Angelina	100	–	–	–	100	–	–	100
Non-executive directors								
Mr. Wang Lei Lei	100	1,425	–	139	1,664	19,419	–	21,083
Mr. Frank John Sixt	100	–	–	–	100	–	–	100
Ms. Chang Pui Vee, Debbie	50	–	–	–	50	–	–	50
Mrs. Chow Woo Mo Fong, Susan	50	–	–	–	50	–	–	50
Mr. Ip Tak Chuen, Edmond	50	–	–	–	50	–	–	50
Total	934	6,463	12,090	404	19,891	19,759	(91)	39,559

Notes to the Accounts

15 Directors' and Senior Management's Emoluments *(continued)*

(a) Directors' emoluments *(continued)*

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

	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefit in kind HK$'000	Discretionary bonuses HK$'000	Contributions to retirement benefit schemes HK$'000	Sub-total HK$'000	Share compensation costs# HK$'000	Fees returned to the Company HK$'000	Total HK$'000
Current executive director								
Ms. Tong Mei Kuen, Tommei	100	2,250	10,750	150	13,250	1,904	(50)	15,104
Past executive director								
Mr. Sing Wang	100	3,464	9,536	277	13,377	2,730	(50)	16,057
Independent non-executive directors and members of Audit Committee								
Mr. Cheong Ying Chew, Henry	100	–	–	–	100	–	–	100
Ms. Wu Hung Yuk, Anna	100	–	–	–	100	–	–	100
Mr. James Sha	100	–	–	–	100	–	–	100
Non-executive director and member of Audit Committee								
Mrs. Lee Pui Ling, Angelina	100	–	–	–	100	–	–	100
Non-executive directors								
Mr. Wang Lei Lei	100	1,369	20,036	79	21,584	24,773	–	46,357
Mr. Frank John Sixt	50	–	–	–	50	–	–	50
Ms. Chang Pui Vee, Debbie	50	–	–	–	50	–	–	50
Mrs. Chow Woo Mo Fong, Susan	50	–	–	–	50	–	–	50
Mr. Ip Tak Chuen, Edmond	50	–	–	–	50	–	–	50
Past non-executive director								
Mr. Holger Kluge	25	–	–	–	25	–	–	25
Total	925	7,083	40,322	506	48,836	29,407	(100)	78,143

This represents the amortisation of the fair value of share options measured at the grant dates charged to the consolidated profit and loss account, regardless of whether the share options have been exercised or not (note 37(c)).

Notes to the Accounts

15 Directors' and Senior Management's Emoluments *(continued)*

(a) Directors' emoluments *(continued)*

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for the loss of office.

Save as above, there has been no arrangement under which a director has waived or agreed to waive any emoluments for the years ended 31 December 2006 and 2005.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two directors (2005: two directors and one past director) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: two) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	7,525	4,558
Discretionary bonuses	876	2,825
Director's fee received from subsidiary of the Group	100	–
Contributions to retirement benefit schemes	557	363
	9,058	7,746
Share-based compensation (#)	3,002	3,866
	12,060	11,612

This represents the amortisation of the fair value of share options measured at the grant dates to the consolidated profit and loss account, regardless of whether the share options have been exercised or not (note 37(c)).

After taking into account the share-based compensation, the emoluments of these three (2005: two) individuals fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$3,000,001 – HK$3,500,000	1	–
HK$4,000,001 – HK$4,500,000	1	–
HK$4,500,001 – HK$5,000,000	1	1
HK$6,500,001 – HK$7,000,000	–	1

Notes to the Accounts

16 Fixed Assets

	Group						
	Properties HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Outdoor media assets HK$'000	Other assets HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2005	13,220	50,105	478,406	150,415	81,672	3,462	777,280
Exchange adjustment	257	119	4,092	2,592	268	71	7,399
Additions	–	9,690	96,948	9,783	5,908	16,098	138,427
Acquisition of subsidiaries (note 42(b))	–	–	998	–	418	–	1,416
Transfer between categories	–	1,962	2,976	5,606	–	(10,544)	–
Disposals	–	(4,040)	(121,960)	(10,112)	(5,984)	–	(142,096)
Disposals of subsidiaries (note 42(d))	–	(1,720)	(2,022)	–	(438)	–	(4,180)
At 31 December 2005	13,477	56,116	459,438	158,284	81,844	9,087	778,246
At 1 January 2006	13,477	56,116	459,438	158,284	81,844	9,087	778,246
Exchange adjustment	588	1,208	13,773	5,582	1,678	516	23,345
Additions	–	2,955	71,880	10,778	4,989	7,945	98,547
Acquisition of subsidiaries (note 42(b))	–	–	1,312	4,602	666	–	6,580
Transfer between categories	–	–	362	7,207	–	(7,569)	–
Transfer to other intangible assets	–	–	–	–	–	(2,721)	(2,721)
Reclassification to assets held for sale	–	(522)	(1,418)	–	(1,517)	–	(3,457)
Disposals	–	(2,227)	(19,101)	(9,535)	(4,410)	(332)	(35,605)
Disposals of subsidiaries (note 42(d))	–	–	–	–	(581)	–	(581)
At 31 December 2006	14,065	57,530	526,246	176,918	82,669	6,926	864,354
Accumulated depreciation and impairment losses							
At 1 January 2005	1,497	25,532	368,593	58,246	38,861	–	492,729
Exchange adjustment	35	69	2,181	709	23	–	3,017
Acquisition of subsidiaries (note 42(b))	–	–	524	–	189	–	713
Depreciation charge for the year	649	9,684	68,242	13,811	12,129	–	104,515
Disposals	–	(2,674)	(121,757)	(5,549)	(4,765)	–	(134,745)
Disposals of subsidiaries (note 42(d))	–	(1,626)	(1,628)	–	(321)	–	(3,575)
At 31 December 2005	2,181	30,985	316,155	67,217	46,116	–	462,654

Notes to the Accounts

16 Fixed Assets *(continued)*

	Group						
	Properties	Leasehold improvements	Computer equipment	Outdoor media assets	Other assets	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Accumulated depreciation and impairment losses *(continued)*							
At 1 January 2006	2,181	30,985	316,155	67,217	46,116	–	462,654
Exchange adjustment	110	649	10,562	2,569	1,331	–	15,221
Acquisition of subsidiaries (note 42(b))	–	–	628	151	267	–	1,046
Depreciation charge for the year	641	9,018	79,987	14,996	11,253	–	115,895
Reclassification to assets held for sale	–	(231)	(1,234)	–	(910)	–	(2,375)
Disposals	–	(2,227)	(19,002)	(4,504)	(4,087)	–	(29,820)
Disposals of subsidiaries (note 42(d))	–	–	–	–	(581)	–	(581)
At 31 December 2006	2,932	38,194	387,096	80,429	53,389	–	562,040
Net book value							
At 31 December 2006	11,133	19,336	139,150	96,489	29,280	6,926	302,314
At 31 December 2005	11,296	25,131	143,283	91,067	35,728	9,087	315,592

The Group's interests in properties at their net book values are analysed as follows:

	2006	2005
	HK$'000	HK$'000
Outside Hong Kong, held on		
Leases of over 50 years	11,024	11,170
Leases of between 10 to 50 years	109	126
	11,133	11,296

Notes to the Accounts

17 Goodwill

	Group 2006 HK$'000	Group 2005 HK$'000
At 1 January	2,514,896	2,280,025
Exchange adjustment	80,886	46
Additions		
Current year acquisitions (note 42(b))	242,963	126,732
Prior year acquisition (note a)	–	129,821
Consideration adjustment for acquisition of subsidiaries	(7,800)	–
Transferred to assets held for sale (note 32)	(72,997)	–
Deemed disposal of interests in subsidiaries (note 42(c))	–	(16,585)
Disposal of a subsidiary/interests in subsidiaries (note 42(d))	(27,493)	(5,143)
Provision for impairment of goodwill (note b)	(11,000)	–
At 31 December	2,719,455	2,514,896

(a) Prior year acquisition

At 31 December 2004, the Group had commitment in respect of the acquisition of 100% beneficial interest in Treasure Base Investments Limited and its subsidiaries (collectively referred to as the "Treasure Base Group"). According to the sale and purchase agreement, the initial consideration recognised totalled RMB274,000,000 (approximately HK$257,700,000), which was 4.5 times of the 2004 audited net profit of Treasure Base Group, and the earn-out consideration will be resolved in terms of (i) if the 2005 audited combined after-tax profit is less than RMB40,000,000 (approximately HK$37,600,000), an amount equal to the 2005 audited combined after-tax profit; or (ii) if the 2005 combined after-tax profit is equal to or more than RMB40,000,000 (approximately HK$37,600,000) but less than or equal to RMB75,000,000 (approximately HK$70,500,000), 1.5 times the amount of the 2005 audited combined after-tax profit; or (iii) if 2005 audited combined after-tax profit is more than RMB75,000,000 (approximately HK$70,500,000), 1.75 times the amount of the 2005 combined after-tax profit. The consideration is subject to a maximum of RMB550,000,000 (approximately HK$517,000,000), and therefore the Group's maximum earn-out consideration payable in respect of this acquisition as at 31 December 2004 amounted to RMB276,000,000 (approximately HK$259,300,000).

