Management Discussion and Analysis

OPERATING REVIEW AND PROSPECTS

Overall Performance

The Group recorded an audited consolidated loss after income tax and dividends on preference shares for the year ended 31 December 2006 of HK$631.9 million (2005: HK$39.7 million). The substantial loss was mainly due to the write-off of the priority supply rights of six million set top boxes ("STBs") of HK$491.5 million and the amortisation of the priority supply rights of HK$195.2 million. If these two items were excluded, the Group would have recorded an audited consolidated profit after income tax and dividends on preference shares of HK$54.8 million.

The Group's consolidated revenue for the year ended 31 December 2006 amounted to HK$972.5 million, representing an increase of 2.2 times as compared to that for the year ended 31 December 2005 of HK$304.6 million. The substantial increase in revenue in 2006 was mainly resulted from the increase in the sales of STBs and related products. The Group recorded a moderate improvement of gross profit margin from 24.5% in 2005 to 26.1% in 2006. As the operations of the Group expanded a lot in 2006, the marketing, selling and distribution costs and administrative expenses increased by 168% and 54% respectively as compared to 2005.

Digital broadcasting business

The revenue of the digital broadcasting business of the Group for the year increased by 234% to HK$955.1 million (2005: HK$286.4 million) while its segmental results for the year was significantly improved to a profit of HK$80.1 million from a loss of HK$30.5 million in 2005.

The significant improvement in the performance of the digital broadcasting business in 2006 was primarily due to the substantial increase in sales of STBs. During the year, the Group distributed approximately 2.5 million STBs (2005: 1.0 million), and the cumulative volume of STBs distributed since 2000 adds up to more than 4 million representing a one-third market share of the installed base of digital STBs in the PRC. The significant increase of revenue in 2006 was principally attributable to our successful "one-stop shopping" market strategy. We offer cable TV operators a "one-stop shopping" service providing a comprehensive integrated solution to enable them to migrate from analogue to digital cable TV. Our "one-stop shopping" incorporates services ranging from headend to terminal, hardware to software, and system integration to value added services. With our "one-stop shopping", network operators gain access to more competitive prices and better services, while we are able to achieve a cost reduction due to economies of scale. In Guangxi province, we delivered around 1.7 million STBs in 2006 as well as provided all system integration and software application services.

We also made good progress in research and development over the last year and have invested more resources into developing new products. As compared with the beginning of the year, we had 50 more R&D staff, most of whom are doctorate and masters degree holders. At the end of last year, there were over 200 staff engaging in research and development and technical support, making us the largest digital TV technology company in the

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PRC. In 2006, all the software developed by us were upgraded and a number of state of the art STBs were also launched, of which the first digital home media centre in the PRC has become the first digital home network product with Intel Viiv certification in the world, and was awarded the Best IP Set Top Box in the PRC. In addition, one of our wholly-owned subsidiaries was named as one of the Top Ten Innovative Broadcasting Enterprises in the PRC for 2006.

Provision of financial information

The revenue of the provision of financial information business of the Group for the year decreased by 4% to HK$17.5 million (2005: HK$18.2 million) while its segmental results reported a profit of HK$1.3 million (2005: HK$1.7 million) for the year.

The primary business of this business sector is the provision of online financial information through internet in Hong Kong and other parts of Asia. The operation of this business sector remained stable in 2006 as compared to 2005.

Employees

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. In January 2006, the Group granted 23,500,000 share options to its eligible employees under the share option scheme.

The total number of employees of the Group as at 31 December 2006 was 488 (2005: 362), out of which 416 (2005: 300) employees were stationed in Mainland China. The number of employees as at 31 December 2006 categorised according to their functions is as follows:

Sales and marketing	95
After-sales services	6
Production	21
Research and development	266
Accounting and finance	29
Administration and management	58
Others	13
	488

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In October 2006, CITIC Group became our largest shareholder. The importance of CITIC Group becoming our largest shareholder cannot be understated. CITIC Group is China's largest and most prestigious investment group reporting directly to the State Council. It has substantial investments in cable TV networks, in telecom and in broadband internet. Combining digital cable TV, telecom and broadband access will lead to true triple play convergence. CITIC Group is not only committed to expanding substantially its investments in cable TV but it also has designated us as its preferred technology partner as it integrates its digital cable TV, internet and telecommunication networks in the PRC. This will offer substantial scope for business development well beyond the priority supply rights for six million STBs that we have received from CITIC Group.

In the mobile phone industry, the transition from analogue to digital created a huge value added services industry that has grown rapidly and is likely to continue doing so with the introduction of new value added services, which recently has included the roll-out of mobile TV, notwithstanding the obvious limitations of the mobile phone platform for TV broadcasts. We expect the transition from analogue to digital in the cable TV industry will present even greater opportunities for value added services as the TV at home is the focus of family entertainment. Cable TV is a much more versatile platform than the mobile phone in every aspect save mobility and with a suitable STB the TV at home can be extended from being the passive receptor of broadcast TV programs to being an interactive centre for family entertainment, information, education, messaging, games, home shopping, and other services that subscribers will value and hence pay for.

Consequently, we shall invest significant manpower and capital resources on developing our value added services business which we expect will become a major source of recurring revenues in future years. We shall of course continue to develop our STBs business. In 2007, apart from conventional sales of STBs, we are introducing a STB "lease" option to selected cable TV operators where we provide STBs under extended payment terms which are linked to the increased monthly subscription fees that are charged for digital cable TV.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2006, the Group recorded total assets of HK$979.8 million (2005: HK$404.9 million) which were financed by liabilities of HK$255.0 million (2005: HK$231.3 million), minority interests of HK$117.8 million (2005: HK$117.8 million) and shareholders' equity of HK$607.0 million (2005: HK$55.8 million). The Group's net asset value per share as at 31 December 2006 amounted to HK$0.56 (2005: HK$0.10).

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Over the last year, we strengthened very substantially the Group's financial position. In July 2006, Motorola, Inc., a substantial shareholder, exercised the last two tranches of its subscription rights raising HK$133.4 million. In December 2006, we issued 118,000,000 new shares in a placement to institutional shareholders raising a further HK$312.4 million. As a result, the Group had a total cash and bank balance of HK$526.4 million (2005: HK$102.6 million) as at 31 December 2006 while its shareholders' funds at that date amounted to HK$607.0 million as compared to HK$55.8 million at the end of 2005. As part of the December placement and subsequent to approval of shareholders which was given after the year end, we issued a further 50 million new share raising HK$135.9 million. The Group did not have any material borrowings as at 31 December 2006 and has sufficient trading facilities available from its bankers for its daily operations.

Treasury Policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short to medium term deposits in light of the Group's funding requirements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong , most of the transactions are denominated in Hong Kong dollars and United States dollars. The exchange rate of United States dollars against Hong Kong dollars is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in Renminbi while only part of the purchases are denominated in Hong Kong dollars and United States dollars. Given the appreciation of Renminbi against Hong Kong dollars and United States dollars during the year under review, no financial instruments have been used for hedging purposes as it is expected that the appreciation of Renminbi would bring a favourable impact on the Group.

Material Acquisitions and Disposals of Subsidiaries and Associates

During the year ended 31 December 2006, the Group disposed of its equity interests in an associate, namely 無錫廣通數字移動電視有限公司.

Saved as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries and associates in 2006.

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Charges on Assets

As at 31 December 2006, the Group had bank deposits amounting to approximately HK$10 million pledged to banks as securities for general banking facilities.

Capital Commitments

The Group did not have any material capital expenditure commitments as at 31 December 2006 (2005: Nil).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2006 (2005: Nil).