Asian Union New Media (Group) Limited
華億新媒體(集團)有限公司
Stock Code: 419

Annual Report 2007

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CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Edward Tian Suning *(Non-executive Director)*

Vice Chairman

Mr. Zhang Changsheng
(Independent Non-executive Director)

Executive Director

Mr. Zhao Anjian

Independent non-executive Directors

Mr. Jiang Jianning
Mr. Li Ruigang
Dr. Wong Yau Kar, David
Mr. Yuen Kin

Company Secretary

Mr. Chan Kam Kwan, Jason

Qualified Accountant

Mr. Hau Wai Man, Raymond

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Banker

Hang Seng Bank
DBS Bank

Solicitors

Baker & McKenzie

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Office in Hong Kong

Unit 3903, Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

Share Registrar and Transfer Office in Hong Kong

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Website

www.aunewmedia.com
www.irasia.com/listco/hk/asianunion

CHAIRMAN'S STATEMENT

On behalf of Asian Union New Media (Group) Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31st December 2007.

This is the first annual report of the Group I present in my new capacity as Chairman of the Board of Directors (the "Board") since my appointment in January 2008. During the year, China Broadband Capital Partners, L.P. ("CBC") increased its stake in Asian Union through its wholly-owned subsidiary Speedy Swift Investments Limited ("Speedy Swift") and became the Group's single largest shareholder. As the founder of CBC, I will draw on my experience, know-how and connections accumulated over the years in the China media and telecommunications industries to help the Group strengthen and expand its businesses. Since its inception, CBC has actively sought to capture opportunities brought by the growing China media industry and invested continually in traditional media, new media and media contents. So far, CBC has invested in a series of media projects with promising prospects and growth potentials, including satellite channels, digital channels, broadcast, outdoor and printed media, and other media, and has accumulated rich content resources. Boasting improving brand recognition, access to a strong capital market platform as well as other unique resources such as the Travel Channel and abundant original contents, the Group is well poised to become an ideal platform for CBC's various media resources.

The Group completed restructuring of the Board in January 2008 and appointed Mr. Zhang Changsheng, Mr. Li Ruigang, Mr. Jiang Jianning and Mr. Zhao Anjian as new Board members. Bringing with them abundant experience and extensive networks in the media, travel and related industries in China, our new Board members will not only enable the Group to speed up expansion, but will also enhance its overall operational efficiency and management. The new Board has taken on an ambitious goal, which is to develop into a leading cross media group in China. The Group will actively expand its traditional satellite TV channels as well as digital TV channels, develop new media channels including mobile TV and Internet TV, and establish a full media platform encompassing traditional and new media. The Group will also aggregate the sports, travel/leisure, lifestyle/entertainment, music and other high quality contents to provide its cross media platform a full spectrum of contents. At the same time, the Group will build a centralized advertising sales system to achieve economies of scale and present synergies for its advertising business to be conducted on the cross media platform.

CHAIRMAN'S STATEMENT

The Group will focus on development in two aspects — organic growth and strategic expansion. For organic growth, it will seek to improve existing businesses, particularly the quality and strength of the Travel Channel and extending into travel-related businesses, as well as strive to fully exploit the potential of its movie and TV drama library, thereby raise the revenues and profits from its existing business. For strategic expansion, the Group will pursue mergers and acquisitions of more traditional satellite TV channels as well as new media resources including digital TV channels, mobile TV and Internet TV, to develop and aggregate quality media contents for building a highly effective, centralized advertising sales system that can support strategic development of the Group.

In 2008, the Group will actively develop existing media, advertising and extended business with the Travel Channel at the core. Travel Channel will reinforce its positioning as a provider of leisure/travel and lifestyle contents to appeal audiences earning higher incomes and having better education. The Group will actively recruit media professionals to help enhance the quality of programs on the Travel Channel and the value and revenue of the advertising business of the Channel. Moreover, to boost revenue from sale of contents, the Group will strive to open new content distribution channels by selling films, TV dramas and Travel Channel programs to IPTV and other new media platforms. The Group will also partner with local famous travel agencies and institutions to explore extended business opportunities, capitalizing on the rapid expanding travel industry in the PRC. At the same time, the Group will aim to lower operating and management costs through strengthening corporate management, streamlining management processes and the structure of the organization, thereby enhance overall operational efficiency.

In the next two years, the Group will develop and acquire more traditional satellite TV channels as well as new media resources including digital TV channels, mobile TV and Internet TV through business development and mergers and acquisitions. With its existing movie and TV drama library as base, it will aggregate and develop comprehensive media contents to enhance the brand value of its contents. We believe, as more new digital media formats are adopted in China and more telecommunications companies entering media business through broadband and IPTV, high quality contents will be in keen demand, and the Group will be a major beneficiary.

In early April this year, the Group announced the acquisition of Blower Investments Limited ("Blower Investments") and its subsidiary Guangdong Zhong Guan Media Company Limited ("Zhong Guan"), taking the solid first step toward realizing its strategic expansion plan. The acquisition has seen Asian Union become the exclusive advertising agency for a major satellite TV channels in China and, together with the Group's existing Travel Channel advertising business, brought synergies to the Group at large. Apart from recruiting more professionals to its sales team, the Group will also actively consolidate local advertising resources to establish a centralized advertising sales system on its cross media platform. These moves will strengthen the Group's position in the China satellite TV market and its ability to serve advertising clients, and also help to lay the foundation for it to implement its cross media strategy.

CHAIRMAN'S STATEMENT

The China media industry is still in the early stage of development, whereas consumers are shifting their focus from meeting basic daily needs to seeking more information and entertainment. Along with the rocketing Chinese economy, advertising spending in the country has also grown markedly over the past decade. However, we believe the media and advertising market in China has ample potential to grow when compared with other mature markets such as the US. At the same time, as Chinese household income continues to improve, demand for travel and leisure related services among consumers will also keep rising. China has developed into one of the major tourism markets in the world. Impending major events such as the Beijing 2008 Olympics and 2010 Shanghai World Expo will give additional drive to the development of different industries including media, advertising and tourism, and create more market opportunities for the Group.

I would like to take this opportunity to express my heartfelt gratitude to my fellow Directors and staff for their dedication and efforts. I believe, with inspiring guidance from my fellow Board members and solid support from shareholders, business partners and other connected parties, the Group will be able to further enhance shareholders' value.

Edward Tian Suning
Chairman

Hong Kong, 24th April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The Board of Directors (the "Board") is pleased to present the annual results of the Group for the year ended 31st December 2007. In 2007, the Group reported a turnover of approximately HK$187,082,000 (2006: HK$304,902,000) and a loss attributable to shareholders of HK$81,280,000 (2006: a profit of HK$264,604,000). Excluding taxation, finance costs and fair value loss on investment in preference shares and financial assets at fair value through profit or loss, the Group's loss is reduced to HK$17,116,000 (2006: profit of HK$101,894,000).

The downturn of the Group's performance was mainly due to the absence in the current year of the one-off fair value gain on financial assets made in relation to the ordinary shares and preference shares of DVN (Holdings) Limited ("DVN") (Hong Kong stock code: 0500) held by the Group amounting to HK$184,799,000 and HK$34,317,000 respectively in the last fiscal year, and the incurring of the fair value loss on financial assets made in relation to preference shares of DVN of HK$30,708,000 for the year. These preference shares were disposed of by the Group in June 2007. In addition, the Group has made provision for doubtful debts amounting to HK$27,038,000 during the year, while there was no such provision made in the last fiscal year.

During the year, the Group has strategically adjusted the advertising policies of Travel Channel by reducing the weight of direct marketing and classified advertisement in its advertising mix. As a result, a temporary drop in advertising revenue was recorded for the year as expected. However, revenue from selling commercial air time and embedded advertisements increased as a result of the Group's effort in enhancing the image of the Travel Channel, driving a much better performance of the Group in the second half of the year comparing to the first half of the year.

The Group has entered into an agreement with Poly Culture & Arts Co., Ltd. ("PCACL") through its wholly-owned subsidiary, Beijing Hua Yi Hao Ge Media Culture Co., Ltd. ("HYHG") to increase its share of future earnings of Asian Union Film and Media ("AUFM", which major investment is the 49% equity interests in the operating company of Travel Channel) from 50% to 75%. The Group's ownership in AUFM remains at 50%. The transaction will allow AUFM to realize its full business potential.

On 31st March 2008, the Group has entered into a share purchase agreement with Selamead Holdings Limited to acquire Blower Investments Limited ("Blower Investments") and its subsidiary Guangdong Zhong Guan Media Company Limited. Under this agreement, the consideration for the acquisition is determined based on the fair value and other conditions (including whether that the audited consolidated net profit of Blower Investments (subject to certain adjustments) for the years ending 31st December 2008 and 2009 is or exceeds HK$80,000,000 and HK$100,000,000 respectively), and the maximum number of consideration shares of 2,100,000,000 shares shall be issued in three tranches over a three-year period. Such shares are subject to a lock-up period of a maximum of 24 months from respective date of issuance.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects *(Continued)*

Blower Investments operates mainly advertising agency business in China and is the exclusive advertising agent for a major satellite television channel in the country. Apart from directly increasing its advertising resources and sales income, the Group expects the new business and the Travel Channel advertising business to complement and present synergies to each other. Furthermore, the acquisition will facilitate the building of a centralized advertising sales system by the Group on a cross media platform, enabling the Group to boost its ability to serve advertising clients and its position in the China satellite TV market and as a TV advertising agency.

Television Advertising Business

The prospering Chinese economy has boosted the country's consumption power and in turn fueled demand for advertising. As television is the most popular platform for advertisers to promote their products and services, television advertising business continued to be the Group's main income source for the year. Through its wholly-owned subsidiary Beijing Hua Yi Qian Si Advertising Company Limited ("Qiansi"), the Group holds exclusive agency rights for all advertising resources of the Travel Channel, from which it derived an advertising revenue of approximately HK$146,796,000 (2006: HK$217,725,000), about 78% of the Group's total turnover.

The drop in advertising revenue against the previous year was mainly because certain kind of direct marketing and classified advertisements were barred from broadcast on all TV channels by the State Administration of Radio, Film and Television during the year, leading to customers adjusting their advertising strategies and shrinkage of income from direct marketing and classified advertisements. However, since classified advertisements have relatively low rating and no longer match with the profile of the Travel Channel, the management sees the drop as transient and beneficial to the Group in the long run. By adjusting the advertising schedule and selling to direct customers, the Group's advertising revenue from selling commercial air time and embedded advertisements to customers has increased during the year, with turnover amount in the second half of the year being 27% higher than that in the first half of the year.