The audited accounts of Treasure Base Group for the year ended December 2005 showed a combined after-tax profit of RMB77,100,000 (approximately HK$74,000,000). Therefore, the earn-out consideration, at 1.75 times the amount of the combined after-tax profit of RMB135,000,000 (approximately HK$130,000,000) was provided at 31 December 2005 and was fully paid in 2006.

Notes to the Accounts

17 Goodwill *(continued)*

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to business and geographical segments.

A segment level of the goodwill allocation is presented below.

	2006				2005			
	Mainland China HK$'000	Hong Kong HK$'000	Taiwan and other Asian countries HK$'000	Total HK$'000	Mainland China HK$'000	Hong Kong HK$'000	Taiwan and other Asian countries HK$'000	Total HK$'000
Internet Group	1,710,362	–	–	1,710,362	1,404,578	–	74,699	1,479,277
Publishing Group	116	–	501,846	501,962	116	27,493	506,853	534,462
Outdoor Media Group	311,940	–	–	311,940	296,656	–	–	296,656
Sports Group	109,688	–	–	109,688	121,517	–	–	121,517
Television and Entertainment Group	82,116	3,387	–	85,503	82,984	–	–	82,984
	2,214,222	3,387	501,846	2,719,455	1,905,851	27,493	581,552	2,514,896

The recoverable amount of a CGU in the Sports Group in relation to the business of a sports event in Mainland China is determined based on the expected disposal value of that business less costs to sell (note 6).

The recoverable amount of each CGU in the Internet Group is determined based on fair value. Fair value is the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The valuation was performed by American Appraisal China Limited in November 2006. Before arriving at the valuation, the following principal factors were considered:

- the nature of the CGU;
- the global economic outlook in general and the specific economic and competitive elements affecting the CGU's business, its industry and its market;
- the nature and prospects of the Internet and wireless value-added services industries;
- the market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of projects;
- the stage of development of the CGU's operation; and
- the business risks of the CGU.

17 Goodwill *(continued)*

(b) Impairment tests for goodwill *(continued)*

Due to the changing environment in which the CGUs are operating in, a number of assumptions have to be made in order to sufficiently support the concluded value of the CGUs. The major assumptions adopted were:

- there will be no major changes in the existing political, legal, fiscal and economic conditions in countries in which the CGU will carry on its business;
- there will be no major changes in the current taxation law in countries in which the CGU operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of finance will not be a constraint on the future growth of the CGU's operation;
- the CGU will retain and have competent management, key personnel, and technical staff to support its ongoing operation; and
- industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

The recoverable amounts of all other CGUs are determined based on value-in-use calculations. 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 estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business segments in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	Publishing Group		Outdoor Media Group	Sports Group	Television and Entertainment Group
	Mainland China	Taiwan	Mainland China	Mainland China	Mainland China
Gross margin[1]	45%	50%	22% – 69%	11% – 17%	42% – 64%
Growth rate[2]	1%	1%	1%	1%	1%
Discount rate[3]	9%	9%	9%	9%	9%

1 Budgeted gross margin

2 Weighted average growth rate used to extrapolate cash flows beyond the five-year budget period

3 Pre-tax discount rate applied to the cash flow projections.

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts and the discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Notes to the Accounts

18 Other Intangible Assets

	Group						
	Concession rights HK$'000	Licence rights and royalties HK$'000	Publishing rights HK$'000	Purchased programme and film rights HK$'000	Software HK$'000	Customer base and technical know-how HK$'000	Total HK$'000
Cost							
At 1 January 2005	60,625	35,447	17,016	108,908	9,682	7,263	238,941
Exchange adjustment	1,359	75	(541)	–	206	2	1,101
Additions	9,877	–	–	35,987	–	–	45,864
Acquisition of subsidiaries (note 42(b))	–	–	–	–	–	6,021	6,021
Deemed disposal of interests in subsidiaries (note 42(c))	–	–	–	–	–	(1,094)	(1,094)
Disposal	(2,872)	–	–	–	–	–	(2,872)
At 31 December 2005	68,989	35,522	16,475	144,895	9,888	12,192	287,961
At 1 January 2006	68,989	35,522	16,475	144,895	9,888	12,192	287,961
Exchange adjustment	1,902	431	367	–	366	761	3,827
Additions	6,513	–	4,415	23,023	–	–	33,951
Acquisition of subsidiaries (note 42(b))	5,941	890	–	–	85	20,036	26,952
Reclassification to assets held for sale	–	–	–	–	–	(1,771)	(1,771)
Transfer from construction in progress	2,721	–	–	–	–	–	2,721
Written-off	–	–	–	–	–	(10,737)	(10,737)
At 31 December 2006	86,066	36,843	21,257	167,918	10,339	20,481	342,904

Notes to the Accounts

18 Other Intangible Assets *(continued)*

	Group						
	Concession rights HK$'000	Licence rights and royalties HK$'000	Publishing rights HK$'000	Purchased programme and film rights HK$'000	Software HK$'000	Customer base and technical know-how HK$'000	Total HK$'000
Accumulated amortisation							
At 1 January 2005	24,239	4,275	4,781	104,749	1,161	6,345	145,550
Exchange adjustment	837	74	(151)	–	45	–	805
Amortisation charge for the year	8,877	1,291	2,665	31,903	1,957	4,353	51,046
Deemed disposal of interests in subsidiaries (note 42(c))	–	–	–	–	–	(234)	(234)
Disposal	(1,079)	–	–	–	–	–	(1,079)
At 31 December 2005	32,874	5,640	7,295	136,652	3,163	10,464	196,088
At 1 January 2006	32,874	5,640	7,295	136,652	3,163	10,464	196,088
Exchange adjustment	552	284	186	–	155	291	1,468
Amortisation charge for the year	9,892	1,718	5,948	27,744	2,099	5,188	52,589
Reclassification to assets held for sale	–	–	–	–	–	(820)	(820)
Written-off	–	–	–	–	–	(10,737)	(10,737)
At 31 December 2006	43,318	7,642	13,429	164,396	5,417	4,386	238,588
Net book value							
At 31 December 2006	42,748	29,201	7,828	3,522	4,922	16,095	104,316
At 31 December 2005	36,115	29,882	9,180	8,243	6,725	1,728	91,873

The Group has considered the useful life of one of its licence rights to be indefinite and therefore no amortisation has been provided in accordance with the provision of HKAS 38 "Intangible assets". The carrying value of this intangible asset is tested for impairment annually, as well as when there is indication of impairment. This licence right is considered to have an indefinite life as the right has no fixed termination date and management considered that economic benefits will be generated from the licence right for the foreseeable future. As at 31 December 2006, the carrying amount of the licence right was HK$27,300,000.

Notes to the Accounts

18 Other Intangible Assets *(continued)*

Key assumptions used for value-in-use calculation for impairment assessment on intangible assets with indefinite useful life:

Gross margin	50% – 75%
Growth rate beyond the five-year budget period	1%
Discount rate	9%

Please refer to note 17(b) for detailed explanation of these key assumptions.

19 Interests in Subsidiaries

	Company	
	2006 HK$'000	2005 HK$'000
Investments at cost – unlisted shares	644,034	629,993
Amounts due from subsidiaries	5,005,778	5,382,464
Amounts due to subsidiaries	(778,966)	(1,397,844)
Less : Provisions	(2,514,347)	(2,240,453)
	2,356,499	2,374,160

The amounts due from and to other subsidiaries are unsecured, interest-free and repayable on demand.

The carrying values of amounts due from and to subsidiaries of the Company approximate their fair values.

The list of the principal subsidiaries of the Group at 31 December 2006 is set out on pages 130 to 135.

20 Interests in Jointly Controlled Entities

	Group	
	2006 HK$'000	2005 HK$'000
Share of net assets – unlisted shares	14,171	14,876

There are no material contingent liabilities relating to the Group's interests in these jointly controlled entities, and no material contingent liabilities of the entities themselves.

Notes to the Accounts

21 Interests in Associated Companies

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets – unlisted shares	49,590	51,725
Goodwill	128,177	128,177
Other intangible assets (note (a))		
Cost	65,156	65,156
Accumulated amortisation	(11,830)	(6,934)
	53,326	58,222
	231,093	238,124

(a) The other intangible assets arising from the acquisition mainly comprised exclusive operation agreements, non-compete agreements and advertising customer base, which are recognised at fair value at acquisition and are amortised on a straight-line basis over 5 to 20 years.

Key assumptions used for value-in-use calculations for goodwill impairment assessment:

Gross margin	45%
Growth rate beyond the five-year budget period	1%
Discount rate	9%

Please refer to note 17(b) for detailed explanation of these key assumptions.

(b) The details of the principal associated company of the Group are set out below:

Name	Place of incorporation and kind of legal entity	Particular of registered capital	Assets HK$'000	Liabilities HK$'000	Turnover HK$'000	Net profit HK$'000	Effective interest held
2006							
China Popular Computer Week Management Company Limited	Mainland China, limited liability company	RMB30,000,000	138,756	43,515	163,348	28,207	48.5%
2005							
China Popular Computer Week Management Company Limited	Mainland China, limited liability company	RMB30,000,000	132,375	33,227	174,956	43,333	48.5%

Notes to the Accounts

22 Available-for-sale Financial Assets

	Group 2006 HK$'000	Group 2005 HK$'000
Listed debt securities outside Hong Kong	1,913,759	1,991,295
Unlisted equity securities outside Hong Kong	72,629	61,912
Total	1,986,388	2,053,207

23 Loans and Receivables

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Loans and advances to investee companies	2,091	3,839	–	899

The loans and advances to investee companies as at 31 December 2006 and 2005 are interest-free, unsecured and repayable on demand. The carrying amounts of the loans and advances to investee companies approximate their fair values.

