Notes to Consolidated Financial Statements

1 GENERAL INFORMATION

DVN (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the design, development, integration and sales of digital set top boxes, digital broadcasting systems and the related software, and the provision of international financial market information and selective customer data.

The Company is a limited liability company incorporated in Bermuda. The address of its principal place of business is Rooms 1304-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

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

These consolidated financial statements are presented in Hong Kong dollars ("HKD") and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs 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 financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs

In 2006, the Group adopted the following new/revised HKFRSs for the first time for the current year's consolidated financial statements.

HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Amendments "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

The amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs (Continued)

(b) HKAS 39 Amendments "Financial Instruments: Recognition and Measurement" (Continued)

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through the income statement and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The Group has not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

The amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transaction, the amendment has had no effect on these financial statements.

(c) HKFRS – Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

Certain new standards, amendments and interpretations to the published standards are mandatory for accounting period beginning on or after 1 March 2006 or later periods. The Group is not required to adopt these new standards, amendments and interpretations in the financial statements for the year ended 31 December 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs (Continued)

New standards, amendments and interpretations effective for accounting periods beginning on or after 1 January 2007 or later periods are as follows:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 7	Applying the Reinstatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements

The Group has commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

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 (Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Associates and jointly controlled entity ("JCE")

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. JCE is a joint venture that involves the establishment of a cooperation, for which there is a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Investments in associates and JCE are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates and JCE include goodwill (net of any accumulated impairment losses) identified on acquisition (Note 2.6).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associates and jointly controlled entity ("JCE") (Continued)

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

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

In the Company's balance sheet, the investments in associates and JCE are stated at cost less provision for impairment losses (Note 2.7). The results of associates and JCE are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary 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 fair value reserve in equity.

(c) Group companies

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

Leasehold improvements	Over the terms of the lease
Furniture and fixtures	18% to 30%
Office equipment	18% to 25%
Network equipment and tooling	25% to 33.3%
Motor vehicles	18% to 33.3%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains or other operating expenses in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets

(a) *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/associate/JCE at the date of acquisition. Goodwill on acquisitions of subsidiaries and JCE is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. 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 amount of goodwill relating to the entity sold.

(b) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects are recognised as an intangible asset where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(c) *Film rights*

Expenditure incurred for the acquisition of film rights is capitalised. The film rights are included in intangible assets and are amortised either using the sum-of-digit method over the terms of the licensing period or on a straight-line basis over 20 years for perpetual film rights.

2.7 Impairment of assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date classified as non-current assets. Loans and receivables are included in prepayments, deposits and other receivables in the balance sheet (Note 2.10).

(b) 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 after the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the 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. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of unlisted securities are determined using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(b) *Available-for-sale financial assets (Continued)*

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 as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 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 and other 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 the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 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.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 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 securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.15 Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to the depreciable assets are presented as deferred income and are released to income statement over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, associates and JCE, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) *Pension obligations*

The Group participates in several defined contribution plans, under which the Group pays fixed contributions into separate entities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Share-based compensation*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits *(Continued)*

(c) Employee leave entitlement

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions and contingent liabilities

(a) Provisions

Provisions for legal claims 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the pre-tax expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Provisions and contingent liabilities *(Continued)*

(b) *Contingent liabilities*

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 Company. 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 financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Design, integration and installation of platform for digital broadcasting systems*

Revenue from the design, integration and installation of platforms for digital broadcasting systems is recognised upon the satisfactory completion of each installation and acceptance by the customers.

(b) *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownerships have been transferred to and goods are accepted by the customer and collectibility of the related receivables is reasonably assured.

(c) *Rendering of services*

Service fee income for provision of international financial market information and selective consumer data is recognised on a straight-line basis over the period of the service contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue recognition *(Continued)*

(d) Leasing income

Revenue from the leasing of digital broadcasting network equipment and technical know-how and related software is recognised on an agreed proportion of net subscription income received from ultimate customers of the lessee in accordance with the respective agreements.

(e) Licensing income

Licensing income is recognised when the licensees produce the licensed products in accordance with the corresponding licensing agreements.

(f) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount of the receivable to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.20 Leases

(a) Operating lease

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

(b) Finance lease

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

(a) *Market risk*

i. Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong and the major exchange rate risk arises from fluctuations in the United State dollars ("USD"), HKD and Renminbi ("RMB"). For majority of transactions conducted in Hong Kong, both sales and costs of sales are denominated in the same currency. For operations in Mainland China, all revenues are denominated in RMB, while part of the purchases are denominated in USD or HKD. Given the recently strong performance of RMB against USD and HKD, the directors expect that it would bring favourable impacts on the Group's future financial performance.

The Group's bank deposits are predominately denominated in USD, HKD and RMB. During the year, the Group did not have any borrowings and has not entered into any hedging arrangements relating to foreign currency exchange risk.

ii. Cash flow and fair value interest rate risk

The Group's interest-bearing assets comprise mainly interest-bearing short-term bank balances and deposits. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's trade receivables are mainly receivables from the PRC customers arising from sales of goods and design, integration and installation of platforms for digital broadcasting systems. According to industrial practice and past payment patterns, the settlements of such trade receivable balances are slow. In order to minimise the credit risk, the Group has policies in place to review the recoverability of trade receivable balances on an ongoing basis and assess the adequacy of provision for impairment.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit facilities available from various banks.

3.2 Fair value estimation

The fair value of available-for-sale financial assets and the priority supply rights 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 and at the date of transaction, respectively.

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

4 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 equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise. Such reversal would be recognised in the income statement.

4.2 Property, plant and equipment and depreciation

Property, plant and equipment used by the Group are long-lived. The annual depreciation charges are sensitive to the estimated useful lives the Group allocates to each type of fixed assets. Management performs annual reviews to assess the appropriateness of their estimated useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use in accordance with the accounting policy stated in Note 2.7. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.3 Trade receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on judgement of the management. 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. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment provision may be required.

4.4 Inventories

The Group estimates the provision for inventories based on the best available facts and circumstances, including but not limited to the inventories' own conditions, market selling prices, prospects of sale, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted periodically when additional information is available.