During the year, the Group continued to focus on producing more high quality programs for the Travel Channel to enhance its image and appeal to target viewers — middle to high class viewers with generally higher education, income level and consumption power, thereby ensured continuous growth of its advertising business. A CSM research found that Travel Channel is among the top 10 provincial satellite TV channels within its target viewer group (in term of prime time rating).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects *(Continued)*

Television Advertising Business *(Continued)*

As for advertising customers, the unique positioning and fresh and popular contents on the Travel Channel had allowed the Group to expand its customer base with the high quality advertisers of reputable brands in China and across the world, covering different industries including finance, automobile, consumer products and travel/leisure, and internationally acclaimed brands such as BMW, Honda, Peugeot, Lexus, Sinopec, Nokia, Sony Ericsson, Samsung, LG, Canon, HP, Intel, VISA, Red Bull, Neutrogena, L'Oreal, Mengniu and National Geographic etc. Boasting strong promotional effect, Travel Channel was able to secure one-year advertising contracts with many famous brands involving title sponsorship of programs, trailer/slogan sponsorship and all-round brand promotion programs, etc. These contracts provided stable income to the Group and at the same time improved the profile of Travel Channel.

In addition, the Group and Hai Nan Haishi Tourist Satellite TV Media Co. Ltd. ("Hainan TV") has reached an agreement during the year wherein Hainan TV agreed to lower the exclusive agency fee for the year by approximately HK$33,000,000.

As the Beijing 2008 Olympics approaches, frenzy toward the global sports event is building and more and more enterprises, domestic and overseas, see that as the perfect chance to promote their products. This trend will provide major growth impetus to the media and advertising market in China. The Travel Channel, in particular, will be an ideal platform for upscale advertisers targeting quality customers, and the Group is confident of capturing the tremendous business opportunities.

To attract more new customers, the Group has expanded its program production team targeting to create more Olympics-themed content. It is looking into introduce more interactive elements in the programs (e.g. organizing large scale activities and social evenings) to encourage direct audience participation, boost ratings and expand source of revenue. The boosted contents will strengthen the premium image of Travel Channel and secure viewers for it, hence present an effective advertising platform for advertisers of prominent brands to capture viewers with high spending power. The Group expects its television advertising revenue will continue to grow in 2008.

Moreover, in order to build its cross media and centralized advertising sales system, management is actively seeking to expand the advertising resources in other satellite TV channels, boosting its ability to serve advertising clients so as to increase advertising revenue. The aforesaid acquisition of Blower Investments is a solid first step of the Group's growth strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects *(Continued)*

Movie and TV Drama

During the year, this segment recorded a revenue of HK$39,581,000 (2006: HK$62,594,000), making up 21% of the Group's total turnover. Apart from distributing films and TV dramas in China and overseas markets, the Group was also involved in investment of new movies and TV dramas productions. Premiere of one of the movies has been scheduled in the first half of 2008. With Chinese movies gaining popularity overseas, the Group will look to invest in small and medium scale projects with potentials, which will allow it to effectively control risk yet assure stable returns.

In 2008, the Group has sold part of its movie archive through new media distribution channels such as IPTV. To realize the full potential of the Group's movie and TV drama library, being one of the largest and richest in China, management is actively seeking to develop new distribution channel resources including digital TV channels, mobile TV and Internet TV. Through such moves the Group aims at establishing a full media platform across traditional and new media formats and thus expanding the distribution channels and potential value for the Group's rich movie and TV drama contents.

The emergence of new media and growing adoption of broadband application have fueled demand for high quality contents. The Group will actively enhance the brand value of its content by investing in movie and TV drama productions as well as developing and aggregating different content materials including sports, travel/leisure, lifestyle/entertainment, music and finance, and to bring lucrative returns to the Group.

Communication and Home Audio Division

With the Group focusing on developing media business in China, the management has decided to gradually exit from this non-core business. During the year, the Group completed the disposal of the operation, and the results and disposal of the operation had no major impact to the Group for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Liquidity and financial resources

As at 31st December 2007, the Group held cash deposits of approximately HK$165,288,000, being an increase of 4.43 times compared to 31st December 2006. This is mainly because the funds raised through share placements during the year have not yet been fully invested and utilized. The current ratio slightly decreased from 1.17 as at 31st December 2006 to 1.04 as at 31st December 2007. The gearing ratio, representing long term liabilities to net worth, decreased from 1.10 at 31st December 2006 to 0.63 at 31st December 2007.

The Group mainly operates in China and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollars. All borrowings during the year were based on market interest rate. Other than the outstanding short-term bank borrowings of approximately HK$32,332,000 (2006: HK$22,776,000), the Group had no long-term bank loan outstanding as at 31st December 2007 (2006: Nil). As at 31st December 2007, the Group has pledged bank deposits of HK$33,983,000 (2006: HK$17,000,000) against its short-term bank borrowings.

Capital structure

The Group has mainly relied on its internally generated cash flow and short-term bank borrowings to finance its operations. As at 31st December 2007, the Group has outstanding short-term bank borrowings of approximately HK$32,332,000 (2006: HK$22,776,000).

During the year, the Company has issued (i) 500,000,000 new ordinary shares at HK$0.07 each upon a share placement; (ii) 2,202,234,673 new ordinary shares upon the conversion of a convertible notes; (iii) 277,400,000 new ordinary shares at HK$0.054 each upon the exercise of outstanding share options; and (iv) 1,200,000,000 new ordinary shares at HK$0.16 each upon a share placement.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 31st December 2007, the Group employed a total of 9 full-time employees in Hong Kong and a work force of about 117 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company (the "Board") is committed in achieving high standards of corporate governance. For the year ended 31st December 2007, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices ("the Code") set out in Appendix to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except with the following deviation:

Code Provision A.2.1

During the year ended 31st December 2007, there was no separation of the role of Chairman ("Chairman") and Chief Executive Officer ("CEO") as set out in the code provision A.2.1. Mr. Dong Ping had assumed the role of both the Chairman and the CEO of the Company. While the Company was still seeking for appropriate candidate for the position of Chief Executive Officer, Mr. Dong, who was also the Chairman, had utilized his extensive experience and network in the media industry to oversee the daily operation and business development of the Group. The Group considered that such arrangement was for the best interests of the shareholders.

On 11th January 2008, Mr. Dong Ping resigned as the Chairman of the Company and Mr. Edward Tian Suning was appointed as the new Chairman. In addition, Mr. Wang Hong was appointed as the CEO of the Company. The roles of the Chairman and CEO are thereby segregated and accordingly, code provision A.2.1 has been complied with.

The Board

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholders' value.

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, and is responsible for the day-to-day operations of the Group.

CORPORATE GOVERNANCE REPORT

The Board *(Continued)*

As at 31st December 2007, the Board comprised six Directors, including Chairman (Mr. Dong Ping), one Executive Director (Mr. Ko Chun Shun, Johnson), three Independent Non-executive Directors (Dr. Wong Yau Kar, David, Mr. Yuen Kin and Mr. Yin Dikun) and one Non-executive Directors (Mr. Tsoi Tong Hoo, Tony). On 11th January 2008, Mr. Dong Ping resigned as Chairman and Executive Director. On the same date, Mr. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony and Mr. Yin Dikun also resigned as Executive Director, Non-executive Director and Independent Non-executive Director respectively and the following persons were appointed:

(i) Mr. Edward Tian Suning was appointed as the Chairman and Non-executive Director;

(ii) Mr. Zhang Changsheng was appointed as the Vice Chairman and Independent Non-executive Director;

(iii) Mr. Zhao Anjian was appointed as Executive Director;

(iv) Mr. Jiang Jianning was appointed as Independent Non-executive Director; and

(v) Mr. Li Ruigang was appointed as Independent Non-executive Director.

Biographical details of the current directors appear under the section "Biographical Details of Directors and Senior Management".

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests for the Group and that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affair and make contributions to the Board's functions. The Board has taken appropriate steps to ensure effective communication with shareholders.

CORPORATE GOVERNANCE REPORT

The Board *(Continued)*

The CEO is responsible for managing the businesses of the Group, attending to the formulation and implementation of group policies and assuming full accountability to the Board for all group operations. Acting as the principal manager of the Group's businesses, the CEO develops strategic operating plans that reflect the long-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Group. Working with the senior management and the Board, the CEO ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results against plans and budgets, taking remedial actions when necessary and advising the Board of significant developments and issues. Ongoing dialogue are maintained with the Chairman and all Directors to keep them fully informed of all major business development and issues.

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provides to Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held 5 meetings in 2007.

	Name of Director	**Attended/Eligible to attend**
Chairman	Dong Ping	5/5
Executive Directors	Ko Chun Shun, Johnson	5/5
Non-executive Director	Tsoi Tong Hoo, Tony	4/5
Independent Non-Executive Directors	Dr. Wong Yau Kar David	4/5
	Yuen Kin	5/5
	Yin Dikun*	2/2
	Wilton Timothy Carr Ingram*	3/3

**Note:* Mr. Wilton Timothy Carr Ingram retired on 15th June 2007 and Mr. Yin Dikun was appointed on 24th August 2007.

All Directors are subject to re-election by shareholders at the annual general meeting following their appointment. The directors shall retire and shall be eligible to offer himself for re-election not longer than at every three years on a rotation basis. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). The Board may also propose any individual who has the necessary calibre to be a director of the Company.

CORPORATE GOVERNANCE REPORT

The Board *(Continued)*

All Directors have confirmed that they have complied with the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (the "Model Code") in their securities transactions throughout the year.

Directors' Responsibility for the Financial Statements

The following statements, which set out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's report on page 33 which acknowledges the reporting responsibilities of the Group's Auditor.

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of the Group.

Accounting Policies

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The Directors, having made appropriate enquires, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE REPORT

Company Secretary

The Company Secretary is responsible to assist the Chairman to prepare agendas for meetings and to prepare and disseminate Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of financial statements, announcements, and information relating to the Group within the period specified in the Listing Rules.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensure that the standards and disclosures required by the Listing Rules are observed and followed.

With respect to the secretarial function of the Group, the Company Secretary maintains formal minutes for Board and other meetings.

In relation to connected transactions, regular briefings to legal counsels of the Group are made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analysis is performed to directors on all potential connected transactions for their consideration in approving transactions.

Auditors' Remuneration

A summary of fees for audit and non-audit services is as follows:

Nature of the services	**2007**	2006
	HK'000	*HK'000*
Audit services	**1,980**	3,110
Other services	**200**	690
	2,180	3,800

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. As at 31st December 2007, the Audit Committee is chaired by Mr. Yuen Kin and the other members of the Committee are Dr. Wong Yau Kar David and Mr. Yin Dikun. On 11th January 2008, Mr. Yin Dikun resigned as Audit Committee member and on the same date, Mr. Li Ruigang was appointed as audit committee member.

Under its terms of reference, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the Group's internal control system, and to engage independent legal or other advisers as it determined necessary and to perform investigations.