24 Other Non-current Assets

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Long-term other receivables (note (a))	2,592	42,348	–	–
Deferred expenses	16,306	5,191	3,980	–
Pension assets (note 34(a))	603	33	–	–
	19,501	47,572	3,980	–

(a) The carrying amounts of the receivables approximate their fair values. In 2005, long-term other receivables mainly represented an exchangeable note of US$5,297,000 issued by the controlling shareholder of an investee company (the "Borrower") to a wholly-owned subsidiary of the Company, TOM Entertainment Group Limited. It is interest bearing at 6% per annum and will mature in 2007. The Group has the right, exercisable at its option, to convert US$5,000,000 of the outstanding principal amount of the exchangeable note to 8 shares of an investee company held by the Borrower.

Notes to the Accounts

25 Inventories

	Group 2006 HK$'000	Group 2005 HK$'000
Merchandise	15,026	12,342
Finished goods	103,794	88,615
Raw materials	–	142
Work in progress	11,248	15,981
	130,068	117,080

26 Trade and Other Receivables

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Trade receivables (note b)	555,227	764,977	–	–
Prepayments, deposits and other receivables (note c)	432,906	434,292	14,153	22,198
	988,133	1,199,269	14,153	22,198

(a) The carrying values of trade and other receivables approximate their fair values.

(b) Majority of the Group's turnover is on open account terms and in accordance with terms specified in the contracts governing the relevant transactions.

As at 31 December 2006, the ageing analysis of the Group's trade receivables is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Current	204,232	307,208
31-60 days	133,722	181,909
61-90 days	74,707	118,300
Over 90 days	222,204	227,268
	634,865	834,685
Less: Provision	(79,638)	(69,708)
	555,227	764,977

Notes to the Accounts

26 Trade and Other Receivables *(continued)*

(b) *(continued)*

	Group 2006 HK$'000	Group 2005 HK$'000
Represented by:		
Receivables from an associated company	9,360	–
Receivables from related companies	598	4,967
Receivables from third parties	545,269	760,010
	555,227	764,977

Total trade receivables from related companies beneficially owned by substantial shareholders of the Company, Hutchison Whampoa Limited ("HWL"), Cheung Kong (Holdings) Limited ("CKH") and Cranwood Company Limited ("Cranwood"), amounted to HK$419,000 (2005: HK$4,967,000). Trade receivables from minority shareholders of subsidiaries of the Group amounted to HK$179,000 (2005: HK$Nil). These are related to sales of goods and services and licence fee income as shown in note 46(a).

(c) The Group balances include amounts due from jointly controlled entities, associated companies and related companies of HK$83,000 (2005: HK$1,373,000), HK$301,000 (2005: HK$260,000) and HK$19,995,000 (2005: HK$21,438,000) respectively. The total balances due from related companies beneficially owned by the substantial shareholders of the Company, HWL, CKH and Cranwood amounted to HK$754,000 (2005: HK$672,000). The balances due from minority shareholders of subsidiaries of the Group amounted to HK$19,241,000 (2005: HK$20,766,000).

The balances due from jointly controlled entities, associated companies and related companies represent expenses paid on behalf of these companies and are unsecured, interest-free and repayable on demand.

27 Restricted Cash

At 31 December 2006, bank deposits and cash of the Group totalling of US$2,344,000 (approximately HK$18,280,000), NT$9,515,000 (approximately HK$2,273,000) and RMB618,000 (approximately HK$618,000) (2005: NT$308,000,000, or approximately HK$72,010,000) were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company and RMB14,043,000 (approximately HK$14,043,000) (2005: HK$Nil) were pledged to banks for securing banking facilities granted to an associated company respectively.

Included in the restricted cash of the Group was an amount of US$300,000 (approximately HK$2,332,000) (2005: US$300,000, or approximately HK$2,340,000), representing money held in escrow pursuant to tax warrants provided by the founder of Indiagames.

Notes to the Accounts

28 Consideration Payables

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Acquisition of subsidiaries (note b)	103,947	135,690	10,398	6,093
Acquisition of an associated company (note b)	25,273	110,403	25,273	110,403
	129,220	246,093	35,671	116,496

(a) The carrying values of consideration payables approximate their fair values.

(b) These represent consideration payables with respect to the acquisition of subsidiaries and an associated company and will be satisfied by cash and/or the issuance of shares of the Company pursuant to the terms of the respective acquisition agreements.

29 Trade and Other Payables

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables (note b)	271,402	243,349	–	–
Other payables and accruals (note c)	545,287	618,315	19,151	9,982
	816,689	861,664	19,151	9,982

(a) The carrying values of trade and other payables approximate their fair values.

(b) As at 31 December 2006, the ageing analysis of the Group's trade payables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current	123,629	121,295
31-60 days	47,324	42,458
61-90 days	27,737	25,658
Over 90 days	72,712	53,938
	271,402	243,349

Notes to the Accounts

29 Trade and Other Payables *(continued)*

(b) *(continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
Represented by:		
Payable to an associated company	3,116	–
Payable to related companies	286	6,407
Payable to third parties	268,000	236,942
	271,402	243,349

Total trade payables to related companies beneficially owned by HWL amounted to HK$38,000 (2005: HK$81,000). The balances due to minority shareholders of subsidiaries of the Group amounted to HK$248,000 (2005: HK$6,326,000). These are related to purchases of goods and services as shown in note 46(b). The balance due to an associated company mainly represented receipts of cash on behalf of the associated company.

(c) The Group balances include amounts due to a jointly controlled entity and related companies of HK$2,898,000 (2005: HK$2,905,000) and HK$38,712,000 (2005: HK$55,674,000) respectively. The total balance due to related companies beneficially owned by the substantial shareholders of the Company, HWL, CKH and Cranwood, amounted to HK$15,220,000 (2005: HK$8,913,000). The balance due to minority shareholders of subsidiaries of the Group amounted to HK$23,492,000 (2005: HK$46,761,000).

The amounts due to a jointly controlled entity and related companies that represent expenses paid on behalf of the Group by a jointly controlled entity and the amounts due to related companies arising from purchases of goods and services are unsecured, interest-free and repayable on demand.

Notes to the Accounts

30 Short-term Bank Loans

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans (note a)				
Secured	304,119	75,213	–	–
Unsecured	423,450	–	315,900	–
	727,569	75,213	315,900	–
The bank loans are denominated in:				
United States dollar	590,562	–	315,900	–
Hong Kong dollar	–	64,000	–	–
Renminbi	29,457	11,213	–	–
New Taiwan dollar	107,550	–	–	–
	727,569	75,213	315,900	–

(a) These short-term bank loans are interest bearing at prevailing market rates. Their carrying amounts approximate their fair values.

31 Other Non-current Liabilities

	Group	
	2006	2005
	HK$'000	HK$'000
Non-current portion of long-term bank loans (note a)	1,733,436	1,513,075
Loans from a minority shareholder	–	9,946
Convertible bonds (note 33)	191,023	1,032,803
Pension obligations (note 34(a))	28,827	19,711
	1,953,286	2,575,535

31 Other Non-current Liabilities *(continued)*

(a) Long-term bank loans

	Group	
	2006	2005
	HK$'000	HK$'000
Secured	1,353,922	1,288,088
Unsecured	645,300	289,327
	1,999,222	1,577,415
Less: current portion of long-term bank loans	(265,786)	(64,340)
	1,733,436	1,513,075
The bank loans are repayable as follows:		
Within one year	265,786	64,340
In the second year	1,102,978	96,605
In the third to fifth year	472,105	1,416,185
After the fifth year	158,353	285
	1,999,222	1,577,415
The bank loans are denominated in:		
Hong Kong dollar	850,000	850,000
United States dollar	503,408	437,576
New Taiwan dollar	645,300	289,328
Malaysian Ringgit	514	511
	1,999,222	1,577,415

These long-term bank loans are interest bearing at prevailing market rates. Their carrying amounts approximate their fair values.

Notes to the Accounts

32 Assets and Liabilities Held for Sale

In December 2006, TOMO, a non wholly-owned subsidiary of the Company, committed to a plan which was approved by the TOMO's Board of Directors on 29 December 2006 to sell its entire equity interests in Indiagames in order to focus on the China market and initiated actions to locate a buyer. As a result, the assets and liabilities of Indiagames were classified as held for sale and presented separately as current assets and liabilities on the consolidated balance sheet as at 31 December 2006.

The major classes of assets and liabilities classified as held for sale were as follows:

	HK$'000
Cash and cash equivalents	23,049
Trade and other receivables	30,382
Goodwill (note 17)	72,997
Other non-current assets	3,517
	129,945
Less: Provision for impairment (note a)	(36,044)
Exchange adjustment	72
Assets held for sale	93,973
Trade and other payables	7,920
Liabilities held for sale	7,920

(a) A provision for impairment of assets held for sale of HK$36,044,000 was made as at 31 December 2006, with reference to the expected disposal value of the assets less costs to sell.