4.5 Financial instruments

With reference to HKAS 32 *"Financial Instruments: Disclosure and Presentation"* and 39 *"Financial Instruments: Recognition and Measurement"*, the Group makes estimates and assumptions in the classification, recognition and measurement of financial instruments, which requires significant judgement. In making this judgement, the Group prudently evaluates the contractual provisions of the instruments and the substance of the contractual arrangements.

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

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

5 SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) Digital broadcasting business ("DVB Business") – The design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software;

(ii) Other – Provision of international financial market information and selective consumer data ; and

(iii) Corporate – Corporate income and expenses.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the years ended 31 December 2006 and 2005 by business segment is as follows:

	DVB Business		Other		Corporate		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	955,071	286,375	17,469	18,243	–	–	–	–	972,540	304,618
Segment results	80,114	(30,482)	1,269	1,711	(706,477)	(4,609)	–	–	(625,094)	(33,380)
Finance costs							(56)	(137)	(56)	(137)
Share of loss of a JCE	(1)	(275)							(1)	(275)
Share of profits/(losses) of associates	579	(130)							579	(130)
Loss before income tax									(624,572)	(33,922)
Income tax expenses									(1,544)	–
Loss after income tax									(626,116)	(33,922)
Dividends on preference shares									(5,812)	(5,812)
Loss for the year									(631,928)	(39,734)

5 SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	DVB Business		Other		Corporate		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	535,775	382,933	5,131	6,509	433,307	2,374	–	–	974,213	391,816
Interest in a JCE	3,285	6,410	–	–	–	–	–	–	3,285	6,410
Interests in associates	2,291	6,682	–	–	–	–	–	–	2,291	6,682
Total assets	541,351	396,025	5,131	6,509	433,307	2,374	–	–	979,789	404,908
Segment liabilities	249,085	219,986	1,351	9,362	4,574	2,017	–	–	255,010	231,365
Capital expenditure	21,493	9,262	177	142	686,642	–	–	–	708,312	9,404
Depreciation	9,823	16,918	137	160	–	–	–	–	9,960	17,078
Amortisation	5,046	4,569	–	–	195,179	–	–	–	200,225	4,569

(b) Geographical segments

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the years ended 31 December 2006 and 2005 by geographical segment is as follows:

	Mainland China		Hong Kong		Other Southeast Asian countries		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue	923,550	247,282	43,150	50,236	5,840	7,100	972,540	304,618
Other segment information								
Segment assets	401,095	378,735	576,762	24,604	1,932	1,569	979,789	404,908
Capital expenditure	704,268	1,225	3,985	8,179	59	–	708,312	9,404

6 REVENUE

An analysis of revenue is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Revenue from sales of goods	**900,767**	252,594
Revenue from design, integration and installation of platforms for digital broadcasting systems	**25,583**	12,106
Revenue from provision of international financial market information and selective consumer data	**17,469**	18,243
Licensing income	**24,360**	16,951
Leasing income	**4,361**	4,724
	972,540	304,618

7 OTHER INCOME

	Group	
	2006	2005
	HK$'000	HK$'000
Interest income on bank deposits	**5,729**	1,449
Value-added tax refund	**11,917**	–
Gain on disposal of an associate	**124**	–
Government grants	**1,546**	–
Others	**1,645**	1,091
	20,961	2,540

8 EXPENSES BY NATURE

Expenses included in cost of sales, marketing, selling and distribution costs, administrative expenses and other operating expenses are analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Cost of inventories sold	**713,973**	226,304
Cost of provision of financial market information and consumer data	**4,559**	3,697
Depreciation	**9,960**	17,078
Auditors' remuneration		
Provision for the year	**1,800**	1,281
Under-provision for previous years	**325**	–
Employee benefit expenses (Note 9)	**59,280**	28,912
Operating lease rentals on land and buildings	**5,809**	4,474
Net exchange (gains)/losses	**(5,448)**	4
Other operating expenses including:		
Write-off of priority supply rights	**491,463**	–
Amortisation of priority supply rights	**195,179**	–
Amortisation of deferred development costs	**5,046**	4,569
Write-off of deferred development costs	**–**	1,112
Provision for impairment of property, plant and equipment	**5,621**	–
Provision for impairment of a JCE	**3,124**	–
Provision for inventories	**41,194**	7,254
Provision for impairment of deposits, trade and other receivables	**8,585**	15,365
Write-off of bad debts	**210**	–

9 EMPLOYEE BENEFIT EXPENSES

	Group	
	2006	2005
	HK$'000	HK$'000
Wages and salaries	**54,716**	37,322
Share options granted to directors and employees	**15,029**	1,333
Pension costs – defined contribution plans	**1,449**	747
Termination benefits	**3**	2
Unutilised annual leave	**859**	316
Long service payment	**614**	705
	72,670	40,425
Less: costs capitalised	**(13,390)**	(11,513)
	59,280	28,912

Forfeited contributions totalling HK$1,000 (2005: HK$2,000) were utilised during the year leaving none available at the end of the year (2005: None) to reduce future contributions.

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' emoluments

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

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000 Note (i)	Share-based payments HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Ko Chun Shun, Johnson	–	120	1,500	–	891	–	2,511
Mr Lui Pan, Terry	144	3,147	1,000	151	–	12	4,454
Mr Luo Ning	–	–	–	–	–	–	–
Mr Qui Yiyong	–	–	–	–	–	–	–
Mr Jin Wei	–	–	–	–	–	–	–
Mr Wang Daoyi	–	–	–	–	–	–	–
Mr Hu Qinggang	–	252	63	–	–	–	315
Ms Cheung Sum Yu, Fiona	–	–	–	–	–	–	–
Mr Shaw Sun Kan, Gordon	–	–	–	–	–	–	–
Mr Jerry Sze	–	–	–	–	363	–	363
Mr Itzhak Shenberg	–	–	–	–	–	–	–
Mr Chu Hon Pong	144	–	–	–	–	–	144
Mr Liu Tsun Kie	–	–	–	–	–	–	–
Mr Yap Fat Suan Henry	144	–	–	–	–	–	144
Total	432	3,519	2,563	151	1,254	12	7,931