The terms of reference of the Audit Committee adopted by the Board are published on the Group's website.

The Audit Committee held 3 meetings in 2007.

Name of Member	Attended/Eligible to attend
Dr. Wong Yau Kar David	3/3
Yuen Kin	3/3
Yin Dikun*	1/1
Wilton Timothy Carr Ingram*	2/2

**Note:* Mr. Wilton Timothy Carr Ingram retired on 15th June 2007 and Mr. Yin Dikun was appointed on 24th August 2007.

There are no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the interim financial statements and the annual consolidated financial statements, so as to ensure that an effective control environment is maintained.

Financial Statements

The Audit Committee meets and holds discussions with the Executive Directors and other senior management of the Group on the interim results, preliminary results announcement and Annual Report. The Audit Committee reviews and discusses the management's report and representations with a view to ensure that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Group's principal external auditors, PricewaterhouseCoopers ("PwC"), on the scope and outcome of their annual audit of the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Audit Committee *(Continued)*

External Auditors

The Audit Committee receives each year a letter from PwC confirming their independence and objectivity and holds meetings with PwC to discuss the scope of their audit.

The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

The Group's policy regarding the engagement of PwC for the various services listed below is as follows:

— Audit service — includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.

— Audit-related services — includes services that would normally be provided by an external auditor but not generally included in audit fees, for example, due diligence and accounting advice related to mergers and acquisitions, internal control review of systems and/or processes, and issuance of special audit report for tax or other purposes. The external auditors are to be invited to undertake these services that they must or are best placed to undertake in their capacity as auditors.

— Tax-related services — includes all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work is undertaken by other parties as appropriate.

— Other services — includes, for example, audits or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditors are also permitted to assist management with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.

— General consulting services — The Group's policy is that the external auditors are not eligible to provide services involving general consulting work.

Review of Risk Management and Internal Control

The Audit Committee reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. In reliance on these reviews, the Audit Committee makes a recommendation to the Board for approval of the consolidated financial statements for the year.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee comprises four members with expertise in human resources and personnel emoluments. As at 31st December 2007, the Remuneration Committee is chaired by Mr. Ko Chun Shun, Johnson, Executive Director, with Dr. Wong Yau Kar, David, Mr. Yuen Kin and Mr. Yin Dikun, Independent Non-executive Director, as members. On 11th January 2008, Mr. Ko Chun Shun, Johnson and Mr. Yin Dikun resigned as the Chairman and member of the remuneration committee respectively. On the same date, Mr. Edward Tian Suning and Mr. Jiang Jianning was appointed as the Chairman and member of the remuneration committee respectively. The Remuneration Committee meets for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee also meets as and when required to consider remuneration related matters.

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to shape and execute strategy across the Group's operations. The Committee will assist the Group in the administration of the fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages. Terms of reference of the Committee which have been adopted by the Board are available on the Group's website.

The Remuneration Committee held 1 meeting in 2007.

Name of Member	Attended/Eligible to attend
Ko Chun Shun, Johnson	1/1
Dr. Wong Yau Kar, David	1/1
Yuen Kin	1/1
Yin Dikun	1/1

CORPORATE GOVERNANCE REPORT

Remuneration Committee *(Continued)*

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2007 are as below:

Name	Fees	Basis Salaries, Allowances and Benefits-in-kind	Discretionary Bonuses	Provident Fund Contributions	Total Emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Dong Ping	—	400	—	8	408
Ko Chun Shun, Johnson *(2)*	—	632	158	4	794
Tsoi Tong Hoo, Tony *(1)*	240	—	20	12	272
Dr. Wong Yau Kar, David *(2), (3)*	144	—	—	—	144
Yuen Kin *(2), (3)*	144	—	—	—	144
Yin Dikun *(2), (3)*	48	—	—	—	48
Wilton Timothy Carr Ingram *(4)*	—	—	—	—	—

Notes:

(1) Non-executive Director.

(2) Members of the Remuneration Committee.

(3) Independent Non-executive Directors and members of the Audit Committee.

(4) Resigned in 2007.

During the year, no share options of the Company have been granted to directors.

Strategy Committee

On 11th January 2008, the Board has resolved to establish a strategy committee to formulate the business strategy for the Group. The strategy committee comprises Mr. Jiang Jianning (Chairman), Mr. Edward Tian Suning, Mr. Zhang Changsheng, Mr. Zhao Anjian and Mr. Li Ruigang.

CORPORATE GOVERNANCE REPORT

Internal Control and Group Risk Management

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of the risk. The Board has conducted a review of and is satisfied with the effectiveness of the system of internal control of the Company and its subsidiaries.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk. Reporting and review activities include the review and approval by the Board of detailed operational and financial reports, budgets and plans provided by the management of the business operations, the review by the Board of actual results against the budgets, the reviews by the Board of the internal control system of the Company and its subsidiaries, as well as the regular business reviews by Executive Directors and the senior management.

The Board is responsible for monitoring the overall operations of the businesses of the Group. Directors are appointed to the boards of all significant material operation subsidiaries and associates to oversee the operations of those companies. Monitoring activities include the review and approval of business strategies, budgets and plans, and the setting of key business performance targets. The senior management is accountable for the performance within the agreed strategies and is accountable for its conduct and performance.

The Chief Financial Officer of the Company, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations and derives the annual audit plan. The plan is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. In addition, a regular dialogue is maintained with the Group's external auditors so that both parties are aware of the significant factors which may affect their respective scope of work.

Reports from the external auditors on internal controls and relevant financial reporting matter are to be presented to the Audit Committee, and, as appropriate to the Board. These reports are reviewed and appropriate actions are taken.

CORPORATE GOVERNANCE REPORT

Investor Relations and Shareholders' Rights

The Board is committed to providing clear and full performance information of the Group to shareholders through different publications and financial reports. In addition to dispatching circular, notices and financial reports to shareholders, additional information is also available to shareholders on the Group's website.

Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and Directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. All substantive resolutions at the annual general meeting are decided on a poll. The poll is conducted by the Group's Registrars. Feedback and comments from shareholders are always encouraged.

By Order of the Board

Edward Tian Suning
Chairman

Hong Kong, 24th April 2008

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Chairman and Non-executive Director

Mr. Edward Tian Suning

Mr. Edward Tian Suning, aged 45, was appointed as the Chairman and Non-executive Director in January 2008. Mr. Tian is also the Chairman of Advisory Board of China Broadband Capital Partners L.P. He also holds positions in various organizations, including Independent Director of MasterCard International; Senior Advisor of Kohlberg Kravis Roberts; Independent Non-executive Director of Lenovo Group; Member of Advisory Board of Harvard Business School. From 2002 to 2006, Mr. Tian was the CEO and Vice Chairman of the Board of China Netcom Group. In 1999, Mr. Tian was invited to be in charge of the establishment of China Netcom Corporation ("CNC") and was the CEO and President of CNC. Before that Mr. Tian co-founded AsiaInfo Holdings Inc., which became the first Chinese high tech company listed on NASDAQ.

Mr. Tian was honoured "Global Leader for Tomorrow" by the World Economic Forum in 1998. He was selected to be one of the "Ten People of Internet in China" by Asia Week magazine. US magazine "Red Herring" selected Mr. Tian as "Entrepreneur of the Year" in 2000. In 2001, Mr. Tian was honoured as "Economic People of the Year" by China Central Television. He was also selected as "The Star of Asia" by Business Week in the same year. In July 2003, Mr. Tian was awarded "Outstanding Youth of the Year" by China Association for Science and Technology. In August 2003, Mr. Tian was awarded "Outstanding Returned Scholar Award" by the central government of China. In 2004, Mr. Tian was among the first to be elected by the central government into the "China New Century Talent Program" and in 2007, he was among "50 Most Influential People of the Year" by "People Weekly" magazine.

Mr. Tian graduated from Texas Tech University with a Doctorate Degree in Resource Management.

Vice Chairman and Independent Non-executive Director

Mr. Zhang Changsheng

Mr. Zhang Changsheng, aged 60, was appointed as the Vice Chairman and Independent Non-executive Director in January 2008. Mr. Zhang has also served as the Deputy General Manager of China Netcom Communications Group Corporation since 2003. Mr. Zhang has also served as Senior Vice President since 2004, and General Counsel since 2005, of China Netcom Communications (Group) Limited Company. From 1995 to 2003, Mr. Zhang Changsheng held the positions of Assistant Governor and Secretary General of the People's Government of Jiangsu Province. Prior to that, he served as deputy division chief, division chief, deputy director and director of the Ministry of Personnel of the People's Republic of China (the "PRC"), and director for Relocating and Arranging New Jobs for Retired Soldiers under the State Council of the PRC, respectively. In 1999, Mr. Zhang took graduate course in finance at Nanjing Institute. In 1981, he was graduated from the Department of Comprehensive Studies of the Military Academy of the PRC Liberation Army.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Director

Mr. Zhao Anjian

Mr. Zhao Anjian, aged 53, was appointed as the Executive Director in January 2008. Mr. Zhao is the General Manager of CBC Operation Service. From August 2006 to October 2007, Mr. Zhao was the Vice Secretary of Direct Party Committee of CNC Group. From August 2005 to May 2006, Mr. Zhao was the General Manager of Department of Surveillance Management of CNC Group. From August 2004 to July 2005, Mr. Zhao was the General Manager of CNC International. From November 2003 to July 2004, Mr. Zhao was the Assistant to CEO, CNC International. From June 1999 to October 2003, Mr. Zhao was the Assistant to CEO, China Netcom Corporation Limited. Before that Mr. Zhao had held the management position for Contec and Intel. Mr. Zhao has more than seven years experience in the management in IT industry and more than eight years management experience in the telecom industry. Mr. Zhao was awarded an EMBA degree from GuangHua Business School of Beijing University in 2005, and a Bachelor degree from Chengdu Industry College in 1977.

Independent Non-executive Director

Mr. Jiang Jianning

Mr. Jiang Jianning, aged 45, was appointed as the Independent Non-executive Director in January 2008. Mr. Jiang is the CEO of China CYTS Tours Holdings Limited, a company listed on the Shanghai Stock Exchange. He also holds the position in various institutions, including the Member of Standing Committee of All China Youth Federation, Vice Chairman of Chinese Association of Travel Services and Vice Chairman of China Association of Youth Entrepreneur. From April of 1998, Mr. Jiang became the President of China Youth Travel (Holding) Limited. Before that Mr. Jiang was the chief secretary of Beijing Normal University, had held the management positions for Beijing Normal University, Beijing GuoAn Electronic company, People's Insurance Company of China and Beijing ChuangGE Technology Group.