33 Convertible Bonds

On 28 November 2003, a wholly-owned subsidiary of the Company issued convertible bonds (the "Convertible Bonds") in an aggregate principal amount of US$150,000,000 (approximately HK$1,170,000,000), which are unconditionally and irrevocably guaranteed by, and convertible into ordinary shares of the Company with par value of HK$0.10 each (the "Shares"). The Convertible Bonds bear interest at the rate of 0.5% per annum on the principal amount, payable semi-annually in arrear from 28 November 2003 up to but excluding 28 November 2008.

The Convertible Bonds are convertible at any time on or after 8 January 2004 up to the close of business on 14 November 2008 into the Shares at an initial conversion price of HK$3.315 per share, subject to adjustment. The subsidiary may, subject to certain conditions, on or at any time after 13 December 2006 and prior to 28 November 2008, redeem all, or from time to time, redeem some of the Convertible Bonds, at principal plus a fixed return of 1.25% per annum from 28 November 2003 to the redemption date.

Notes to the Accounts

33 Convertible Bonds *(continued)*

Furthermore, the bond holders have the right to require the subsidiary to redeem all or some only of the Convertible Bonds on 28 November 2006 at 102.31% of the principal amount.

Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed at 103.86% of the principal amount, plus any accrued interest on 28 November 2008.

The fair value of the liability component and the equity conversion component were determined at issuance of the Convertible Bonds. The fair value of the liability component, included in long-term non-current liabilities (note 31), was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible bonds reserve (note 38).

During the year, the subsidiary:

(i) repurchased part of the Convertible Bonds with face value of US$2,800,000 at an aggregate consideration of approximately HK$22,000,000.

(ii) redeemed part of the Convertible Bonds with face value of US$117,420,000 at the request of certain bondholders at a total consideration of approximately HK$937,002,000.

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

	2006 HK$'000	2005 HK$'000
Face value of Convertible Bonds upon initial recognition, net of arrangement fees	1,142,801	1,142,801
Equity component (note 38)	(179,036)	(179,036)
Liability component upon initial recognition	963,765	963,765
Accumulated interest expense	158,900	108,602
Accumulated coupon interest paid	(17,370)	(12,132)
Buy-back of convertible bonds	(47,872)	(27,432)
Early redemption of convertible bonds	(866,400)	–
Carrying amount at 31 December (note 31)	191,023	1,032,803

Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.24% to the liability component. The carrying value of the liability component approximates its fair value.

Notes to the Accounts

34 Pension Assets and Obligations

The Group operates certain defined benefit pension plans in Hong Kong, Taiwan and India. These pension plans are either final salary defined benefit plans or with minimum guaranteed return rate on plan assets. The assets of the funded plans are generally held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in Hong Kong, Taiwan and India are valued by Watson Wyatt, KPMG Advisory Services Company Limited and Thanawala Consultancy Services, Actuaries and Consultants, respectively.

(a) The pension assets/obligations recognised in the consolidated balance sheet are determined as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Present value of funded obligations (note c)	55,021	43,843
Fair value of plan assets (note d)	(27,230)	(24,730)
Unrecognised prior service cost	433	565
Recognised in the consolidated balance sheet	28,224	19,678
Represented by:		
Pension assets (note 24)	(603)	(33)
Pension obligations (note 31)	28,827	19,711
	28,224	19,678

(b) The amounts recognised in the consolidated profit and loss account are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current service cost	4,301	6,337
Interest cost	1,658	1,434
Expected return on plan assets	(1,557)	(1,172)
Others	(144)	(10)
Total, included in staff costs (note 14)	4,258	6,589

The actual return on plan assets was HK$2,138,000 (2005: HK$1,200,000).

Notes to the Accounts

34 Pension Assets and Obligations *(continued)*

(c) Movements in present value of the funded obligations in current year:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	43,843	45,130
Exchange adjustment	729	(1,103)
Service cost	4,301	6,337
Interest cost	1,658	1,434
Actuarial loss/(gain)	7,381	(6,510)
Others	(2,891)	(1,445)
At 31 December (note a)	55,021	43,843

(d) Movements in fair value of plan assets in current year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	24,730	19,720
Exchange adjustment	293	(308)
Expected return on plan assets	1,557	1,172
Actuarial gain	581	28
Contribution by employer	2,780	5,066
Others	(2,711)	(948)
At 31 December (note a)	27,230	24,730

The estimated contribution by the Group for the year 2007 will be amounted to HK$2,300,000.

Notes to the Accounts

34 Pension Assets and Obligations *(continued)*

(e) The major categories of plan assets as a percentage of total plan assets are as follows:

	Group	
	2006	2005
Cash/Treasury	64%	62%
Equities	29%	32%
Bonds	7%	6%

The principal actuarial assumptions used are as follows:

	Group	
	2006	2005
Discount rate	2.5% – 3.75%	3.5% – 4.5%
Expected rate of return on plan assets	2.5% – 8.0%	3.5% – 8.0%
Expected rate of future salary increases	2.5% – 4.0%	2.5% – 3.5%

The expected return on plan assets is based on market expectations for returns and long-term benchmark allocation of equities and bonds in each plan and allowing for administration fees and other expenses charged to the plans.

(f) Summary of defined benefit plans and respective experience adjustments are shown as follows:

	2006 HK$'000	2005 HK$'000	2004 HK$'000
Defined benefit obligation	(55,021)	(43,843)	(45,130)
Plan assets	27,230	24,730	19,720
Deficit	(27,791)	(19,113)	(25,410)
Experience adjustments on plan liabilities	(6,423)	5,394	1,848
Experience adjustments on plan assets	581	28	(527)

Notes to the Accounts

35 Deferred Taxation

(a) Deferred tax assets

	Group 2006 HK$'000	Group 2005 HK$'000
At 1 January	38,086	16,783
Exchange adjustment	539	(1,045)
Acquisition of a subsidiary (note 42(b))	–	17
Credited to consolidated profit and loss account (note c)	4,271	22,331
At 31 December	42,896	38,086
Amount to be recovered after more than one year	5,220	4,443

(b) Deferred tax liabilities

	Group 2006 HK$'000	Group 2005 HK$'000
At 1 January	9,720	13,318
Exchange adjustment	207	1,234
Charged/(credited) to consolidated profit and loss account (note c)	1,690	(4,832)
At 31 December	11,617	9,720
Amount to be payable after more than one year	11,617	9,720

(c) Deferred taxation credited/(charged) to consolidated profit and loss account

	Group 2006 HK$'000	Group 2005 HK$'000
Deferred tax assets (note a)	4,271	22,331
Deferred tax liabilities (note b)	(1,690)	4,832
Deferred taxation credited to consolidated profit and loss account (note 10)	2,581	27,163

Notes to the Accounts

35 Deferred Taxation *(continued)*

(d) Movements in deferred tax assets and liabilities (prior to offsetting of balances within the same jurisdiction) during the year

Deferred tax assets

	Group					
	Tax losses		Others		Total	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
At 1 January	91	474	38,197	17,708	38,288	18,182
Exchange adjustment	–	(15)	539	(1,031)	539	(1,046)
Acquisition of a subsidiary	–	–	–	17	–	17
(Charged)/credited to consolidated profit and loss account	–	(368)	4,271	21,503	4,271	21,135
At 31 December	91	91	43,007	38,197	43,098	38,288

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses as at 31 December 2006 of HK$3,004,431,000 (2005: HK$2,920,032,000) to carry forward against future taxable income. Certain of the tax losses will expire in accordance with the prevailing tax laws and regulations in the countries in which the Group operates.

Deferred tax liabilities

	Group					
	Accelerated tax depreciation		Others		Total	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
At 1 January	41	41	9,881	14,676	9,922	14,717
Exchange adjustment	–	–	207	1,233	207	1,233
(Credited)/charged to consolidated profit and loss account	(41)	–	1,731	(6,028)	1,690	(6,028)
At 31 December	–	41	11,819	9,881	11,819	9,922

Deferred income tax liabilities as at 31 December 2006 of HK$206,814,000 (2005: HK$172,946,000) have not been established for the withholding and other taxation that would be payable on the undistributed earnings of certain subsidiaries since the Group has determined that the earnings of the subsidiaries will not be distributed in the foreseeable future. Such undistributed earnings as at 31 December 2006 totalled HK$1,034,068,000 (2005: HK$864,731,000).

Notes to the Accounts

35 Deferred Taxation *(continued)*

(e) Deferred income tax assets and liabilities are offset when there is a legally enforcement right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	42,896	38,086
Deferred tax liabilities	(11,617)	(9,720)
	31,279	28,366

36 Share Capital

Company – Authorised

	Ordinary shares of HK$0.1 each	
	No. of shares	HK$'000
At 31 December 2006 and 2005	5,000,000,000	500,000

Company – Issued and fully paid

	Ordinary shares of HK$0.1 each	
	No. of shares	HK$'000
At 1 January 2005	3,889,997,150	389,001
Issuance of shares	3,273,408	327
At 31 December 2005	3,893,270,558	389,328
At 1 January 2006 and 31 December 2006	3,893,270,558	389,328

Notes to the Accounts

37 Share Option Schemes

(a) Details of share options granted by the Company

Pursuant to the written resolutions of the shareholders of the Company dated 11 February 2000, two share option schemes namely, the Pre-IPO Share Option Plan and the Old Option Scheme were adopted by the Company.