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Share-based payments	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000 Note (i)	HK$'000	HK$'000	HK$'000
Mr Ko Chun Shun, Johnson	–	120	–	–	16	–	136
Mr Lui Pan, Terry	1,683	1,281	109	151	160	12	3,396
Ms Cheung Sum Yu, Fiona	–	–	–	–	20	–	20
Mr Shaw Sun Kan, Gordon	–	–	–	–	20	–	20
Mr Jerry Sze	–	–	–	–	20	–	20
Mr Itzhak Shenberg	–	–	–	–	–	–	–
Mr Chu Hon Pong	144	–	–	–	16	–	160
Mr Liu Tsun Kie	–	–	–	–	16	–	16
Mr Yap Fat Suan Henry	144	–	–	–	–	–	144
Total	1,971	1,401	109	151	268	12	3,912

During the year ended 31 December 2005, Mr Lui Pan, Terry received HK$2,087,000 in respect of his services rendered to the Group in prior years.

Note (i): Other benefits include staff quarter and club membership.

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

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

	Group	
	2006	2005
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**1,630**	4,034
Discretionary bonuses	**3,914**	162
Share-based payments	**4,895**	267
Contributions to pension schemes	**9**	48
	10,448	4,511

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2006**	2005
Nil – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**–**	2
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,500,001 – HK$3,000,000	**1**	–
HK$3,000,001 – HK$3,500,000	**1**	–
HK$4,000,001 – HK$4,500,000	**1**	–

10 FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank and other borrowings	**49**	130
Interest element of finance leases	**7**	7
	56	137

11 INCOME TAX EXPENSES

	Group	
	2006	2005
	HK$'000	HK$'000
Current – outside Hong Kong	**7,664**	–
Deferred tax income	**(6,120)**	–
Total tax expenses for the year	**1,544**	–

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the operations in Hong Kong either did not have any assessable profit for the year or had sufficient tax losses brought forward to offset against the assessable profit arising during the year.

Taxes on overseas profits have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The PRC corporate income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax has been made for certain PRC subsidiaries, JCE and associates for the year as they either did not have any assessable profit or had sufficient tax losses brought forward to offset against the assessable profit arising during the year.

11 INCOME TAX EXPENSES *(Continued)*

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to each of the Group companies as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Loss before income tax	**(624,572)**	(33,922)
Notional tax calculated at the rates applicable in the countries concerned	**(97,442)**	(8,361)
Income not subject to taxation	**(1,792)**	(16)
Expenses not deductible for taxation purposes	**126,279**	7,174
Utilisation of previously unrecognised tax losses	**(27,961)**	(515)
Tax losses not recognised	**2,460**	1,718
Tax expenses	**1,544**	–

The weighted average applicable tax rate was 16% (2005: 25%). The change in weighted average applicable tax rates above is mainly caused by a change in mix of profits earned in different group companies which are subject to different tax rates, while there were no significant changes in the respective tax rates.

On 16 March 2007, the corporate income tax law was passed at the Fifth Session of Tenth National People's Congress of PRC whereby all enterprises with operations in the PRC will be subject to the same statutory income tax rate effective from 1 January 2008. As at the date that these consolidated financial statements are approved for issue, detail measures of the new law has yet to be issued. The Group will evaluate the impact of the new law on the operating results and the financial position of the future periods as more detail measures and other related regulations are announced.

12 DIVIDENDS ON PREFERENCE SHARES

	Group	
	2006	2005
	HK$'000	HK$'000
Dividends on preference shares	**5,812**	5,812

13 LOSS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY

The loss attributable to the ordinary equity holders of the Company for the year ended 31 December 2006 dealt with in the financial statements of the Company was approximately HK$758,594,000 (2005: HK$46,209,000).

14 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to the ordinary equity holders of the Company of approximately HK$631,925,000 (2005: HK$39,734,000) and the weighted average number of 722,900,813 (2005: 580,948,967) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2006 and 2005 have not been calculated as the impact of the outstanding share options and exchangeable preference shares was anti-dilutive.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Network under construction HK$'000	Leasehold improvements HK$'000	Network equipment and tooling HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005							
Cost	11,048	3,873	63,556	12,024	2,470	4,304	97,275
Accumulated depreciation	–	(2,395)	(43,043)	(10,698)	(1,531)	(3,265)	(60,932)
Net carrying amount	11,048	1,478	20,513	1,326	939	1,039	36,343
Year ended 31 December 2005							
Opening net carrying amount	11,048	1,478	20,513	1,326	939	1,039	36,343
Exchange differences	60	12	85	25	8	9	199
Additions	–	89	78	751	26	–	944
Disposals	–	–	–	–	(4)	–	(4)
Transfer	(11,108)	–	11,108	–	–	–	–
Depreciation (Note 8)	–	(1,009)	(13,595)	(1,822)	(327)	(325)	(17,078)
Closing net carrying amount	–	570	18,189	280	642	723	20,404
At 31 December 2005							
Cost	–	3,992	74,979	12,858	2,512	4,339	98,680
Accumulated depreciation	–	(3,422)	(56,790)	(12,578)	(1,870)	(3,616)	(78,276)
Net carrying amount	–	570	18,189	280	642	723	20,404
Year ended 31 December 2006							
Opening net carrying amount	–	570	18,189	280	642	723	20,404
Exchange differences	–	7	264	64	18	25	378
Additions	–	681	2,669	1,717	82	447	5,596
Disposals	–	(18)	(1,303)	(582)	(90)	(649)	(2,642)
Transfer	–	–	–	(9)	9	–	–
Depreciation (Note 8)	–	(463)	(7,930)	(1,049)	(338)	(180)	(9,960)
Write-back on disposals	–	–	902	566	80	581	2,129
Impairment losses (Note 8)	–	–	(5,621)	–	–	–	(5,621)
Closing net carrying amount	–	777	7,170	987	403	947	10,284
At 31 December 2006							
Cost	–	4,808	72,183	14,029	2,614	4,300	97,934
Accumulated depreciation and impairment	–	(4,031)	(65,013)	(13,042)	(2,211)	(3,353)	(87,650)
Net carrying amount	–	777	7,170	987	403	947	10,284

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The closing net carrying amount of the Group's office equipment includes an amount of HK$11,000 (2005: HK$56,000) in respect of assets held under finance leases.