Mr. Jiang was honored one of the "Ten Outstanding Youth" by the PRC Central Government in 1999; In January 2001, he was selected to be one of the "a hundred people that might affect China in the 21st century" by the Magazine of China Youth. Mr. Jiang was selected in 2002 as the No.1 Professional Manager in the Tourism Business by the Beijing Entertainment Information; Other awards include, New Person of the Year in Economic Year of 2003; Most Honest Award in 2004; Person that Influenced Tourism in China in the year of 2005 and President Award by Korean Government and Best in Tourism Industry in 2006. Mr. Jiang graduated from Beijing Normal University in 1984 with a bachelor degree in Economy. He is a Senior Economist.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Director *(Continued)*

Mr. Li Ruigang

Mr. Li Ruigang, aged 38, was appointed as the Independent Non-executive Director in January 2008. Mr. Li is the President of Shanghai Media Group ("SMG"). SMG is the second largest media conglomerate in China, second only to China Central Television ("CCTV"). The business of SMG includes television, radio, print media, new media, artist management, sports industry, home shopping and etc.. From April 2002 to October 2002, Mr. Li was the Deputy Director of the Programming Department of Shanghai Radio and Television Bureau, and served in the Shanghai Municipal Government. Mr. Li has 10 years' experience in the industrialization of the media sector, particularly in resource integration, brand operation, industrial linking and organizational restructuring. He is highly esteemed in the Chinese media sector, and has won many honours, including being selected as Showman of The Year by Variety China in 2005. Before that, Mr. Li was the visiting scholar of Media Management at Columbia University in the U.S. from 2001 to 2002. In 1994, Mr. Li was awarded a Master of Arts Degree in Jornalism by Fudan University. Mr. Li has been the director of Shanghai Oriental Pearl (Group) Co., Ltd. since June 2002. From March 2004 to October 2005, Mr. Li was the director of Shanda Corporation (Nasdaq: SNDA).

Dr. Wong Yau Kar David

Dr. Wong Yau Kar, David, aged 50, was appointed as the Independent Non-executive Director since 2000. Dr. Wong holds a doctor's degree in economics from University of Chicago. Dr. Wong has extensive experience in direct investments and corporate finance. Currently, Dr. Wong is the managing director of United Overseas Investments Limited. Dr. Wong has also been actively participated in public services and to name a few, he has been a council member of the Hong Kong Institute of Directors since 1999 and a vice-president of the Chinese Manufacturers' Association of Hong Kong.

Mr. Yuen Kin

Mr. Yuen Kin, aged 53, was appointed as the Independent Non-executive Director of the Company since 2004. Mr. Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and is a FCPA in Hong Kong and FCCA in the United Kingdom. He is currently the managing director of Sunray Trading Co., Ltd., a company engaged in the export of construction materials and furniture.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Wang Hong

Mr. Wang Hong, aged 43, was appointed as the Chief Executive Officer in January 2008. Mr. Wang holds a Bachelor degree in International Business from University of International Business and Economics. Mr. Wang has also been the deputy general manager of Poly U.S.A., Inc. from 1991 until 2003 and was responsible for export and trading businesses.

Currently, Mr. Wang is also the deputy general manager of Poly Culture and Arts Co., Ltd and is the president of Hai Nan Haishi Travel Satellite TV Media Co., Ltd, an associated company of the Company.

Mr. Hau Wai Man, Raymond

Mr. Hau Wai Man, Raymond, aged 33, is the Chief Financial Officer and the Qualified Accountant of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. He held a MBA degree from The Hong Kong University of Science and Technology, and has over 10 years of experience in international accounting firms and corporates in Hong Kong and China before joining the Company in 2006.

Mr. Chan Kam Kwan, Jason

Mr. Chan Kam Kwan, Jason, aged 34, is the Company Secretary of the Company since 2000. He graduated from the University of British Columbia in Canada with a Bachelor of Commerce Degree and is a member of the American Institute of Certified Public Accountants. He has over 10 years of experience in accounting and corporate finance.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2007.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 34 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 6 to the consolidated financial statements.

Results and Dividends

The results of the Group for the year are set out in the consolidated income statement on page 35.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December 2007.

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106.

Donations

Charitable and other donations made by the Group during the year amounted to HK$795,000.

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company are set out in note 27 to the consolidated financial statements.

Share Options and Warrants

A share option scheme (the "Option Scheme") was adopted by the Company on 30th July 2002. The purpose of the Option Scheme is to recognize and acknowledge the contributions of the Qualified Persons (as defined in the Option Scheme, including but not limited to, the directors, employees, partners and associates of the Group) to the Group.

Pursuant to this 10-year term Option 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 the options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 30th June 2005, the Company can grant up to 991,647,402 share options to the Qualified Persons.

REPORT OF THE DIRECTORS

Share Options and Warrants *(Continued)*

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

The Company did not grant any share options in 2007.

Details of the share options are as follows:

	Date of share options granted	Number of share options outstanding as at 1st January 2007	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2007	Exercise period	Exercise price per share
								HK$
Qualified person (excluding directors)	1/12/2004	277,400,000	—	—	(277,400,000)	—	1/1/2005 to 31/12/2009	0.054
		277,400,000	—	—	(277,400,000)	—		

In April 2007, warrants carrying rights to subscribe for 1,900,000,000 shares of the Company at a price of HK$0.0991 (after adjustment) per share were issued to Speedy Swift Investments Limited. Speedy Swift Investments Limited has exercised all the warrants on 11th April 2008.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 28 to the consolidated financial statements.

REPORT OF THE DIRECTORS

Distributable Reserves

The distributable reserves of the Company as at 31st December 2007, calculated under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK$765,834,000 (2006: HK$370,899,000), representing the amount standing to the credit of the share premium of HK$727,752,000 (2006: HK$325,371,000) plus the retained profit of HK$38,082,000 (2006: HK$45,528,000). The Company may make distributions to its members out of the share premium in certain circumstances subject to the Articles of Association of the Company.

Major Suppliers and Major Customers

During the year, the Group purchased less than 30% of its programmes and film rights, advertising resources and services from its 5 largest suppliers. The percentages of sales for the year attributable to the Group's major customers are as follows:

Sales

— the largest customer	21%
— five largest customers combined	51%

As far as the directors are aware, none of the directors, their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the major customers noted above.

Directors

The directors during the year and up to the date of this report are:

Executive directors

Mr. Zhao Anjian	(appointed on 11th January 2008)
Mr. Dong Ping	(resigned on 11th January 2008)
Mr. Ko Chun Shun, Johnson	(resigned on 11th January 2008)

Non-executive directors

Mr. Edward Tian Suning	(appointed on 11th January 2008)
Mr. Tsoi Tong Hoo, Tony	(resigned on 11th January 2008)

Independent non-executive directors

Dr. Wong Yau Kar, David	
Mr. Yuen Kin	
Mr. Zhang Changsheng	(appointed on 11th January 2008)
Mr. Jiang Jianning	(appointed on 11th January 2008)
Mr. Li Ruigang	(appointed on 11th January 2008)
Mr. Wilton Timothy Carr Ingram	(resigned on 15th June 2007)
Mr. Yin Dikun	(appointed on 24th Aug 2007 and resigned on 11th January 2008)

REPORT OF THE DIRECTORS

Directors *(Continued)*

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Messrs. Edward Tian Suning, Zhao Anjian, Zhang Changsheng, Jiang Jianning, Li Ruigang and Yuen Kin will retire, and being eligible, offers themselves for re-election at the forthcoming annual general meeting respectively.

All the non-executive directors are appointed for a specific term, except Mr. Edward Tian Suning, who will be subject to the retirement by rotation and re-election at the annual general meeting of the Company.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules during the year and the Company considered that they are independent.

Directors' Service Contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Except as disclosed in the sections "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" and "Connected transactions" below, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

At 31st December 2007, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

Long positions in ordinary shares of HK$0.01 each in the Company as at 31st December 2007:

		Number of shares held				
Name		Personal interests	Family interests	Corporate interests	Total	% of the issued share capital of the Company
Mr. Dong Ping ("Mr. Dong")	Long positions	1,089,900,000	—	—	1,089,900,000	6.72%

Saved as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st December 2007, in addition to those disclosed under the section "Directors' and Chief Executives' interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

(i) Long positions in the Shares:

Name of the Shareholder	*Note*	Number of shares held	Approximate percentage of the Company's issued share capital
Speedy Swift Investments Limited	*1*	1,500,000,000	9.25%
Milo Investments International Limited	*2*	1,394,784,673	8.60%

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company *(Continued)*

(ii) Long positions in the underlying Shares of the convertible notes of the Company:

Name of the holder of the warrants	*Note*	Amount of the convertible notes *HK$*	Number of the total underlying shares
Speedy Swift Investments Limited	*1*	49,000,000	1,000,000,000

(iii) Long positions in the underlying Shares of the warrants of the Company:

Name of the holder of the warrants	*Notes*	Number of the warrants held	Number of the total underlying shares
Speedy Swift Investments Limited	*1, 3*	1,900,000,000	1,900,000,000

Notes:

1. Speedy Swift Investments Limited ("Speedy Swift") is controlled by China Broadband Capital Partners, L.P.

2. Milo Investments International Limited is a corporation controlled by Mr. Cheng Shiqing.

3. Speedy Swift has exercised all the warrants on 11th April 2008.

Related Party Transactions

Transactions carried out with related parties are set out in note 31 to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Listed Shares of the Company

During the year ended 31st December 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company.