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23 July 2004, the Company adopted a New Option Scheme and terminated the Old Option Scheme due to the withdrawal of the listing of the shares of the Company on GEM and commencement of dealings of the shares of the Company on the Main Board. The adoption of the New Option Scheme and the termination of the Old Option Scheme took effect from 4 August 2004 (listing date of the shares of the Company on the Main Board).

Pursuant to the Pre-IPO Share Option Plan, the Company may grant options to any full-time employees of the Company or of its subsidiaries or of HWL or any subsidiary of HWL to subscribe for shares of the Company. However, save for the options which have been granted on 11 February 2000, no further options may be granted upon the listing of the shares of the Company on the GEM of the Stock Exchange on 1 March 2000. The exercise price per share under the Pre-IPO Share Option Plan is HK$1.78 and the options vested in three tranches in the proportion of 20%:30%:50% on 11 February 2001, 2002 and 2003, respectively.

Pursuant to the Old Option Scheme and the New Option Scheme, the Board may, at its discretion, invite any participant (including any employee and director of the Group and of any company in which the Group owns or controls 20% or more of its voting rights and/or issued share capital, business associate and trustee) to take up options to subscribe for shares in the Company. The options granted under the Old Option Scheme can be exercised at prices ranging from HK$2.505 to HK$11.3 per share at any time within the option period of ten years from the respective dates of grant, provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period unless they are cancelled. No option has been granted pursuant to the New Option Scheme since its adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and any other share option schemes of the Company shall not exceed 388,941,336 shares, being 10% of the issued share capital of the Company at the date of approval of the New Option Scheme.

37 Share Option Schemes *(continued)*

(a) Details of share options granted by the Company *(continued)*

Movements in share options are as follows:

Pre-IPO Share Option Plan	2006 Weighted average exercise price HK$	2006 Number of share options	2005 Weighted average exercise price HK$	2005 Number of share options
Outstanding at 1 January and 31 December	1.78	16,196,000	1.78	16,196,000
Exercisable at 31 December	1.78	16,196,000	1.78	16,196,000

Old Option Scheme	2006 Weighted average exercise price HK$	2006 Number of share options	2005 Weighted average exercise price HK$	2005 Number of share options
Outstanding at 1 January	3.30	164,682,000	3.37	182,757,000
Lapsed	2.54	(10,118,000)	6.65	(438,000)
Cancelled	4.42	(3,916,000)	4.00	(17,637,000)
Outstanding at 31 December	3.32	150,648,000	3.30	164,682,000
Exercisable at 31 December	3.34	145,648,000	3.39	135,456,000

Terms of the share options outstanding at 31 December 2006 are:

Expiry date	Exercise price per share	Number of share options 2006	Number of share options 2005
10 February – 14 November 2010	HK$1.78 – HK$11.30	46,880,000	49,378,000
6 February 2012	HK$3.76	20,000,000	20,000,000
8 October 2013	HK$2.505	89,964,000	101,500,000
15 February 2014	HK$2.55	10,000,000	10,000,000
		166,844,000	180,878,000
Weighted average remaining contractual life (year)		5.68	6.72

Notes to the Accounts

37 Share Option Schemes *(continued)*

(b) Details of TOMO's Pre-IPO Share Option Plan and Share Option Scheme

Pursuant to a written resolution of the then sole shareholder of TOMO passed on 12 February 2004, a Pre-IPO Share Option Plan and Share Option Scheme were adopted by TOMO.

Pursuant to the Pre-IPO Share Option Plan and the Share Option Scheme, the Board of TOMO may grant share options to any part-time or full-time employees or directors (including any executive director and independent non-executive director) of TOM Group Limited and/or any company in TOMO Group, and any advisor or consultant to TOMO Group. However, save for the options which have been granted on 16 February 2004, no further options may be granted upon the listing of the shares of TOMO on the GEM on 11 March 2004. The exercise price per share under the Pre-IPO Share Option Plan is HK$1.50. The options granted to a grantee will vest in 5 tranches in the proportion of 10%: 15%: 20%: 25%: 30%. The first, second, third and fourth tranches of the options vested on 12 April 2004, 16 February 2005, 16 February 2006 and 16 February 2007 respectively. The fifth tranch of the options will vest on 16 February 2008. The options granted to a grantee will vest in 4 tranches in the proportion of 15%: 25%: 30%: 30%. The first, second and third tranches of the options have vested on 16 February 2005, 16 February 2006 and 16 February 2007 respectively. The fourth tranches of the options will vest on 16 February 2008. For certain grantees, the options vested in 4 tranches in the proportion of 10%: 30%: 30%: 30% on 12 April 2004, 16 February 2005, 16 February 2006 and 16 February 2007 respectively. For certain grantees, the options vested on (i) 12 April 2004 or (ii) 12 April 2004 and 16 February 2005.

Options to subscribe for 18,000,000 shares of TOMO were granted to a grantee under the Share Option Scheme in 2005. The options vested/will vest in 4 tranches in the proportion of 15%:25%:30%:30% on 11 May 2006, 1 May 2007, 11 May 2008 and 11 May 2009 respectively and the exercise price per share is HK$1.204.

Movements in share options are as follows:

	2006		2005	
Pre-IPO Share Option Plan	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$	Number of share options
Outstanding at 1 January	1.50	220,457,181	1.50	262,425,040
Exercised	1.50	(35,122,423)	1.50	(24,176,602)
Lapsed	1.50	(4,087,527)	1.50	(17,791,257)
Outstanding at 31 December	1.50	181,247,231	1.50	220,457,181
Exercisable at 31 December	1.50	69,555,689	1.50	51,502,969

Notes to the Accounts

37 Share Option Schemes *(continued)*

(b) Details of TOMO's Pre-IPO Share Option Plan and Share Option Scheme *(continued)*

Share Option Scheme	2006 Weighted average exercise price HK$	2006 Number of share options	2005 Weighted average exercise price HK$	2005 Number of share options
Outstanding at 1 January	1.204	18,000,000	–	–
Granted	–	–	1.204	18,000,000
Exercised	–	–	–	–
Outstanding at 31 December	1.204	18,000,000	1.204	18,000,000
Exercisable at 31 December	1.204	2,700,000	–	–

Certain share options under TOMO's Pre-IPO Share Option Plan were exercised during 2006. The weighted average closing market price of TOMO's shares immediately preceding the exercise of the options during this period was HK$2.26 per share.

Terms of the share options outstanding at 31 December 2006 are:

Expiry date	Exercise price per share	Number of share options 2006	Number of share options 2005
15 February 2014	HK$1.50	181,247,231	220,457,181
10 May 2015	HK$1.204	18,000,000	18,000,000
		199,247,231	238,457,181
Weighted average remaining contractual life (year)		7.24	8.22

Notes to the Accounts

37 Share Option Schemes *(continued)*

(c) Valuation of share options

Pursuant to the transitional provision of HKFRS 2, the fair value of services received from employees in return for share options granted after 7 November 2002 and not yet vested on 1 January 2005 are measured by reference to the fair value of share options granted. The amount is to be expensed in the consolidated profit and loss account over the vesting period of the share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Key assumptions at the dates of grant are as follow:

Risk-free interest rate (%)	:	2.07 to 4.22
Expected option life (years)	:	1 to 7.01
Expected dividend rate (%)	:	0
Expected volatility (%)	:	46 to 64
Weighted average fair value at grant date (HK$)	:	0.55 to 1.16

The expected volatility is based on the historical volatility. The expected option life used has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The total share-based compensation costs recognised during the year amounted to HK$25,474,000 (2005: HK$49,371,000).