Company

	Office equipment HK$'000	Network equipment HK$'000	Total HK$'000
At 1 January 2005			
Cost	18	939	957
Accumulated depreciation	(18)	(939)	(957)
Net carrying amount	–	–	–
Year ended 31 December 2005			
Opening net carrying amount	–	–	–
Additions	–	–	–
Disposals	–	–	–
Depreciation	–	–	–
Closing net carrying amount	–	–	–
At 31 December 2005			
Cost	18	939	957
Accumulated depreciation	(18)	(939)	(957)
Net carrying amount	–	–	–
Year ended 31 December 2006			
Opening net carrying amount	–	–	–
Additions	–	–	–
Disposals	(18)	(939)	(957)
Depreciation	–	–	–
Write-back on disposals	18	939	957
Closing net carrying amount	–	–	–
At 31 December 2006			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net carrying amount	–	–	–

16 INTANGIBLE ASSETS

Group

	Goodwill HK$'000	Deferred development costs HK$'000	Film rights HK$'000	Priority supply rights HK$'000 (Note (i))	Total HK$'000
At 1 January 2005					
Cost	95,905	49,017	49,309	–	194,231
Accumulated amortisation and impairment	(95,905)	(20,942)	(49,309)	–	(166,156)
Net carrying amount	–	28,075	–	–	28,075
Year ended 31 December 2005					
Opening net carrying amount	–	28,075	–	–	28,075
Additions	–	8,460	–	–	8,460
Amortisation charge (Note 8)	–	(4,569)	–	–	(4,569)
Write-off (Note 8)	–	(1,112)	–	–	(1,112)
Exchange differences	–	26	–	–	26
Closing net carrying amount	–	30,880	–	–	30,880
At 31 December 2005					
Cost	95,905	56,397	49,309	–	201,611
Accumulated amortisation and impairment	(95,905)	(25,517)	(49,309)	–	(170,731)
Net carrying amount	–	30,880	–	–	30,880
Year ended 31 December 2006					
Opening net carrying amount	–	30,880	–	–	30,880
Additions	–	16,074	–	686,642	702,716
Amortisation charge (Note 8)	–	(5,046)	–	(195,179)	(200,225)
Write-off (Note 8)	–	–	–	(491,463)	(491,463)
Exchange differences	–	174	–	–	174
Closing net carrying amount	–	42,082	–	–	42,082
At 31 December 2006					
Cost	95,905	72,493	49,309	686,642	904,349
Accumulated amortisation and impairment	(95,905)	(30,411)	(49,309)	(686,642)	(862,267)
Net carrying amount	–	42,082	–	–	42,082

16 INTANGIBLE ASSETS *(Continued)*

Company

	Priority supply rights 2006 HK$'000 (Note(i))	2005 HK$'000
At 1 January and 31 December 2005		
Cost	–	–
Accumulated amortisation and impairment	–	–
Net carrying amount	–	–
Year ended 31 December 2006		
Opening net carrying amount	–	–
Additions	686,642	–
Amortisation charge	(195,179)	–
Write-off	(491,463)	–
Closing net carrying amount	–	–
At 31 December 2006		
Cost	686,642	–
Accumulated amortisation and impairment	(686,642)	–
Net carrying amount	–	–

16 INTANGIBLE ASSETS *(Continued)*

Note (i) On 18 October 2006, the Company issued 237,592,607 new ordinary shares to Easy Flow Investments Limited as consideration to acquire priority supply rights for the Group to supply in aggregate of no less than 6 million set top boxes and to appoint the Group as the priority technical service and set top box provider within a period of three years (the "Priority Supply Rights"). The fair value of these shares, based on the market value at the completion date of the acquisition, 18 October 2006, was approximately HK$686,642,000 (Note 27).

In accounting for the acquisition, the Group has engaged an external valuer to appraise the fair value of the Priority Supply Rigths acquired. The fair value was approximately HK$195,179,000 at the completion date.

According to the applicable accounting standards, the excess of the fair value of the consideration shares issued over the fair value of the Priority Supply Rights acquired of HK$491,463,000 was charged to the consolidated income statement within "Other Operating Expenses".

During 2006, the Group has received more than 6 million Priority Supply Rights. Accordingly, the entire balance of the Priority Supply Rights was fully amortised. The amortisation expense of HK$195,179,000 was charged to the consolidated income statement within "Other Operating Expenses".

17 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**67,732**	67,732
Less: Provision for impairment	**(67,732)**	(67,732)
	–	–
Loan to a subsidiary	**25,284**	25,284
Amounts due from subsidiaries	**592,166**	549,221
	617,450	574,505
Less: Provision for amounts due from subsidiaries	**(502,191)**	(465,060)
	115,259	109,445
	115,259	109,445

The balances with subsidiaries are unsecured, interest-free and without fixed terms of repayment.

17 INTERESTS IN SUBSIDIARIES *(Continued)*

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

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held	Principal activities
DVN (Group) Limited	British Virgin Islands	US$10 ordinary US$15,000,000 preference	[1]100%	Investment holding
DVN (Management) Limited	Hong Kong	HK$2 ordinary	[1]100%	Provision of administrative services
DVN Technology Limited	Hong Kong	HK$2 ordinary	[1]100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
Digital Video Networks Company Limited	[2]Mainland China	US$8,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
Digital Video Networks (Shanghai) Company Limited	[2]Mainland China	US$10,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
DVN Technology (Shenzhen) Co., Limited	[2]Mainland China	HK$6,000,000 registered capital	100%	Development of hardware and software in relation to digital broadcasting

17 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held	Principal activities
Guangxi Digital Video Networks Company Limited	[2]Mainland China	RMB3,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
Digital Video Networks Limited	Hong Kong	HK$2 ordinary	[1]100%	Holding of patents
Whizz Kid Limited	British Virgin Islands	US$1 ordinary	100%	Investment holding
Step Success Trading Company Limited	British Virgin Islands	US$1 ordinary	100%	Investment holding
Rise Reach Limited	British Virgin Islands	US$1 ordinary	100%	Provision of marketing services
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	[1]100%	Investment holding
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	100%	Provision of international financial market information and selective consumer data
Telequote Network (Singapore) Pte Limited	Singapore	SGD2 ordinary	100%	Provision of international financial market information and selective consumer data

[1] Shares held directly by the Company.