REPORT OF THE DIRECTORS

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Subsequent Event

Details of significant subsequent events are set out in note 33 to the consolidated financial statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this annual report under the Listing Rules.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Edward Tian Suning
Chairman

Hong Kong, 24th April 2008

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ASIAN UNION NEW MEDIA (GROUP) LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Asian Union New Media (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 105, which comprise the consolidated and Company balance sheets as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24th April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Sales	5	**187,082**	304,902
Cost of sales		**(155,774)**	(192,256)
Gross profit		**31,308**	112,646
Other revenues	5	**18,632**	16,462
Marketing and selling expenses		**(32,203)**	(13,225)
Administrative expenses		**(38,843)**	(27,898)
Share of profits of jointly controlled entities		**3,990**	10,944
Other net gains		**—**	2,965
		(17,116)	101,894
Finance costs	7	**(48,184)**	(51,232)
Fair value (loss)/gain on financial assets at fair value through profit or loss		**(1,652)**	185,553
Fair value (loss)/gain on investment in preference shares	19	**(30,708)**	34,317
Share of profit of a former associated company		**—**	5,990
(Loss)/profit before taxation	8	**(97,660)**	276,522
Taxation	9	**16,380**	(12,065)
(Loss)/profit for the year		**(81,280)**	264,457
Attributable to:			
Equity holders of the Company		**(81,280)**	264,604
Minority interests		**—**	(147)
		(81,280)	264,457
Earnings per share for (loss)/profit attributable to the equity holders of the Company during the year		***HK Cents***	*HK Cents*
— Basic	11	**(0.56)**	2.36
— Diluted	11	**N/A**	2.34
Dividends	12	**—**	211,206

The notes on pages 41 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**8,759**	7,057
Intangible assets	15	**1,296,322**	1,414,069
Interests in jointly controlled entities	17	**240,532**	70,259
Available for sale financial assets		**—**	360
Deferred tax assets	9	**34,629**	12,171
		1,580,242	1,503,916
CURRENT ASSETS			
Trade receivables	20	**77,711**	85,034
Amounts due from a jointly controlled entity and its subsidiaries	17	**108,712**	84,384
Preference dividends receivable		**—**	2,422
Financial assets at fair value through profit or loss	21	**20,538**	11,150
Investment in preference shares	19	**—**	97,895
Prepayments, deposits and other receivables	22	**49,483**	28,301
Pledged bank deposits	23	**33,983**	17,000
Cash and bank balances	23	**131,305**	13,447
		421,732	339,633
CURRENT LIABILITIES			
Agency fee payable — current	15	**317,809**	181,836
Trade payables	24	**—**	283
Other payables and accrued liabilities		**30,204**	61,166
Current income tax liabilities		**26,594**	24,769
Short-term bank borrowings	25	**32,332**	22,776
		406,939	290,830
NET CURRENT ASSETS		**14,793**	48,803
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,595,035**	1,552,719

CONSOLIDATED BALANCE SHEET

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Agency fee payable — non-current	15	**573,603**	691,544
Convertible notes	26	**40,931**	121,230
Deferred tax liabilities	9	**4,583**	—
		619,117	812,774
NET ASSETS		**975,918**	739,945
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Issued capital	27	**162,182**	120,386
Reserves	28	**813,736**	619,559
TOTAL EQUITY		**975,918**	739,945

Edward Tian Suning
Director

Zhao Anjian
Director

The notes on pages 41 to 105 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**539,295**	727,966
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**1,071**	1,006
Amounts due from subsidiaries — current	16	**486,491**	114,816
Cash and cash equivalents	23	**933**	3,509
		488,495	119,331
CURRENT LIABILITIES			
Amounts due to subsidiaries — current	16	**—**	51,662
Other payables and accrued liabilities		**2,320**	2,120
		2,320	53,782
NET CURRENT ASSETS		**486,175**	65,549
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,025,470**	793,515
NON-CURRENT LIABILITIES			
Convertible notes	26	**40,931**	121,230
NET ASSETS		**984,539**	672,285
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	27	**162,182**	120,386
Reserves	28	**822,357**	551,899
TOTAL EQUITY		**984,539**	672,285

Edward Tian Suning
Director

Zhao Anjian
Director

The notes on page 41 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	**4,643**	25,782
Interest paid		**(1,438)**	(559)
Tax paid		**(12)**	—
Net cash generated from operating activities		**3,193**	25,223
Cash flows from investing activities			
Interest received		**2,462**	248
Purchases of property, plant and equipment		**(4,950)**	(6,913)
Disposal of preference shares		**67,188**	—
Acquisition of subsidiaries net of cash	29(b)	**—**	(1,084)
Loan to a jointly controlled entity		**(154,155)**	—
Additions of intangible assets		**(10,120)**	(37,917)
Receipt of preference shares dividend		**—**	29,000
Disposal of property, plant and equipment		**277**	—
Payment of transaction costs for acquisition		**—**	(2,509)
Disposal of subsidiaries net of cash	29(c)	**(4,469)**	—
Capital injection for establishment of a jointly controlled entity		**—**	(500)
Capital injection from minority shareholder of a subsidiary		**—**	147
(Increase)/decrease in financial assets at fair value through profit or loss		**(9,388)**	850
Net cash used in investing activities		**(113,155)**	(18,678)
Cash flows from financing activities			
Increase in pledged bank deposit		**(16,983)**	(17,000)
Proceeds from issuance of shares on placements — net of expenses		**219,579**	—
Proceeds from issuance of shares on exercise of share options		**14,979**	—
Proceeds from short-term loans		**15,144**	8,018
Repayments of short-term loans		**(5,412)**	—
Net cash generated from/(used in) financing activities		**227,307**	(8,982)
Net increase/(decrease) in cash and cash equivalents		**117,345**	(2,437)
Cash and cash equivalents at 1st January		**13,447**	15,548
Exchange gain on cash and cash equivalent		**513**	336
Cash and cash equivalents at 31st December		**131,305**	13,447

The notes on pages 41 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2007

	Attributable to equity holders of the Company				
	Share capital	**Other reserves**	**Accumulated losses**	**Minority interests**	**Total equity**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Balance at 1st January 2006	99,165	1,340,876	(1,013,193)	—	426,848
Dividend in specie — interests in ordinary shares of DVN (Holdings) Limited	—	(211,206)	—	—	(211,206)
Conversion of convertible notes	21,221	57,819	—	—	79,040
Issue of convertible notes — equity component	—	181,000	—	—	181,000
Injection by a minority shareholder of a subsidiary	—	—	—	147	147
Profit for the year	—	—	264,604	(147)	264,457
Currency translation differences	—	(341)	—	—	(341)
Balance at 31st December 2006	120,386	1,368,148	(748,589)	—	739,945
Balance at 1st January 2007	120,386	1,368,148	(748,589)	—	739,945
Conversion of convertible notes	22,022	63,120	—	—	85,142
Issue of shares	19,774	214,784	—	—	234,558
Revaluation of available for sale investment	—	(120)	—	—	(120)
Loss for the year	—	—	(81,280)	—	(81,280)
Currency translation differences	—	(2,327)	—	—	(2,327)
Balance at 31st December 2007	162,182	1,643,605	(829,869)	—	975,918

The notes on pages 41 to 105 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

1. General information

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

The Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

2. Principal accounting policies

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

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

(a) Standards, amendments and interpretations effective in 2007

HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to Hong Kong Accounting Standard ("HKAS") 1, "Presentation of financial statements — Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) — Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(a) Standards, amendments and interpretations effective in 2007 *(Continued)*

HK(IFRIC) — Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's consolidated financial statements.

(b) Interpretation early adopted by the Group

HK(IFRIC) — Int 11, "HKFRS 2 — Group and treasury share transactions", was early adopted in 2007. HK(IFRIC) — Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements, of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.

(c) Standards, amendments and interpretation effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1st January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) — Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and
- HK(IFRIC) — Int 9, "Re-assessment of embedded derivatives".

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1st January 2009). HKAS 1 (Revised) required all owners' changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1st January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1st January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amendment) from 1st January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating segments" (effective from 1st January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a 'management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1st January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to Groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

- HK(IFRIC) — Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1st January 2008). HK(IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory on contractual minimum funding requirement. The Group will apply HK(IFRIC) — Int 14 from 1st January 2008, but it is not expected to have any impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1st January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1st January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1st July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests have a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related components of the former subsidiary are derecognized. Any gain or loss is recognized in the consolidated income statement. Any components of the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1st January 2010.

- HKFRS 3 (Revised) "Business Combination" (effective from business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1st July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1st January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1st January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognized over the remainder of the vesting period is recognized immediately. The Group will apply HKFRS 2 Amendment from 1st January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

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

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2008 or later periods, but are not relevant for the Group operations:

- HK(IFRIC) — Int 12, "Service concession arrangements" (effective from 1st January 2008). HK(IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(e) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- HK(IFRIC) — Int 13, "Customer loyalty programmes" (effective from 1st July 2008). HK(IFRIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

(b) Group accounting

(i) Consolidation

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

(ii) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(ii) Subsidiaries (Continued)

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(iv) Associated companies and jointly controlled entity ("JCE") *(Continued)*

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

(c) Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings, plant, equipment and other assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated 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:

Plant, equipment and other assets	3 to 10 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated income statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(d) Leases

Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the lease periods.

Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized 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 recognized in the consolidated 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. The investment properties acquired under finance leases are carried at their fair value.

(e) Intangible assets

(i) Goodwill

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

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

(ii) Exclusive advertising agency right

Exclusive advertising agency right comprises the right to sell the advertising resources of a satellite television channel in the PRC on a sole agency basis. The Group is contracted to make pre-agreed periodic payments during the sole agency period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(e) Intangible assets *(Continued)*

(ii) Exclusive advertising agency right *(Continued)*

The cost of the exclusive advertising agency right represents net present value of those pre-agreed periodic payments to be made during the sole agency period, and those pre-agreed periodic payments constitute a contractual obligation to deliver cash or other monetary assets and hence are considered to be a financial liability. The exclusive advertising agency right is amortized on a straight-line basis from the effective date of the right over the sole agency period and are stated at cost net of accumulated amortization and impairment losses, if any. Interest accreted on the present value of pre-agreed periodic payments is charged to the consolidated income statement within finance costs.

(iii) Programmes and film rights

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

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

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

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

At each balance sheet date, both internal and external market information is considered to assess whether there is any indication that assets included in programmes and film rights are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(e) Intangible assets *(Continued)*

(iv) Programmes and films in progress

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

(f) Financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheet.

(iii) Available-for-sale financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(f) Financial Assets *(Continued)*

Regular purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other (net losses)/gains, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of other income when the Group's right to received payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in the consolidated income statement; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(f) 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 in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement — is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(g) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(g) Foreign currency translation *(Continued)*

(iii) Group companies *(Continued)*

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the exchange differences that were recorded in equity are recognized in the consolidated 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.

(h) Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized 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 carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement within "administrative 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 "administrative expenses" in the consolidated income statement.

(i) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(j) Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate 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 recognized as interest expense.

(k) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associated companies and JCE operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 consolidated 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(l) Revenue recognition

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

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

Securities trading income is recognized when the title has passed.

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

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

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

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

Income from licensing and sub-licensing of television programs and film rights is recognized upon the delivery of the pre-recorded audio visual products and the materials for video features to the customers, in accordance with the terms of the underlying contracts. In case where income from licensing and sub-licensing of film rights is contingent upon the receipt of revenue from the box offices, income is only recognized when it is probable that the licensing fee will be received, which is normally when the event has occurred.

(m) Employee benefits

(i) Employee leave entitlements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(m) Employee benefits *(Continued)*

(ii) Retirement benefit costs

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

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

(iii) Share-based compensation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(n) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

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

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

(o) Segment reporting

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

(p) Impairment of assets

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

(q) Share capital

Ordinary shares and preference shares are classified as equity.

Preference shares are classified as equity as there is no contractual right to convert the preference shares to any outflow of liability on the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

2. Principal accounting policies *(Continued)*

(r) Dividend distribution

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

(s) Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred.

3. Financial Risk Management

(i) Financial risk factors

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

(a) Cash flow and interest rate risk

The Group has loan to a jointly controlled entity and cash balances placed with reputable banks, which generate interest income for the Group.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for financial assets and liabilities that represent the major floating interest-bearing positions.