Notes to the Accounts

38 Reserves

	Group								
	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Exchange difference HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005, as previously reported	3,621,591	(377)	776	80,067	(5,184)	(2,594)	–	(1,595,509)	2,098,770
Effects of adoption of HKFRS 2	–	59,680	–	–	–	–	–	(59,680)	–
Effect of adoption of HKAS 32 and 39	–	–	–	–	(254)	–	179,036	(33,536)	145,246
At 1 January 2005, as restated	3,621,591	59,303	776	80,067	(5,438)	(2,594)	179,036	(1,688,725)	2,244,016
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	4,390	–	–	–	–	–	–	–	4,390
Investment revaluation deficit	–	–	–	–	(44,788)	–	–	–	(44,788)
Employee share option schemes – value of employee services	–	37,264	–	–	–	–	–	–	37,264
Profit for the year	–	–	–	–	–	–	–	259,526	259,526
Net actuarial gain on defined benefit plan	–	–	–	–	–	–	–	4,172	4,172
Partial redemption of Convertible Bonds	–	–	–	–	–	–	(4,709)	–	(4,709)
Transfer to general reserve	–	–	–	20,028	–	–	–	(20,028)	–
Exchange difference	–	–	–	(256)	31	7,056	–	–	6,831
At 31 December 2005	3,625,981	96,567	776	99,839	(50,195)	4,462	174,327	(1,445,055)	2,506,702
At 1 January 2006	3,625,981	96,567	776	99,839	(50,195)	4,462	174,327	(1,445,055)	2,506,702
Investment revaluation surplus	–	–	–	–	6,029	–	–	–	6,029
Employee share option schemes – value of employee services	–	17,757	–	–	–	–	–	–	17,757
Profit for the year	–	–	–	–	–	–	–	31,961	31,961
Net actuarial gain on defined benefit plan	–	–	–	–	–	–	–	(5,366)	(5,366)
Partial buy-back and redemption of Convertible Bonds	–	–	–	–	–	–	(143,448)	50,617	(92,831)
Transfer to general reserve	–	–	–	11,167	–	–	–	(11,167)	–
Exchange difference	–	–	–	279	176	79,615	–	–	80,070
Reserve realised upon disposal	–	–	–	–	167	–	–	–	167
Contribution from a minority shareholder	–	184	–	–	–	–	–	–	184
At 31 December 2006	3,625,981	114,508	776	111,285	(43,823)	84,077	30,879	(1,379,010)	2,544,673

Notes to the Accounts

38 Reserves *(continued)*

	Company					
	Share premium account HK$'000	Capital reserve HK$'000	Contribution surplus HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005, as previously reported	4,096,085	–	23,565	776	(2,246,876)	1,873,550
Effects of adoption of HKFRS 2	–	23,944	–	–	–	23,944
At 1 January 2005, as restated	4,096,085	23,944	23,565	776	(2,246,876)	1,897,494
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	4,390	–	–	–	–	4,390
Employee share option schemes – value of employee services	–	11,000	–	–	–	11,000
Loss for the year	–	–	–	–	(5,787)	(5,787)
At 31 December 2005	4,100,475	34,944	23,565	776	(2,252,663)	1,907,097
At 1 January 2006	4,100,475	34,944	23,565	776	(2,252,663)	1,907,097
Employee share option schemes – value of employee services	–	2,916	–	–	–	2,916
Loss for the year	–	–	–	–	(285,992)	(285,992)
At 31 December 2006	4,100,475	37,860	23,565	776	(2,538,655)	1,624,021

Note: The Company's reserves available for distribution calculated under Companies Law of the Cayman Islands comprise the share premium account and contributed surplus, less accumulated losses totalling HK$1,585,385,000 (2005: HK$1,871,377,000).

39 Own Shares Held

	No. of shares	HK$'000
At 1 January 2005	2,928,564	6,085
Buy back of shares	115,207	159
At 31 December 2005	3,043,771	6,244
At 1 January 2006 and 31 December 2006	3,043,771	6,244

Notes to the Accounts

40 Minority Interests

	2006 HK$'000	2005 HK$'000
At 1 January	1,017,497	709,655
Profit for the year attributable to minority interests	87,654	91,772
Exchange difference	45,082	1,611
Revaluation surplus/(deficit) on available-for-sale financial assets	1,264	(6,625)
Actuarial (loss)/gain on defined benefit plan	(1,125)	1,032
Recognised income and expense attributable to minority interests	132,875	87,790
Acquisition of interests in subsidiaries (note 42(b))	10,560	(15,894)
Dividends paid by subsidiaries to minority interests	(31,425)	(25,433)
Exercise of share option of a subsidiary granted to employees	32,990	23,768
Reclassified from loans from a minority shareholder (note42(e))	15,967	–
Deemed disposal of interests in subsidiaries (note 42(c))	177,198	224,159
Disposal of a subsidiary/interests in subsidiaries (note 42(d))	31,188	1,345
Employee share option scheme-value of employee services attributable to minority interests	7,717	12,107
Other reserves shared by minority interests	(546)	–
	243,649	220,052
At 31 December	1,394,021	1,017,497

41 Business Combinations

Summaries of major business combinations of the Group during the year are as follows:

(a) Acquisition of Beijing Huanjian Shu Meng Network Technology Limited ("Huanjian")

On 4 January 2006, the Group, through a non wholly-owned subsidiary, entered into a sale and purchase agreement with the shareholders of Huanjian to acquire 75% equity interest in Huanjian for an aggregate amount of RMB22,000,000 (approximately HK$21,274,000), of which RMB10,000,000 (approximately HK$9,600,000) was injected as additional paid-in capital. Huanjian operates a Chinese Internet website, www.hjsm.net, which provides original Chinese novels. In addition, the Group has the option to acquire the remaining 25% shareholding at US$2,400,000 (equivalent to HK$18,700,000) within 2 years from the execution date of the sale and purchase agreement.

Notes to the Accounts

41 Business Combinations *(continued)*

(a) Acquisition of Beijing Huanjian Shu Meng Network Technology Limited ("Huanjian") *(continued)*

The allocation of the costs of acquisition is as follows:

	HK$'000
Cash and bank balances	9,881
Other current assets	107
Fixed assets, net	50
Other intangible assets	4,272
Current liabilities	(303)
Minority interests	(3,502)
	10,505
Costs of acquisition	
Purchase consideration	21,274
Other directly attributable costs	127
	21,401
Goodwill	10,896

Other than the other intangible assets recognised upon acquisition, the acquiree's book values of net assets acquired at the date of acquisition approximate their fair values as disclosed above.

The goodwill is attributable to the future profitability of Huanjian and the significant synergies expected to arise after the Group's acquisition.

The Group's share of net assets as at 31 December 2006 and the share of the post acquisition loss for the year then ended arising from this acquisition amounted to HK$6,414,000 and HK$566,000 respectively. The contribution of turnover and net profit to the Group by Huanjian for the period from 1 January 2006 to 3 January 2006, assuming it was acquired by the Group on 1 January 2006, is not material to the Group.

(b) Acquisition of Gainfirst Asia Group

On 1 June 2006, the Group completed the acquisition of the 100% beneficial interest in Beijing Bo Xun Rong Tong Information Technology Company Limited ("Beijing Infomax") through the acquisition of the entire share capital of Gainfirst Asia Limited ("Gainfirst Asia" or collectively referred to as the "Gainfirst Asia Group"). Beijing Infomax is primarily engaged in the provision of wireless internet services in Mainland China. The acquisition helps the Group to grow its wireless internet services business in Mainland China. The initial consideration was RMB150,000,000 (equivalent to approximately HK$146,250,000) and the total purchase consideration was and will be contingent on the 2006 and 2007 audited consolidated net profit of Gainfirst Asia Group and subject to the maximum consideration of RMB600,000,000 (approximately HK$600,000,000). As at 31 December 2006, the earn-out consideration in relation to the 2006 audited consolidated net profit was estimated with reliability at the amount of RMB94,000,000 (approximately HK$93,549,000). The contingent consideration in relation to the 2007 audited consolidated net profit is disclosed as a capital commitment in note 45(c).

41 Business Combinations *(continued)*

(b) Acquisition of Gainfirst Asia Group *(continued)*

The allocation of costs of acquisition is as follows:

	HK$'000
Net assets acquired at fair value	
Fixed assets	1,033
Other intangible assets	16,739
Trade and other receivables	13,664
Bank balances and cash	18,019
Trade and other payables	(20,927)
Taxation payables	(186)
	28,342
Cost of acquisition	
Initial consideration	146,250
Earn-out consideration	93,549
Other directly attributable costs	874
	240,673
Goodwill	212,331

Other than the other intangible assets recognised upon acquisition, the acquiree's book values of net assets acquired at the date of acquisition approximate their fair values as disclosed above.

The goodwill is attributable to the future profitability of Gainfirst Asia Group and significant synergies expected to arise after the Group's acquisition.

The Group's share of net assets as at 31 December 2006 and the share of the post acquisition profit for the year then ended arising from this acquisition amounted to HK$61,964,000 and HK$42,023,000 respectively. The unaudited pro forma consolidated turnover and profit after taxation assuming the acquisition of Gainfirst Asia Group occurred on 1 January 2006 for the year ended 31 December 2006 were HK$2,934,540,000 and HK$133,720,000 respectively. These pro forma results have been prepared for information purposes only and do not purport to be indicative of the operating results that would have been had the acquisitions actually took place on 1 January 2006 and may not be indicative of future operating results.

Notes to the Accounts

41 Business Combinations *(continued)*

(c) Acquisition of Shenzhen TOM Ray Advertising Company Limited ("SZ Ray") and Shanghai TOM Haosheng Advertising Company Limited ("SHHS")

On 1 October 2006 and 1 November 2006, the Group, through a non wholly-owned subsidiary, TOM International Outdoor Advertising Company Limited, acquired equity interest of 51% in both SZ Ray and SHHS. Both SZ Ray and SHHS are engaged in the outdoor media advertising business.

The Group believes that the acquisitions will help the Group expand its advertising market in prime locations in Mainland China.

The allocation of the costs of acquisitions is as follows:

	HK$'000
Net assets acquired at fair value	
Fixed assets	4,452
Other intangible assets	5,941
Bank balances and cash	8,690
Trade and other payables	(13,440)
Minority interests	(2,911)
	2,732
Cost of acquisitions	
Purchase consideration	12,395
Consideration payables	4,305
	16,700
Goodwill	13,968

Other than the other intangible assets recognised upon acquisition, the acquirees' book values of net assets acquired at the date of acquisition ap proximate their fair values as disclosed above.