[2] Registered as wholly foreign owned enterprise under the PRC law.

18 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year	**6,410**	6,685
Share of loss of a JCE	**(1)**	(275)
Provision for impairment	**(3,124)**	–
End of the year	**3,285**	6,410

Due to the change in key management personnel in the JCE, the Group has lost its significant influence in the JCE. Moreover, the JCE has been dormant since July 2006, as such an impairment provision of HK$3,124,000 was recognised for the amount by which the carrying value of the interest exceeds its recoverable amount.

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investment outside Hong Kong, at cost	**14,200**	14,200
Provision for impairment	**(14,200)**	–
End of the year	**–**	14,200

The Company has a 50% equity interest in a JCE, Jiangsu Hongtian Broad Communication Co., Ltd, an unlisted company incorporated and operated in the PRC, which provides design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software.

19 INTERESTS IN ASSOCIATES *(Continued)*

	Group 2006 HK$'000	2005 HK$'000
Cost of investment	**1,658**	6,754
Exchange difference	**60**	58
Share of the results of associates	**573**	(130)
	2,291	6,682

In April 2006, the Group acquired 20% equity interest in 廣西潤眾數字電視傳媒技術有限公司 at a cash consideration of RMB600,000 (HK$598,000).

In August 2006, the Group disposed of its 30% equity interest in an associate for a cash consideration of HK$5,617,000 and shared profits of HK$6,000 upon disposal.

Details of the associates, all of which are unlisted, incorporated and operated in the PRC, as at 31 December 2006, were as follows:

Name	Nominal value of registered capital	Interest held	Principal activities
廣西潤眾數字電視傳媒技術有限公司	RMB3,000,000	20%	Integration and sales of digital set top boxes, digital broadcasting systems and related software
包頭羅拉數字傳媒信息網絡有限公司	RMB10,000,000	22.5%	Integration and sales of digital set top boxes, digital broadcasting systems and related software

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted securities outside Hong Kong	**–**	35,956
Less: Provision for impairment	**–**	(35,000)
	–	956

During the year, certain available-for-sale financial assets totalling HK$956,000 were disposed of for a cash consideration of HK$1,200,000. The remaining balance of the available-for-sale financial assets which were already fully provided for impairment in previous years was written off during the year.

21 INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**5,915**	25,842
Work-in-progress	**13,063**	27,695
Finished goods	**50,552**	24,360
	69,530	77,897

22 TRADE RECEIVABLES

	Group 2006 HK$'000	Group 2005 HK$'000
Trade receivables	**132,926**	153,336
Less: Provision for impairment	**(3,809)**	(17,833)
Trade receivables – net	**129,117**	135,503

The fair value of trade receivables approximates its carrying value.

An aging analysis of the net trade receivables as at the balance sheet date is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
1 – 6 months	**123,144**	83,745
7 – 12 months	**5,973**	26,029
Over 12 months	**–**	25,729
	129,117	135,503

The Group's trading terms with its customers are payment in advance or on credit. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers. The Group believes that no significant credit risk exists as credit losses, when realised, have been within the range of management's expectation. Trade receivables are non-interest bearing.

23 PLEDGED BANK DEPOSITS

As at the balance sheet date, the Group had bank deposits pledged to banks to secure the banking facilities granted to the Group. The carrying amounts of the pledged bank deposits approximate their fair values.

24 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**86,638**	33,218	**5,449**	1,885
Short-term bank deposits	**429,775**	48,451	**421,321**	–
	516,413	81,669	**426,770**	1,885

As at 31 December 2006, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$51,413,000 (2005: HK$66,114,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group, and earn interest at the respective short-term bank deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

25 TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
1 – 6 months	**123,360**	107,127
7 – 12 months	**1,325**	7,158
Over 12 months	**14,060**	9,124
	138,745	123,409

26 OBLIGATIONS UNDER FINANCE LEASES

	Group 2006 HK$'000	2005 HK$'000
Wholly repayable within five years	**44**	80
Current portion	**(36)**	(36)
Non-current portion	**8**	44

As at 31 December 2006, the Group's finance lease liabilities were repayable as follows:

	Group 2006 HK$'000	2005 HK$'000
Within one year	**44**	43
In the second to fifth year	**10**	54
	54	97
Future finance charges on finance leases	**(10)**	(17)
Present value of finance lease liabilities	**44**	80

The present value of finance lease liabilities is as follows:

	Group 2006 HK$'000	2005 HK$'000
Within one year	**36**	36
In the second to fifth year	**8**	44
	44	80

27 ORDINARY SHARES

	Ordinary shares of HK$0.10 each Number of shares	HK$'000
Authorised		
As at 31 December 2006 and 2005	3,000,000,000	300,000

	Ordinary shares of HK$0.10 each Number of shares	HK$'000
Issued and fully paid		
At 1 January 2005	516,375,823	51,637
Issue of shares on 14 January 2005 (Note (i))	58,500,000	5,850
Exercise of share options	8,542,665	855
At 31 December 2005	583,418,488	58,342
Issue of shares on 14 July 2006 (Note (ii))	117,000,000	11,700
Issue of shares on 18 October 2006 (Note (iii))	237,592,607	23,759
Issue of shares on 27 December 2006 (Note (iv))	118,000,000	11,800
Exercise of share options	25,660,337	2,566
At 31 December 2006	1,081,671,432	108,167

Notes:

(i) Pursuant to the share subscription agreement entered into between Motorola-Dragon Investment, Inc. ("Motorola-Dragon") and the Company on 18 May 2004 (the "Subscription Agreement"), Motorola-Dragon has conditionally agreed to subscribe for the Company's new ordinary shares up to four tranches for a cash consideration up to a maximum of HK$257.4 million. The second tranche of the subscription rights of Motorola-Dragon under the Subscription Agreement was completed on 14 January 2005 and the Company issued to Motorola-Dragon 58,500,000 new ordinary shares at a consideration of HK$58.5 million.