Based on the simulations performed, the impact on profit or loss of a 60 basis-point shift would be a maximum increase/decrease of HK$1,100,000 (2006: HK$295,000) for the year ended 31st December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

3. Financial Risk Management *(Continued)*

(i) Financial risk factors *(Continued)*

(b) Credit risk

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

The credit risk on cash and bank balances is limited because the counterparties are financial institutions with good credit standing.

Other than concentration of credit risk on cash and bank balances, which are deposited with several banks with good credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

(c) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure but manages through constant monitoring to limit as much as possible its net exposures.

The Group had certain investments in foreign operations in Renminbi, whose net assets were exposed to foreign currency translation risk. Fluctuation in such currencies would be reflected in the movement of the translation reserve.

The Group had no material foreign currency exposure on the net monetary position of each group entity against its respective functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

3. Financial Risk Management *(Continued)*

(i) Financial risk factors *(Continued)*

(d) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversified its portfolio. Diversification of the portfolio was done in accordance with the limits set by the Group.

(e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and bank balances.

Due to the dynamic nature of the Group's underlying businesses, the Group maintains flexibility in funding by maintaining sufficient cash and cash equivalent to meet operational needs and possible investment opportunities.

The table below analysed the financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows. Balances due within twelve months equaled their carrying balances, as the impact of discounting was not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

3. Financial Risk Management *(Continued)*

(i) Financial risk factors *(Continued)*

(e) Liquidity risk *(Continued)*

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Group				
At 31st December 2007				
Agency fee payable	317,809	212,697	444,731	—
Trade, other payables and accrued liabilities	30,204	—	—	—
Current income tax liabilities	26,594	—	—	—
Short-term bank borrowings	32,332	—	—	—
At 31st December 2006				
Agency fee payable	181,836	198,000	612,000	—
Trade, other payables and accrued liabilities	61,449	—	—	—
Current income tax liabilities	24,769	—	—	—
Short-term bank borrowings	22,776	—	—	—
Company				
At 31st December 2007				
Other payables and accrued liabilities	2,320	—	—	—
At 31st December 2006				
Amounts due to subsidiaries	51,662	—	—	—
Other payables and accrued liabilities	2,120	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

3. Financial Risk Management *(Continued)*

(ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors its capital structure on the basis of a total bank borrowings-to-total equity ratio. During 2007, the Group's strategy was to maintain the total bank borrowings-to-total equity ratio below 10%. The total bank borrowings-to-total equity ratio at 31st December 2007 was 3% (2006: 3%).

(iii) Fair value estimation

In addition to fair value estimation of financial assets which is detailed in note 2(f), the carrying amounts of the Group's other financial assets which mainly include bank and cash balances, trade receivables, other receivables; and financial liabilities, which mainly include trade payables, short-term bank loans, approximate their fair values due to their short maturities.

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

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 debts. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

4. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experiences 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 and judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with HKAS 36 "Impairment of Assets" ("HKAS 36"). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Had the pre-tax discount rate, revenue growth rate and terminal growth rate applied to the discounted cash flow been different from the management's estimate, the goodwill might result in impairment (note 15).

(ii) Impairment of exclusive advertising agency right

The Group tests annually whether the exclusive advertising agency right has suffered any impairment in accordance with HKAS 36. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates. In determining the value-in-use, expected cash flows generated by the right are discounted to their present value, which requires significant judgement relating to the level of volume of air time being sold, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and operating costs. Had the actual results been different from the management's estimate, the exclusive advertising agency right might result in impairment.

(iii) Amortization and impairment of programmes and film rights

Programmes and film rights are amortized based on estimated projected revenue over their expected economic beneficial periods, and additional amortization will be charged if estimated projected revenue adversely differs from the previous estimation. Programmes and film rights are impaired to its net realizable value which is estimated based on projected revenues. Actual revenue might differ from such future revenue projections. In this regard, management prepares and regularly updates the detailed revenue projection for each significant programme and film. Had the actual results been different from the management's estimate, the programmes and film rights might result in impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

4. Critical accounting estimates and judgements *(Continued)*

(iv) Recoverability of material trade receivables

The Group has significant balance of trade receivables, mainly arising from television advertising and film and TV drama businesses. Management reviews the collectibility of its trade receivables on a regular basis. Provision for doubtful debts is established for trade receivables that are potentially uncollectible based on a specific identification method. Determining adequate provision for doubtful debts requires management's judgement. Conditions impacting the collectibility of the Group's trade receivables could cause actual write-offs to be materially different from the amounts reserved.

(v) Income taxes

The Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes taxation liabilities based on estimates of anticipated amounts of taxes that will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets were recognized primarily for the temporary difference arising on the intangible assets arising from the exclusive advertising agency right and tax losses. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(vi) Recoverability of investment in film production

Management assesses annually whether the film rights and films in progress have suffered any impairment. Such annual assessment is performed at each balance sheet date with reference mainly to current market conditions and trade history. If projected cash inflow from these films deteriorates, provision for impairment may be required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

5. Sales and other revenues

The Group is principally engaged in television advertising business and films and TV drama business. Revenues recognized during the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Sales		
Television advertising	**146,796**	217,725
Licensing and sub-licensing of film and TV programs	**39,581**	62,594
Securities trading	**—**	21,954
Provision of computer telephony integration engineering and IP related services	**705**	2,629
	187,082	304,902
Other revenues:		
Preference share dividend income	**3,180**	6,589
Unrealized gain on securities	**—**	330
Interest income	**15,131**	9,047
Miscellaneous	**321**	496
	18,632	16,462
Total revenues	**205,714**	321,364

The non-cash revenue arising from exchange of goods or services during the year included in sales from television advertising amounted to approximately HK$1,537,000 (2006: HK$2,264,000).

6. Segment information

At 31st December 2007, the Group is organized into two main business segments: (i) television advertising business (including the operation of a satellite TV channel through a jointly controlled entity); and (ii) film and TV drama business. Other Group operations mainly comprise the provision of IP Telephony and related services and trading of investment securities. Neither of these constitutes a separately reportable segment for the year.

There are no sales between the business segments.

The Group's two business segments both operate in the PRC. No geographical segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

6. Segment information *(Continued)*

	2007			
	Television advertising *HK$'000*	Film and TV drama *HK$'000*	Others *HK$'000*	Total *HK$'000*
Sales	146,796	39,581	705	187,082
Segment results	(58,098)	17,479	(2,826)	(43,445)
Interest income on loan to a JCE				12,669
Exchange gain				22,425
Share of profits of jointly controlled entities				3,990
Unallocated costs, net				(12,755)
				(17,116)
Finance costs				(48,184)
Fair value loss on financial assets at fair value through profit or loss				(1,652)
Fair value loss on investment in preference shares				(30,708)
Loss before taxation				(97,660)
Taxation				16,380
Loss for the year				(81,280)
Minority interests				—
Loss attributable to equity holders of the Company				(81,280)
Segment assets	813,073	164,576	21,049	998,698
Goodwill				496,379
Interests in jointly controlled entities				
— current				108,712
— non-current				240,532
Unallocated assets				157,653
Total assets				2,001,974
Segment liabilities	928,622	54,034	—	982,656
Unallocated liabilities				43,400
				1,026,056
Capital expenditure				
Allocated	187	10,724	15	10,926
Unallocated				4,144
Depreciation				
Allocated	662	294	13	969
Unallocated				678
Amortization	173,677	6,553	—	180,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

6. Segment information *(Continued)*

	2006			
	Television advertising *HK$'000*	Film and TV drama *HK$'000*	Others *HK$'000*	Total *HK$'000*
Sales	217,725	62,594	24,583	304,902
Segment results	44,623	32,121	6,877	83,621
Interest income on loan to a JCE				8,798
Exchange gain				9,446
Share of profits of jointly controlled entities				10,944
Unallocated costs, net				(10,915)
				101,894
Finance costs				(51,232)
Fair value gain on financial assets at fair value through profit or loss				185,553
Fair value gain on investment in preference shares				34,317
Share of profits of a former associated company				5,990
Profit before taxation				276,522
Taxation				(12,065)
Profit for the year				264,457
Minority interests				147
Profit attributable to equity holders of the Company				264,604
Segment assets	919,129	129,918	15,748	1,064,795
Goodwill	378,988	117,096	—	496,084
Interests in jointly controlled entities				
— current				84,384
— non-current				70,259
Unallocated assets				128,027
Total assets				1,843,549
Segment liabilities	929,652	48,949	649	979,250
Unallocated liabilities				124,354
				1,103,604
Capital expenditure				
Allocated	979,322	40,038	42	1,019,402
Unallocated				1,608
Depreciation				
Allocated	520	399	68	987
Unallocated				319
Amortization	164,176	17,584	—	181,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

6. Segment information *(Continued)*

Segment assets consist primarily of tangible and intangible assets, other non-current assets, receivables and operating cash. They exclude financial asset available for sale, investment in preference shares and preference share dividend receivable, financial assets at fair value through profit or loss, and cash and cash equivalents for the corporate use.

Segment liabilities comprise operating liabilities including payable and accrued liabilities. They exclude items such as convertible notes.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

Both of the Group's two business segments operate in the PRC. No geographical segmental information is presented.