The goodwill is attributable to the future profitability of SZ Ray and SHHS and the significant synergies expected to arise after the Group's acquisition.

As both SZ Ray and SHHS are newly formed companies and therefore no pro forma financial contribution to the Group by these companies assuming the acquisition took place on 1 January 2006 is presented.

The Group's share of net assets as at 31 December 2006 and the share of the post acquisition profit for the year then ended arising from these acquisitions amounted to HK$2,818,000 and HK$827,000 respectively.

Notes to the Accounts

41 Business Combinations *(continued)*

(d) Acquisition of Chi Chi Dei Entertainment Limited ("CCD")

On 18 December 2006, the Group acquired 60% equity interest in CCD through a wholly-owned subsidiary at a total cash consideration of approximately US$1,286,000 (equivalent to HK$10,028,000). CCD is a newly formed cutting edge production studio aims at the growing Asian market.

The Group believes that CCD will contribute its creativity and production capability to other corporate marketing projects of the Group.

The allocation of the costs of acquisition is as follows:

	HK$'000
Net assets acquired at fair value	
Bank balances and cash	11,666
Minority interests	(4,667)
	6,999
Cost of acquisition	
Purchase consideration	10,028
Other directly attributable costs	358
	10,386
Goodwill	3,387

The acquiree's book values of net assets acquired at the date of acquisition approximate their fair values as disclosed above.

The goodwill is attributable to the expertise contributed by the management of CCD in relation to program production and distribution, future profitability of CCD and the significant synergies expected to arise after the Group's acquisition.

As CCD is a newly formed company and therefore no pro forma financial contribution to the Group by this company assuming the acquisition took place on 1 January 2006 is presented.

The Group's share of net assets as at 31 December 2006 and the share of the post acquisition loss for the year then ended arising from this acquisition amounted to HK$6,830,000 and HK$281,000 respectively.

Notes to the Accounts

42 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operations

	2006 HK$'000	2005 HK$'000
Operating profit	297,690	495,449
Net gain on deemed disposals of interests in subsidiaries	(24,601)	(160,335)
Gain on partial disposal of an associated company	–	(12,336)
Provision for receivables, net	–	7,271
Amortisation and depreciation	168,484	155,561
Share of losses of jointly controlled entities	758	138
Share of profits less losses of associated companies	(8,977)	(21,229)
Provision for impairment of assets held for sale	36,044	–
Provision for impairment of goodwill	11,000	–
Loss on disposal of fixed assets	5,407	7,185
Loss on disposal of non-current assets	–	1,793
Gain on early redemption and buy-back of convertible bonds	(20,669)	(2,852)
Share-based compensation	25,474	49,371
Gain on exercise of share options of TOMO	(19,694)	(14,177)
Gain on disposal of a subsidiary/interest in subsidiaries (note 42(d))	(14,698)	(6,180)
Gain on disposal of available-for-sale financial assets	(90)	(6,233)
Interest income	(109,405)	(88,088)
Adjusted operating profit before working capital changes	346,723	405,338
Decrease in long-term other receivables	39,756	31,752
Increase in pension assets	(570)	(33)
(Increase)/decrease in inventories	(13,130)	5,481
Decrease/(increase) in trade and other receivables	161,085	(295,495)
Increase in trade and other payables	28,534	160,597
Decrease in long-term payables	–	(46,800)
Increase in pension obligations	2,625	843
Exchange adjustments	57,696	(10,251)
Net cash inflow from operations	622,719	251,432

Notes to the Accounts

42 Notes to the Consolidated Cash Flow Statement *(continued)*

(b) Acquisition of interests in subsidiaries

	2006 HK$'000	2005 HK$'000
Net assets acquired:		
Fixed assets (note 16)	5,534	703
Other intangible assets (note 18)	26,952	6,021
Deferred tax asset (note 35(a))	–	17
Trade and other receivables	13,781	21,047
Bank balances and cash	48,256	2,442
Trade and other payables	(34,675)	(6,934)
Taxation payables	(186)	(2,122)
Consideration payable	–	7,800
Minority interests (note 40)	(10,560)	15,894
Own share held	–	159
	49,102	45,027
Goodwill (note 17)	242,963	126,732
	292,065	171,759
Satisfied by:		
Cash	191,881	167,108
Consideration of disposal of subsidiaries (note 42(d))	–	1,651
Consideration payables	97,854	–
Other receivables	1,515	–
Direct costs incurred	815	3,000
	292,065	171,759
Analysis of the net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration	(191,881)	(167,108)
Bank balances and cash acquired	48,256	2,442
Net cash outflow in respect of acquisition of interests in subsidiaries	(143,625)	(164,666)

The subsidiaries acquired during the year contributed HK$44,501,000 (2005: HK$6,410,000) to the Group's net operating cash flows.

Notes to the Accounts

42 Notes to the Consolidated Cash Flow Statement *(continued)*

(c) Deemed disposal of interests in subsidiaries

	2006 HK$'000	2005 HK$'000
Decrease in goodwill (note 17)	–	(16,585)
Decrease in other intangible assets (note 18)	–	(860)
Increase in bank balances and cash	202,800	31,072
Increase in trade and other payables	(1,001)	–
Decrease in consideration payables	–	370,867
Increase in minority interests (note 40)	(177,198)	(224,159)
Gain on deemed disposal of subsidiaries	24,601	160,335

(d) Disposal of a subsidiary/interests in subsidiaries

	2006 HK$'000	2005 HK$'000
Net assets disposed of:		
Fixed assets (note 16)	–	605
Goodwill (note 17)	27,493	5,143
Inventories	142	556
Trade and other receivables	12,925	26,112
Bank balances and cash	8,344	2,706
Trade and other payables	(78,506)	(18,844)
Consideration payables	–	(13,536)
Taxation payable	–	(8,383)
Minority interests (note 40)	31,188	1,345
	1,586	(4,296)
Gain on disposal of a subsidiary/interests in subsidiaries (note 42(a))	14,698	6,180
	16,284	1,884
Satisfied by:		
Available-for-sale financial assets	16,284	–
As partial consideration of acquisition of interests in subsidiaries (note 42(b))	–	1,651
Cash	–	233
	16,284	1,884
Analysis of the net cash outflow in respect of the disposal of subsidiaries:		
Cash consideration	–	233
Bank balances and cash disposed of	(8,344)	(2,706)
Net cash outflow in respect of disposal of a subsidiary/interests in subsidiaries	(8,344)	(2,473)

Notes to the Accounts

42 Notes to the Consolidated Cash Flow Statement *(continued)*

(e) Analysis of changes in financing during the year

	Share capital including premium and capital reserve HK$'000	Bank loans HK$'000	Convertible bonds HK$'000	Loans from a minority shareholder HK$'000	Total HK$'000
At 1 January 2005, as previously reported	4,004,130	1,192,553	1,179,785	–	6,376,468
Effect of adoption of HKFRS 2	59,680	–	–	–	59,680
Effect of adoption of HKAS 32	–	–	(166,513)	–	(166,513)
At 1 January 2005, as restated	4,063,810	1,192,553	1,013,272	–	6,269,635
New bank and other loans	–	512,123	–	9,946	522,069
Loan repayments	–	(41,469)	–	–	(41,469)
Net cash from financing activities	–	470,654	–	9,946	480,600
Shares issued for acquisition of interests in subsidiaries	4,717	–	–	–	4,717
Buy-back of convertible bonds	–	–	(27,432)	–	(27,432)
Employees share option schemes – value of employee services	37,264	–	–	–	37,264
Interest expenses for the year, net of interest payment	–	–	46,963	–	46,963
Increase of own shares held	(159)	–	–	–	(159)
Exchange adjustment	–	(10,579)	–	–	(10,579)
	41,822	(10,579)	19,531	–	50,774
At 31 December 2005	4,105,632	1,652,628	1,032,803	9,946	6,801,009

Notes to the Accounts

42 Notes to the Consolidated Cash Flow Statement *(continued)*

(e) Analysis of changes in financing during the year *(continued)*

	Share capital including premium and capital reserve HK$'000	Bank loans HK$'000	Convertible bonds HK$'000	Loans from a minority shareholder HK$'000	Total HK$'000
At 1 January 2006	4,105,632	1,652,628	1,032,803	9,946	6,801,009
New bank and other loans	–	1,431,211	–	–	1,431,211
New contribution	–	–	–	6,021	6,021
Loan repayments	–	(379,022)	–	–	(379,022)
Net cash from financing activities	–	1,052,189	–	6,021	1,058,210
Buy-back and early redemption of convertible bonds	–	–	(886,840)	–	(886,840)
Employees share option schemes – value of employee services	17,757	–	–	–	17,757
Interest expenses for the year, net of interest payment	–	–	45,060	–	45,060
Minority interests in other reserves	184	–	–	–	184
Reclassification to minority interests (note 40)	–	–	–	(15,967)	(15,967)
Exchange adjustment	–	21,974	–	–	21,974
	17,941	21,974	(841,780)	(15,967)	(817,832)
At 31 December 2006	4,123,573	2,726,791	191,023	–	7,041,387

43 Pledge of Assets

Save as disclosed in note 27, the Group has the following pledge of assets:

(a) At 31 December 2006, available-for-sale financial assets with a total market value of approximately HK$1,758,646,000 (2005: HK$1,378,943,000) were pledged to banks for securing bank loans totalling HK$1,628,071,000 (2005: HK$1,287,576,000).