(ii) Pursuant to the Subscription Agreement mentioned in Note (i) above, the third and fourth tranches of the subscription rights of Motorola-Dragon under the Subscription Agreement were completed on 14 July 2006 and the Company issued to Motorola-Dragon 117,000,000 new ordinary shares at a consideration of HK$140.4 million.

27 ORDINARY SHARES *(Continued)*

Notes:

(iii) Pursuant to an agreement entered into between Easy Flow Investments Limited (the "Strategic Partner") and the Company on 13 June 2006 (as amended by a supplemental agreement dated 10 July 2006) (the "Strategic Cooperation Agreement"), the Strategic Partner has conditionally agreed to transfer or procure its associates to transfer to the Group within a period of three years priority rights to supply in aggregate of no less than 6 million set top boxes and to appoint the Group as the priority technical service and set top box provider (the "Cooperation"). On 18 October 2006, the Company issued to the Strategic Partner 237,592,607 new ordinary shares as consideration for the Cooperation.

(iv) Pursuant to a share subscription agreement entered into between the Company, the Strategic Partner and CITIC United Asia Investments Limited on 14 December 2006, the Company issued to the Strategic Partner 118,000,000 new ordinary shares at HK$2.85 per share at a total consideration of HK$336.3 million. Such shares were subscribed by the Strategic Partner following the placing of the same amount of shares at the same price in a "top-up placement" fund raising exercise of the Company.

The proceeds of the above issues of shares were utilised as additional working capital of the Group.

28 SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") at a special general meeting held on 26 June 2002. The purpose of the Scheme is to recognise and acknowledge the contributions of the Qualified Persons (as defined in the Scheme, including but not limit to the directors, the employees, partners, associates of the Group and its shareholders) to the Group. The Scheme is designed to motivate executives and key employees and other persons who make contribution to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

Pursuant to the Scheme, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any twelve-month period shall not exceed 1% of the shares then in issue.

Subscription price in relation to each option pursuant to the Scheme shall not be less than the higher of (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotation sheet on the date on which the option is offered to a Qualified Person; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer, or (iii) the nominal value of the shares. The options are exercisable within the option period as determined by the board of directors of the Company.

During the year, 23,500,000 share options were granted under the Scheme (2005: Nil). As at 26 April 2007, the Company could still grant up to 58,202,282 share options without refreshing the limit pursuant to the Scheme, representing 5% of the issued share capital as at the date of this report.

The Scheme shall be valid and effective for a period of 10 years commencing from the approval of the Scheme.

28 SHARE OPTION SCHEME *(Continued)*

On 27 January 2006, 23,500,000 share options were granted under the Scheme. The fair value of the options granted on 27 January 2006 was estimated to be HK$0.245 per option using the Black-Scholes option pricing model (the “Black-Scholes Model”) with the following input variables:

Appraisal date:	27 January 2006
Risk-free interest rate:	3.771%
Expected dividend:	Dividend yield of 0% per share
Expected volatility:	32% based on historical volatility
Expected life:	1 year from 1 January 2007 to 31 December 2007

Pursuant to a board resolution passed on 30 December 2006, the exercise period of 4,683,001 options with original expiry date at 31 December 2006 was extended further for two more years to 31 December 2008. The fair value of the options with exercise period extended to 31 December 2008 was reassessed and estimated to be HK$1.98 per option using the Black-Scholes Model with the following input variables:

Appraisal date:	30 December 2006
Risk-free interest rate:	3.48%
Expected dividend:	Dividend yield of 0% per share
Expected volatility:	48.59% based on historical volatility
Expected life:	2 years from 1 January 2007 to 31 December 2008

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Weighted average exercise price per share HK$	**Number of options**	Weighted average exercise price per share HK$	Number of options
At 1 January	**1.03**	**37,371,338**	1.01	45,914,003
Granted and accepted	**1.50**	**23,500,000**	–	–
Exercised	**0.94**	**(25,660,337)**	0.94	(8,542,665)
At 31 December	**1.40**	**35,211,001**	1.03	37,371,338

28 SHARE OPTION SCHEME *(Continued)*

Out of the 35,211,001 outstanding options as at 31 December 2006 (2005: 37,371,338), 11,711,001 options (2005: 37,371,338) were exercisable. Options exercised in 2006 resulted in 25,660,337 shares (2005: 8,542,665) issued at HK$0.94 each (2005: HK$0.94). The related weighted average share price at the time of exercise was HK$2.07 (2005: HK$1.63) per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry Date	**Exercise price per share** HK$	**Number of options** **2006**	2005
31 December 2007	1.500	**23,500,000**	–
23 July 2008 (Note (i))	1.470	**7,028,000**	11,723,000
31 December 2008 (Note (ii))	0.824	**4,683,001**	25,648,338
Total		**35,211,001**	37,371,338

The details of movements of the outstanding share options are as follows:

Date of share options granted	23 July 2002
Exercise price	HK$1.470
Exercise period	24 July 2002 – 23 July 2008

	Outstanding options as at 1 January 2006	**Options granted during the year**	**Options exercised during the year** *Note(iii)*	**Options lapsed during the year**	**Outstanding options as at 31 December 2006**	**Weighted average closing price** HK$
Held by directors						
Mr Ko Chun Shun, Johnson	3,000,000	–	–	–	3,000,000	1.910
Mr Lui Pan, Terry	3,000,000	–	(1,500,000)	–	1,500,000	1.910
	* 1,000,000	–	(1,000,000)	–	–	1.910
Held by other qualified persons	4,723,000	–	(2,195,000)	–	2,528,000	1.910
Total	11,723,000	–	(4,695,000)	–	7,028,000	1.910

* held by the spouse of Mr Lui Pan, Terry.