7. Finance costs

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loan wholly repayable within five years	**1,438**	3
Other loans wholly repayable within five years	**—**	556
	1,438	559
Notional non-cash interest accretion on:		
— Convertible notes	**4,842**	4,380
— Pre-agreed periodic payments on exclusive advertising agency right	**41,904**	46,293
	46,746	50,673
	48,184	51,232

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

8. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after crediting and charging the following:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Other gains		
Exchange gain	**22,425**	9,446
Expenses by nature		
Depreciation of property, plant and equipment	**1,647**	1,306
Amortization of intangible assets	**180,230**	181,760
Auditors' remuneration	**1,980**	1,622
Provision for bad and doubtful debts	**27,038**	—
Loss on disposal of property, plant and equipment	**72**	—
Operating lease rentals — land and buildings	**4,532**	4,538
Staff costs (excluding directors' remuneration):		
Wages and salaries	**12,315**	16,101
Contributions to defined contribution pension schemes	**703**	457
	13,018	16,558

9. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year (2006: 17.5%). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

Provision for PRC Enterprise Income Tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33% for the year ended 31st December 2007 (2006: 33%). On 17th March 2007, the Corporate Income Tax Law of the People's Republic of China ("new tax law") was passed and will take effect on 1st January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the subsidiaries in the PRC now comprising the Group will be reduced from 33% to 25% from 1st January 2008. The new rates were considered to measure the Group's deferred tax assets and deferred tax liabilities as at 31st December 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

9. Taxation *(Continued)*

	2007	2006
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**—**	—
— Overseas taxation	**12**	24,003
Deferred income tax	**(16,392)**	(11,938)
	(16,380)	12,065

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated entities as follows:

	2007	2006
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(97,660)**	276,522
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(29,223)**	49,333
Income not subject to tax	**(556)**	(44,584)
Expenses not deductible for tax purposes	**6,943**	2,951
Utilization of previously unrecognized tax losses	**(5,983)**	—
Unrecognized tax losses	**2,718**	4,365
Effect on deferred taxation arising from change in statutory tax rate	**9,721**	—
Tax (credit)/charge	**(16,380)**	12,065

The weighted average applicable tax rate was 29.9% (2006: 17.8%). The increase is caused by a change in the profitability of the Group's subsidiaries in Hong Kong and China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

9. Taxation *(Continued)*

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	
	2007	2006
	HK$'000	*HK$'000*
Deferred tax assets to be recovered after 12 months	**34,629**	12,171
Deferred tax liabilities to be recovered after 12 months	**(4,583)**	—
Deferred tax assets, net	**30,046**	12,171

The movement in gross deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Group			
	Decelerated tax amortization in the PRC	**Impairment loss**	**Tax loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	15,061	—	—	15,061
Credited to the consolidated income statement	293	—	—	293
At 31 December 2006	15,354	—	—	15,354
Credited/(charged) to the consolidated income statement				
— current year temporary difference	6,761	7,297	17,795	31,853
— change in tax rate	(5,360)	(1,769)	(4,314)	(11,443)
Exchange difference	1,243	410	1,001	2,654
At 31 December 2007	17,998	5,938	14,482	38,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

9. Taxation *(Continued)*

Deferred tax liabilities:

	Group	
	Exchange difference	**Total**
	HK$'000	*HK$'000*
At 1 January 2006		
Charged to the consolidated income statement	(3,123)	(3,123)
Exchange difference	(60)	(60)
At 31 December 2006	(3,183)	(3,183)
Credited/(charged) to the consolidated income statement		
— current year temporary difference	(7,104)	(7,104)
— change in tax rate	1,722	1,722
Exchange difference	193	193
At 31 December 2007	(8,372)	(8,372)

Deferred tax assets are not recognized for tax losses carry forward to the extent that the realization of the related tax benefit through the future taxable profits is not probable. As at 31st December 2007, the Group had unrecognized tax losses of approximately HK$153,613,000 (2006: HK$250,586,000) to carry forward against future taxable income indefinitely, subject to Inland Revenue Department's approval.

10. Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of HK$7,446,000 (2006: profit of HK$199,774,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

11. Earnings per share

Basic

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

	2007	2006
	HK'000	*HK'000*
(Loss)/profit attributable to equity holders of the Company	**(81,280)**	264,604
Weighted average number of ordinary shares in issue (thousands)	**14,611,619**	11,236,269
Basic earnings per share (HK cents per share)	**(0.56)**	2.36

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of potential ordinary shares: share options, convertible notes and warrants. The convertible notes are assumed to have been converted into ordinary shares, and the net (loss)/profit is adjusted to eliminate the interest expense less the tax effect. For the share options and warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

There were no outstanding share options at 31st December 2007. The conversion of all potential ordinary shares arising from convertible notes and warrants would have an anti-dilutive effect on the earnings per share for the year ended 31st December 2007.

The conversion of all potential ordinary shares arising from convertible notes would have an anti-dilutive effect on the earnings per share for the year ended 31st December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

11. Earnings per share *(Continued)*

Diluted *(Continued)*

The diluted earnings per share for the year ended 31st December 2006 is calculated as below:

	2006
	HK'000
Profit attributable to equity holders of the Company	264,604
Weighted average number of ordinary shares in issue (thousands)	11,236,269
Adjustments for assumed conversion of share options (thousands)	93,909
Weighted average number of ordinary shares for diluted earnings per share (thousands)	11,330,178
Diluted earnings per share (HK cents per share)	2.34

12. Dividends

The directors do not recommend the payment of a final dividend in respect of the year ended 31st December 2007 (2006: Nil).

The Group has paid interim dividend in specie of HK$211,206,000 (HK$0.022 per share) in May 2006 by distributing 113,318,812 ordinary shares of DVN (Holdings) Limited to its then shareholders. The distribution was made out of share premium account of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

13. Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2007	2006
	HK$'000	*HK$'000*
Fees:		
Non-executive directors:	**576**	600
Other emoluments:		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	**1,210**	4,994
Contributions to defined contribution Mandatory Provident Fund	**24**	30
	1,810	5,624

The remuneration of each director for the year ended 31st December 2007 is set out below:

Name of director	**Fees**	**Salary**	**Discretionary bonuses**	**Other benefits**	**Employer's contribution to pension scheme**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Mr. Dong Ping	—	400	—	—	8	408
Mr. Ko Chun Shun, Johnson	—	632	158	—	4	794
Mr. Tsoi Tong Hoo, Tony	240	—	20	—	12	272
Mr. Wilton Timothy Carr Ingram#	—	—	—	—	—	—
Dr. Wong Yau Kar, David	144	—	—	—	—	144
Mr. Yuen Kin	144	—	—	—	—	144
Mr. Yin Dikun	48	—	—	—	—	48

Resigned in 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

13. Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Ko Chun Shun, Johnson	—	1,200	—	—	—	1,200
Mr. Dong Ping	—	1,896	158	—	12	2,066
Mr. Shen Ka Yip, Timothy*	—	720	1,000	—	8	1,728
Mr. Tsoi Tong Hoo, Tony	240	—	20	—	10	270
Mr. Cheong Chow Yin*	72	—	—	—	—	72
Mr. Wilton Timothy Carr Ingram	—	—	—	—	—	—
Dr. Wong Yau Kar, David	144	—	—	—	—	144
Mr. Yuen Kin	144	—	—	—	—	144

* Resigned in 2006

(a) Other than as presented above, for 2006 and 2007 there were:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

13. Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: three) directors and ex-director whose emoluments are reflected in the analysis presented above. The emoluments payable to the three (2006: two) individuals during the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing benefits, bonuses, other allowances and benefits in kind	**1,959**	800
Contributions to defined contribution Mandatory Provident Fund	**24**	18
	1,983	818

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
HK$NIL — HK$1,500,000	**3**	2
HK$1,500,001 — HK$2,000,000	**—**	—
	3	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

14. Property, plant and equipment

	Plant, equipment and other assets	Total
	HK$'000	*HK$'000*
Cost		
At 1st January 2006	8,487	8,487
Additions	6,913	6,913
Acquisition of subsidiary *(note 29(b))*	758	758
Write-offs	(227)	(227)
Adjustment to translation reserve	126	126
At 31st December 2006	16,057	16,057
Accumulated depreciation		
At 1st January 2006	7,865	7,865
Acquisition of subsidiaries *(note 29(b))*	35	35
Charge for the year	1,306	1,306
Write-offs	(227)	(227)
Adjustment to translation reserve	21	21
At 31st December 2006	9,000	9,000
Net book value:		
At 31st December 2006	7,057	7,057
Cost		
At 1st January 2007	16,057	16,057
Additions	4,950	4,950
Disposal	(533)	(533)
Disposal of subsidiaries *(note 29(c))*	(9,792)	(9,792)
Adjustment to translation reserve	470	470
At 31st December 2007	11,152	11,152
Accumulated depreciation		
At 1st January 2007	9,000	9,000
Disposal	(184)	(184)
Disposal of subsidiaries *(note 29(c))*	(8,173)	(8,173)
Charge for the year	1,647	1,647
Adjustment to translation reserve	103	103
At 31st December 2007	2,393	2,393
Net book value:		
At 31st December 2007	8,759	8,759

Depreciation expense of HK$1,647,000 (2006: HK$1,306,000) has been expensed in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

15. Intangible assets

	Goodwill	Exclusive advertising agency right	Program and film rights	Program and film production in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2006					
Cost	189,798	—	50,562	12,862	253,222
Accumulated amortization	—	—	(5,265)	—	(5,265)
Net book amount	189,798	—	45,297	12,862	247,957
Year ended 31st December 2006					
Opening net book amount	189,798	—	45,297	12,862	247,957
Acquisition of a subsidiary	3,846	—	—	—	3,846
Additional purchase consideration and transaction costs	302,329	—	—	—	302,329
Additions	—	976,180	8,857	29,060	1,014,097
Amortization expense	—	(164,176)	(17,584)	—	(181,760)
Exchange difference	111	24,948	1,406	1,135	27,600
Closing net book amount	496,084	836,952	37,976	43,057	1,414,069
At 31st December 2006					
Cost	496,084	1,004,342	58,503	43,057	1,601,986
Accumulated amortization	—	(167,390)	(20,527)	—	(187,917)
Net book amount	496,084	836,952	37,976	43,057	1,414,069
Year ended 31st December 2007					
Opening net book amount	**496,084**	**836,952**	**37,976**	**43,057**	**1,414,069**
Additions	**—**	**—**	**7,111**	**3,009**	**10,120**
Reclassification	**—**	**—**	**8,691**	**(8,691)**	**—**
Disposals	**—**	**—**	**—**	**(9,027)**	**(9,027)**
Amortization expense	**—**	**(173,677)**	**(6,553)**	**—**	**(180,230)**
Exchange difference	**295**	**55,988**	**2,431**	**2,676**	**61,390**
Closing net book amount	**496,379**	**719,263**	**49,656**	**31,024**	**1,296,322**
At 31st December 2007					
Cost	**496,379**	**1,078,894**	**75,211**	**31,024**	**1,681,508**
Accumulated amortization	**—**	**(359,631)**	**(25,555)**	**—**	**(385,186)**
Net book amount	**496,379**	**719,263**	**49,656**	**31,024**	**1,296,322**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

15. Intangible assets *(Continued)*

During the year ended 31st December 2006, Beijing Hua Yi Qian Si Advertising Company Limited* ("Qiansi"), a wholly-owned subsidiary of the Group, has entered into an exclusive advertising agency agreement ("Agreement") with Hai Nan Haishi Tourist Satellite TV Media Co., Ltd.* ("Travel TV"), an associated company of a jointly controlled entity of the Group. Under the Agreement, Qiansi has been granted an exclusive right to sell all of the advertising resources of Travel TV in the period of up to six years since 1st January 2006. In return Qiansi has agreed to make pre-agreed monthly payments to Travel TV during the same period. Pre-agreed annual payment under the Agreement ranged from RMB180 million to RMB207 million per annum.

The Group considers the exclusive advertising agency right to be an intangible asset representing the right to sell Travel TV's advertising resources. The present value of pre-agreed periodic payments to be made in subsequent years are capitalized and accounted for as intangible assets in the consolidated balance sheet, and those pre-agreed periodic payments constitute a contractual obligation to deliver cash and hence are considered to be a financial liability. The exclusive advertising agency right is amortized on a straight-line basis from the effective date of the right over the remaining license period and is stated net of accumulated amortization. Interest accreted on the present value of pre-agreed periodic payments is charged to the consolidated income statement within finance costs.