(b) At 31 December 2006, concession rights and properties with a total net book value of HK$7,588,000 (2005: HK$4,916,000) and HK$11,003,000 (2005: HK$11,174,000), respectively were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company.

Notes to the Accounts

44 Contingent Liabilities

(a) As at 31 December 2006, the Group has contingent liabilities amounting to approximately HK$14,043,000 in respect of the provision of fixed deposits as securities for bank loans granted to an associated company. As at 31 December 2005, the Group had no such contingent liabilities.

(b) Save as disclosed in note 33, the Company did not have any contingent liability at 31 December 2006 and 2005.

45 Commitments

(a) Capital commitments

Save as disclosed in note (b) and (c) below, the Group has the following capital commitments as at 31 December 2006:

	Group	
	2006 HK$'000	2005 HK$'000
Acquisition of/loans to new investments		
– Contracted but not provided for	20,814	22,266
Acquisition of fixed assets and other intangible assets		
– Contracted but not provided for	1,196	21,941
– Authorised but not contracted for	295,892	319,178
	317,902	363,385

(b) Joint venture ("Joint Venture") with Ebay International AG ("eBay")

On 20 December 2006, TOMO entered into a deed with an independent third party, eBay, to form the Joint Venture which will carry on the business of owning and operating a mobile and Internet-based marketplace in Mainland China. The Joint Venture will be jointly controlled and 51% owned by TOMO while the remaining 49% interest will be owned by eBay, and is to be jointly controlled by both parties.

The Group believes that the Joint Venture will enable the Group to enlarge its wireless market share and increase its revenues from wireless Internet service.

Following the formation of the Joint Venture, eBay will provide an initial funding of US$40,000,000 (equivalent to HK$312,000,000) in cash to the Joint Venture while TOMO will provide an initial shareholder's loan of US$20,000,000 (equivalent to HK$156,000,000) to the Joint Venture. TOMO and eBay will contribute an additional shareholder's loan not exceeding US$10,000,000 to the Joint Venture in total in equal proportion, subject to a mutual agreement between both parties once the Joint Venture uses up its initial funding from both parties.

In addition, eBay will inject its subsidiary engaging in the business of operating an online auction and marketplace site in Mainland China to the Joint Venture while the Group will contribute its expertise in the Internet and mobile industries in Mainland China and its leadership and management services to the Joint Venture. The Group will account for this Joint Venture using the equity method.

Notes to the Accounts

45 Commitments *(continued)*

(b) Joint venture ("Joint Venture") with Ebay International AG ("eBay") *(continued)*

As at 31 December 2006, the commitment of the Group in respect of this joint venture included equity contribution of US$51,000 (equivalent to HK$398,000) and shareholder's loan totalled US$20,000,000 (equivalent to HK$156,000,000).

(c) Commitment in respect of the acquisition of the Gainfirst Asia Group

As at 31 December 2006, the Group had outstanding capital commitment in respect of the acquisition of the 100% beneficial interest in Gainfirst Asia Group (note 41(b)). According to the sale and purchase agreement, the maximum consideration in respect of the acquisition amounted to RMB600,000,000 (equivalent to approximately HK$600,000,000) and the total consideration will be determined in the following manners and fully payable in cash:

(i) an initial consideration, amounting to RMB150,000,000 (equivalent to approximately HK$146,250,000);

(ii) second consideration, amounting to approximately RMB94,000,000 (equivalent to approximately HK$93,549,000), that is equal to 3.5 times of the 2006 adjusted audited combined after-tax profit ("2006 earn-out consideration") minus the initial consideration; and

(iii) final consideration that is an amount equal to 3 times (if the 2007 adjusted audited combined after-tax profit is less than RMB65,000,000) or 4 times (if the 2007 adjusted audited combined after-tax profit is equal to or more than RMB65,000,000) of the 2007 adjusted audited combined after-tax profit plus adjusted 2006 earn-out consideration minus consideration previously paid.

The considerations mentioned in (i) and (ii) have been paid by the Group as at 31 December 2006. The Group's total maximum outstanding commitment in relation to the acquisition amounted to approximately RMB356,000,000 (equivalent to approximately HK$354,336,000) as at 31 December 2006.

(d) Commitments under operating leases

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006		2005	
	Land and buildings HK$'000	Other assets HK$'000	Land and buildings HK$'000	Other assets HK$'000
Not later than one year	29,911	93,345	24,993	66,848
Later than one year and not later than five years	25,136	154,416	22,001	148,441
Later than five years	–	11,928	–	15,860
	55,047	259,689	46,994	231,149

(e) The Company did not have any commitments at 31 December 2006 (2005: HK$Nil).

Notes to the Accounts

46 Related Party Transactions

A summary of other significant related party transactions, in addition to those disclosed in notes 26, 27 and 29 to the accounts, is set out below:

(a) Sales of goods and services and licence income

	Group	
	2006 HK$'000	2005 HK$'000
Sales to		
– HWL and its subsidiaries	9,277	8,086
– CKH and its subsidiaries	212	663
– a jointly controlled entity	–	2,485
Licence fee income from		
– an associated company	9,360	–

Year-end balances due from these related companies arising from sales of goods and services and licence income are shown in note 26(b) and 26(c).

(b) Purchase of goods and services

	Group	
	2006 HK$'000	2005 HK$'000
Cost of sales payable to		
– minority shareholders of subsidiaries and their subsidiaries	526	33,530
– related companies of minority shareholders of subsidiaries	434	2,265
Office and warehouse rental payable to		
– an associated company of CKH	11,011	9,996
– a subsidiary of CKH	4,140	4,140
– minority shareholders of subsidiaries and their subsidiaries	1,284	1,418
Service fees payable to		
– HWL and its subsidiaries	10,868	11,295
– minority shareholders of subsidiaries and their subsidiaries	134	7,024
Interest expenses payable to minority shareholders of subsidiaries and their subsidiaries	1,097	89

Year-end balances due to these related companies arising from purchase of goods and services are shown in notes 29(b) and 29(c).

(c) Key management compensation

Management considers remuneration to all key management of the Group has already been disclosed in note 15.

Notes to the Accounts

47 Subsequent events

(a) In connection with the deed entered into between the Group and eBay on 20 December 2006 as mentioned in note 45(b) above, the Joint Venture has been formed on 1 February 2007.

(b) On 14 February 2007, the Group, through a 82.5% owned subsidiary, Cite Publishing Limited, entered into a Sale and Purchase Agreement with the shareholders of Pixnet Digital Media Corporation ("Pixnet") for the acquisition of 90% equity interests in Pixnet at a total consideration of NT$135 million (approximately HK$32,265,000), of which NT$35 million (approximately HK$8,365,000) is for the acquisition of existing shares of Pixnet from the existing shareholders, and NT$100 million (approximately HK$23,900,000) is to be injected into Pixnet for subscription of new Pixnet shares. Pixnet is principally engaged in the operation of popular online community and social networking websites in Taiwan. Up to the date of these accounts, cash totalling NT$20 million (approximately HK$4,780,000) has been paid by the Group. Management is in the process of assessing the fair value of the identifiable assets and liabilities of Pixnet, and the corresponding goodwill in relation to this acquisition.

(c) On 9 March 2007, the Company and TOMO made a joint announcement regarding a proposed conditional possible privatisation of TOMO by the Company by way of a scheme of arrangement (the "Proposed Privatisation Plan"). Pursuant to the Proposed Privatisation Plan, the Company intends to propose that the issued shares of TOMO held by parties other than the Company, Cranwood, Handel International Limited ("Handel"), Schumann International Limited ("Schumann") and Devine Gem Management Limited ("Devine Gem") are to be cancelled in exchange for HK$1.52 per share in cash payable by the Company. Upon completion of the cancellation, TOMO will apply for the withdrawal of the listing of its shares.

The estimated amount of cash to be paid by the Company for the Proposed Privatisation Plan ranges from HK$1,571 million to HK$1,771 million, depending on the number of outstanding share options that may be exercised prior to the completion of the Proposed Privatisation Plan.

The execution and completion of the Proposed Privatisation Plan is conditional and subject to, among others, the approval by the independent shareholders of the Company, and the approval by the shareholders of TOMO other than the Company, Cranwood, Handel, Schumann and Devine Gem.

(d) On 18 March 2007, the Group entered into a series of agreements with a buyer with respect to the proposed disposal of the Group's 49% equity interest in Beijing China Open Promotion Company Limited ("COL"), and 100% equity interests in Champion Will International Limited ("Champion Will") and Swidon Enterprises Limited ("Swidon") for a total consideration of USD15.5 million (approximately HK$121 million). COL is mainly engaged in the organisation of the China Open tennis tournament in Beijing, while Champion Will and Swidon are the holders of the ATP and WTA licences, respectively. This disposal is conditional and subject to, among others, the approval of the relevant authorities.

48 Approval of accounts

The accounts were approved by the board of directors on 20 March 2007.