28 SHARE OPTION SCHEME *(Continued)*

Date of share options granted	10 December 2003
Exercise price	HK$0.824
Exercise period	1 January 2004 – 31 December 2008

	Outstanding options as at 1 January 2006	Options granted during the year	Options exercised during the year *Note(iii)*	Options lapsed during the year	Outstanding options as at 31 December 2006	Weighted average closing price HK$
Held by directors						
Mr Ko Chun Shun, Johnson	450,000	–	–	–	450,000	2.152
Mr Lui Pan, Terry	4,500,000	–	(4,500,000)	–	–	2.152
	* 2,500,000	–	(2,500,000)	–	–	2.152
Ms Cheung Sum Yu, Fiona	550,000	–	(550,000)	–	–	2.152
Mr Shaw Sun Kan, Gordon	550,000	–	(550,000)	–	–	2.152
Mr Jerry Sze	183,334	–	–	–	183,334	2.152
Mr Chu Hon Pong	450,000	–	(450,000)	–	–	2.152
Mr Liu Tsun Kie	450,000	–	(450,000)	–	–	2.152
Held by other qualified persons	16,015,004	–	(11,965,337)	–	4,049,667	2.152
Total	25,648,338	–	(20,965,337)	–	4,683,001	2.152

* held by the spouse of Mr Lui Pan, Terry.

28 SHARE OPTION SCHEME *(Continued)*

Date of share options granted	27 January 2006
Exercise price	HK$1.500
Exercise period	1 January 2007 – 31 December 2007

	Outstanding options as at 1 January 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31 December 2006	Weighted average closing price HK$
Held by directors	–	–	–	–	–	–
Held by other qualified persons	–	23,500,000	–	–	23,500,000	–
Total	–	23,500,000	–	–	23,500,000	–

Notes:

(i) Pursuant to a board resolution passed on 20 June 2005, the exercise period of the options was extended further for three more years to 23 July 2008.

(ii) Pursuant to a board resolution passed on 30 December 2006, the exercise period of the options was extended further two more years to 31 December 2008.

(iii) Exercise dates were 12 January 2006, 25 January 2006, 10 April 2006, 8 June 2006, 17 August 2006, 27 September 2006, 28 November 2006 and 19 December 2006. At the dates before the options were exercised, the market values per share were HK$1.43, HK$1.45, HK$1.70, HK$1.75, HK$1.92, HK$2.17, HK$2.79 and HK$2.76 respectively.

29 RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2005	207,123	222,122	939	(455,596)	2,665	(22,747)
Exchange difference	–	–	1,692	–	–	1,692
Loss for the year	–	–	–	(39,734)	–	(39,734)
Total recognised income and expenses for the year ended 31 December 2005	–	–	1,692	(39,734)	–	(38,042)
Share option scheme:						
– share-based compensation	–	–	–	–	1,333	1,333
– proceeds from shares issued	7,171	–	–	–	–	7,171
Issue of ordinary shares, net of issuing expenses	49,725	–	–	–	–	49,725
	56,896	–	–	–	1,333	58,229
Balance at 31 December 2005	264,019	222,122	2,631	(495,330)	3,998	(2,560)
Balance at 1 January 2006	264,019	222,122	2,631	(495,330)	3,998	(2,560)
Exchange difference	–	–	4,556	–	–	4,556
Loss for the year	–	–	–	(631,925)	–	(631,925)
Total recognised income and expenses for the year ended 31 December 2006	–	–	4,556	(631,925)	–	(627,369)
Share option scheme:						
– share-based compensation	–	–	–	–	15,029	15,029
– proceeds from shares issued	21,611	–	–	–	–	21,611
– transfer upon options exercised	3,219	–	–	–	(3,219)	–
Issue of ordinary shares, net of issuing expenses	1,092,143	–	–	–	–	1,092,143
	1,116,973	–	–	–	11,810	1,128,783
Balance at 31 December 2006	1,380,992	222,122	7,187	(1,127,255)	15,808	498,854

29 RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2005	207,123	152,786	(308,958)	2,665	53,616
Share option scheme:					
– share-based compensation	–	–	–	1,333	1,333
– proceeds from shares issued	7,171	–	–	–	7,171
Issue of ordinary shares, net of issuing expenses	49,725	–	–	–	49,725
Loss for the year	–	–	(46,209)	–	(46,209)
Balance at 31 December 2005	264,019	152,786	(355,167)	3,998	65,636
Balance at 1 January 2006	264,019	152,786	(355,167)	3,998	65,636
Share option scheme:					
– share-based compensation	–	–	–	15,029	15,029
– proceeds from shares issued	21,611	–	–	–	21,611
– transfer upon options exercised	3,219	–	–	(3,219)	–
Issue of ordinary shares, net of issuing expenses	1,092,143	–	–	–	1,092,143
Loss for the year	–	–	(758,594)	–	(758,594)
Balance at 31 December 2006	1,380,992	152,786	(1,113,761)	15,808	435,825

The contributed surplus of the Company and of the Group arose from a scheme of arrangement that took place on 31 October 1989. Pursuant to the Bermuda Companies Act 1981 (as amended) (the "Act"), a company incorporated in Bermuda is not permitted to pay dividends while there are reasonable grounds for believing that the Company is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. Under the Act, the Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

30 DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	Group 2006 HK$'000	2005 HK$'000
Deferred tax assets to be recovered within 12 months	**25,805**	10,986
Deferred tax liabilities to be recovered within 12 months	**(19,685)**	(10,986)
	6,120	–

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

Deferred tax assets

	Group 2006 HK$'000	2005 HK$'000
At 1 January	**10,986**	7,536
Credited to income statement	**14,819**	3,450
At 31 December	**25,805**	10,986

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 at 31 December 2006 of approximately HK$99 million (2005: HK$294 million) to carry forward against future taxable profits. Tax losses of approximately HK$37 million will expire between 2009 and 2011 (2005: HK$185 million expire between 2006 and 2010).

30 DEFERRED TAXATION *(Continued)*

Deferred tax liabilities

	Group					
	Accelerated tax depreciation		Deferred development costs and others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**2,189**	2,257	**8,797**	5,279	**10,986**	7,536
Charged/(credited) to income statement	**636**	(68)	**8,063**	3,518	**8,699**	3,450
At 31 December	**2,825**	2,189	**16,860**	8,797	**19,685**	10,986

31 MINORITY INTERESTS

Included in minority interests is US$15,000,000 (equivalent to HK$116,250,000) preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of the Company, on 30 March 1999. The preference shareholder has the right at any time starting from 1 July 2000 to exchange all (but not part) of the preference shares into 31,250,000 ordinary shares of the Company at an exchange price which has been subsequently adjusted to HK$3.72 per share, pursuant to the Company's announcement dated 28 September 2006. The Company has the right, at its discretion, to require the preference shareholder to exercise its exchange right to exchange all (but not part) of the preference shares into the Company's ordinary shares at the exchange price at any time from 1 July 2000, provided that the average of the closing prices of the Company's ordinary shares for the 20 consecutive trading days ending on the trading day immediately preceding the date of giving notice of such compulsory exchange is not less than HK$10 per share.

32 CASH USED IN OPERATIONS

The reconciliation of loss for the year to cash used in operations is as follows:

	2006	2005
	HK$'000	HK$'000
Loss for the year	**(631,928)**	(39,734)
Adjustments for:		
Income tax expenses	**1,544**	–
Depreciation	**9,960**	17,078
Amortisation of intangibles	**200,225**	4,569
Write-off of priority supply rights	**491,463**	–
Impairment loss on property, plant and equipment	**5,621**	–
Net gain on disposal of property, plant and equipment	**(94)**	–
Write-off of deferred development costs	**–**	1,112
Provision for impairment loss of a JCE	**3,124**	–
Exchange differences	**4,064**	1,409
Share-based payments	**15,029**	1,333
Interest income	**(5,729)**	(1,449)
Finance costs	**56**	137
Share of loss of a JCE	**1**	275
Share of (profits)/losses of associates	**(573)**	130
Dividends on preference shares	**5,812**	5,812
Gain on disposal of an associate	**(124)**	–
Gain on disposal of available-for-sale financial assets	**(235)**	–
Changes in working capital:		
Amounts due from related companies	**294**	(160)
Inventories	**8,367**	(20,292)
Trade receivables, prepayments, deposits and other receivables	**(161,033)**	(69,908)
Trade payables, other payables and accruals	**36,205**	99,494
Cash used in operations	**(17,951)**	(194)

Significant non-cash transactions

The principal non-cash transaction is the issue of shares as consideration for the acquisition of the Priority Supply Rights discussed in Notes 16 and 27(iii).

33 COMMITMENTS

(a) Capital commitments

Neither the Group nor the Company had significant capital commitments at 31 December 2006 and 2005.

(b) Operating lease commitments

The Group leases certain of its office, warehouse properties and staff quarters under operating lease arrangements, which are negotiated for terms ranging from one to five years.

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

	Land and buildings	
	2006	2005
	HK$'000	HK$'000
Not later than one year	**5,071**	4,107
Later than one year but not later than five years	**8,200**	1,457
	13,271	5,564

The Company did not have any commitments under operating lease as at 31 December 2006 and 2005.

33 COMMITMENTS *(Continued)*

(c) Financial commitments

As at 31 December 2006, the Group and the Company had financial commitments in respect of registered capital contributions to a subsidiary, an associate and a JCE in the PRC as described below:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiary (Note (i))	**9,279**	8,906	**–**	–
JCE (Note (ii))	**29,880**	28,681	**29,880**	28,681
Associate	**1,121**	1,076	**–**	–
	40,280	38,663	**29,880**	28,681

Notes:

(i) Included in the financial commitments in respect of registered capital contributions to a subsidiary is an amount of RMB5,316,000 (equivalent to approximately HK$5,039,000) (2005: RMB5,316,000 equivalent to approximately HK$5,039,000) that was paid in 1999 but the capital verification process has not been completed. The remaining balance has been overdue for capital injection (2005: same).

(ii) The financial commitment in respect of the registered capital contributions to a JCE of RMB30,000,000 (equivalent to approximately HK$29,880,000) has been overdue for capital injection (2005: RMB30,000,000 equivalent to approximately HK$28,681,000).

34 RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Group with related parties:

(a) Sales or purchases of goods and services

	Year ended 31 December	
	2006	2005
	HK$'000	HK$'000
Sales of goods		
– Group companies of a shareholder	**–**	2,299
Purchases of goods		
– Group companies of a shareholder	**79,258**	28,165
– A JCE	**–**	3,002
– A shareholder	**20,517**	144
Licensing fee expense		
– A shareholder	**–**	3,900
Dividends on preference shares		
– A group company of a shareholder	**5,812**	5,812

The sales and purchases of goods were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

(b) Details of key management compensation of the Group

	Year ended 31 December	
	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**10,792**	7,888
Discretionary bonuses	**7,638**	–
Share-based payments	**6,283**	533
	24,713	8,421

34 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Year-end balances arising from sales/purchases and services rendered

	2006	2005
	HK$'000	HK$'000
Trade receivables		
– Group companies of a shareholder	**754**	1,695
– A JCE	**–**	1,558
Trade payables		
– Group companies of a shareholder	**58,319**	22,120
– A JCE	**4,281**	4,109
– A shareholder	**2,433**	–

(d) Other year-end balances

	2006	2005
	HK$'000	HK$'000
Amounts due from related companies		
– Group companies of a shareholder	**475**	769
Prepayments, deposits and other receivables		
– A JCE	**996**	549

35 EVENTS AFTER THE BALANCE SHEET DATE

A share subscription agreement was entered into between the Company and Mr Ko Chun Shun, Johnson ("Mr Ko") on 14 December 2006 to subscribe 50,000,000 new ordinary shares of the Company at HK$2.85 per share by Mr Ko (the "Mr Ko Subscription Agreement"). Approval for the Mr Ko Subscription Agreement was obtained from the independent shareholders of the Company in a special general meeting held on 28 February 2007. Subsequently, the Company issued 50,000,000 new ordinary shares to Mr Ko at a total consideration of HK$142.5 million on 5 March 2007.

36 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.