Amortization of HK$180,230,000 (2006: HK$181,760,000) is included in the cost of sales.

(*) The names of the companies referred to above represent management's best effort in translating the Chinese names of the companies as no English names for these companies have been registered.

Impairment tests for cash-generating units containing goodwill

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

	2007	2006
	HK$'000	*HK$'000*
TV advertising business	**379,213**	378,988
Film and TV drama business	**117,166**	117,096
	496,379	496,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

15. Intangible assets *(Continued)*

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

Key assumptions used for value-in-use calculations:

	TV advertising business
— Average annual revenue growth rate in five-year period	24%
— Average annual growth rate beyond the five-year period	9%
— Discount rate	15%

	Film and TV drama business
— Average annual gross margin in five-year period	13%
— Average annual gross margin beyond the five-year period	0%
— Discount rate	15%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

16. Investments in subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares at cost	**679,295**	193,018
Provision for impairment loss	**(140,000)**	(140,000)
	539,295	53,018
Amounts due from subsidiaries — non-current	**—**	674,948
	539,295	727,966

As at 31st December 2007 and 2006, all the non-current and current balances with subsidiaries were unsecured, interest-free and not repayable within one year.

Particulars of the principal subsidiaries are set out in note 34 to the consolidated financial statements.

17. Interests in jointly controlled entities and amounts due from a jointly controlled entity and its subsidiaries

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets	**3,565**	(528)
Loans to a jointly controlled entity	**236,967**	70,787
	240,532	70,259

As at 31st December 2007 and 2006, loans to a jointly controlled entity were unsecured, interest-bearing at prevailing market rates and not repayable in the coming twelve months.

The current portion of the amount due from jointly controlled entity is unsecured, interest-bearing at prevailing market rates and without fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

17. Interests in jointly controlled entities and amounts due from a jointly controlled entity and its subsidiaries *(Continued)*

The principal jointly controlled entity companies as at 31st December 2007 are as follows:

	Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/preference share/registered capital	Interest held indirectly		Principal activities and place of operation
				2007	2006	
(1)	**AUFM GROUP** (#)					
	Asia Union Film and Media ("AUFM") (*)	The PRC, limited liability company	RMB120,000,000	**50%**	50%	Investment in television drama, film production and advertising production, in the PRC
	Hai Nan Haishi Travel Satellite TV Media Co., Ltd ("Hainan Haishi") (*)	The PRC, limited liability company	RMB115,963,100	**24.50%**	24.50%	Production of television programmes (other than news) for the Travel Channel in the PRC
	Beijing Ying Shi Film & Television Art Limited Liability Company (*)	The PRC, limited liability company	RMB500,000	**30%**	30%	Television drama production in the PRC
	Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	The PRC, limited liability company	RMB1,020,000	**25.50%**	25.50%	Advertisement production in the PRC
(2)	上海艾普華億廣告有限公司	The PRC, limited liability company	RMB1,000,000	**49%**	49%	Advertising agency

(#) On 3rd July 2007, the Group has entered into an agreement with Poly Culture and Arts Co., Ltd. ("PCACL") pursuant to which the Group has agreed to repay the shareholder's loans of approximately RMB150 million on behalf of AUFM to PCACL. On the other hand, PCACL has agreed to transfer to the Group its right to share 25% of the future dividends and other distribution of AUFM out of the retained distributable profits of AUFM. After the repayment of the abovementioned shareholder's loans by the Group, AUFM will continue to be a jointly controlled entity of the Group but the profit sharing ratio of the Group in AUFM will increase from 50% to 75%. For details of the transaction, please refer to the circular issued by the Company dated 27th July 2007. The Group has already fully repaid the abovementioned shareholder's loans on behalf of AUFM in 2007.

(*) The names of the companies referred to above represent management's best effort in translating the Chinese names of the companies as no English names for these companies have been registered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

17. Interests in jointly controlled entities and amounts due from a jointly controlled entity and its subsidiaries *(Continued)*

The consolidated results and financial position of the AUFM Group at 31st December 2007 were as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Assets:		
Non-current assets	**359,941**	308,402
Current assets	**20,873**	21,731
	380,814	330,133
Liabilities:		
Current liabilities	**(384,850)**	(274,048)
Long-term liabilities	**(76,650)**	(139,008)
	(461,500)	(413,056)
Net Liabilities	**(80,686)**	(82,923)

	2007	2006
	HK$'000	*HK$'000*
Income	**14,995**	21,131
Share of profit of an associated company	**29,485**	19,440
Expenses	**(36,374)**	(18,683)
Profit for the year	**8,106**	21,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

18. Financial instruments by category — Group and Company

The accounting policies for financial instruments were applied to the line items below.

	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Group				
Assets as per consolidated balance sheet				
As at 31st December 2007				
Trade receivables	77,711	—	—	77,711
Due from a jointly controlled entity and its subsidiaries	108,712	—	—	108,712
Financial assets at fair value through profit or loss	—	20,538	—	20,538
Payments, deposits and other receivables	49,483	—	—	49,483
Pledged bank deposits	33,983	—	—	33,983
Cash and bank balances	131,305	—	—	131,305
Total	401,194	20,538	—	421,732
As at 31st December 2006				
Available for sale financial assets	—	—	360	360
Trade receivables	85,034	—	—	85,034
Amounts due from a jointly controlled entity and its subsidiaries	84,384	—	—	84,384
Preference dividends receivable	2,422	—	—	2,422
Financial assets at fair value through profit or loss	—	11,150	—	11,150
Investment in preference shares	—	—	97,895	97,895
Prepayments, deposits and other receivables	28,301	—	—	28,301
Pledged bank deposits	17,000	—	—	17,000
Cash and bank balances	13,447	—	—	13,447
Total	230,588	11,150	98,255	339,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

18. Financial instruments by category — Group and Company *(Continued)*

Group

Liabilities as per consolidated balance sheet

	Other financial liabilities
	HK$'000
As at 31st December 2007	
Short-term borrowings	32,332
Agency fee payable	891,412
Current income tax liabilities	26,594
Other payables and accrued liabilities	30,204
Convertible notes	40,931
Total	1,021,473
As at 31st December 2006	
Trade, other payables and accrued liabilities	61,449
Short-term borrowings	22,776
Agency fee payable	873,380
Current income tax liabilities	24,769
Convertible notes	121,230
Total	1,103,604

Company

Assets as per balance sheet

	Loans and receivables
	HK$'000
As at 31st December 2007	
Prepayments, deposits and other receivables	1,071
Amounts due from subsidiaries	486,491
Cash and cash equivalents	933
Total	488,495
As at 31st December 2006	
Prepayments, deposits and other receivables	1,006
Amounts due from subsidiaries	114,816
Cash and cash equivalents	3,509
Total	119,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

18. Financial instruments by category — Group and Company *(Continued)*

Company

Liabilities as per balance sheet

	Other financial liabilities
	HK$'000
As at 31st December 2007	
Other payables and accrued liabilities	2,320
Convertible notes	40,931
Total	43,251
As at 31st December 2006	
Amounts due to subsidiaries	51,662
Other payables and accrued liabilities	2,120
Convertible notes	121,230
Total	175,012

19. Investment in preference shares

	Group	
	2007	2006
	HK$'000	*HK$'000*
Investment in preference shares are split into:		
— Available-for-sale portion	—	48,750
— Derivative portion	—	49,145
End of year	—	97,895

Investment in preference shares represents 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited. These preference shares are exchangeable, after adjustment, to approximately 31,250,000 ordinary shares of DVN (Holdings) Limited, a listed company, at an adjusted conversion price of HK$3.72 per share, and are subject to adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

19. Investment in preference shares *(Continued)*

The change in the fair value of the derivative position of the investment in preference shares is included in the consolidated income statement. During the year, fair value loss on the investment in preference shares amounted to HK$30,708,000 (2006: fair value gain of HK$34,317,000). These preference shares were sold to a third party at a consideration of approximately HK$68.6 million in June 2007. For details of the transaction, please refer to the announcement issued by the Company dated 21st June 2007.

20. Trade receivables

At 31st December 2007, the aging analysis of trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 — 3 months	**46,886**	26,306
4 — 6 months	**1,812**	32,974
Over 6 months	**56,665**	25,754
	105,363	85,034
Provision for doubtful debts (all made against trade receivables aged over 6 months)	**(27,652)**	—
	77,711	85,034

The net carrying amounts of the trade receivables of the Group were denominated in the following currencies:

	2007	2006
	HK$'000	*HK$'000*
HK$	**35,000**	—
RMB	**42,711**	85,034
	77,711	85,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

20. Trade receivables *(Continued)*

The Group generally requires customers to pay in advance, but grants a credit period of 30 days to 90 days to some customers.

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform completely as contracted. As at 31st December 2007, trade receivables of HK$27,652,000 (2006: Nil) were considered impaired and thus the same amount of provision for doubtful debts was made against those trade receivables balance (all aged over 6 months).

The aging analysis of trade receivables that are past due but not considered impaired is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
4-6 months	**1,812**	32,974
Over 6 months	**29,013**	25,754
	30,825	58,728

Of the above trade receivables that are past due but not impaired, subsequent settlements of approximately HK$15 million have been received. Management does not expect any material losses from non-performance by these counterparties.

Movements on the provision for doubtful debts are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1st January	**—**	—
Provision for doubtful debts	**27,038**	—
Exchange differences	**614**	—
At 31st December	**27,652**	—

The creation and release of provision for doubtful debts have been included in administrative expenses in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

20. Trade receivables *(Continued)*

The carrying amounts of trade receivables approximated their fair value.

The maximum exposure to credit risk at the balance sheet date is the fair value of trade receivables disclosed above.

Included in the trade receivables was a net amount due from a related party of approximately HK$6,605,000 (2006: HK$16,324,000).

21. Financial assets at fair value through profit or loss

	Group	
	2007	2006
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong	**20,538**	11,150
Market value of listed securities	**20,538**	11,150

The fair value of all equity securities is based on their current bid prices in active market.

22. Prepayments, deposits and other receivables

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments, deposits and other receivable	**40,177**	22,591	**1,071**	1,006
Amounts due from a related company and subsidiaries of JCE *(i)*	**9,306**	5,710	**—**	—
	49,483	28,301	**1,071**	1,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

22. Prepayments, deposits and other receivables *(Continued)*

The carrying amounts of prepayments, deposits and other receivables of the Group were denominated in the following currencies:

	2007	2006
	HK$'000	*HK$'000*
HK$	**14,511**	4,550
RMB	**34,972**	23,751
	49,483	28,301

(i) The amounts due from a related company and subsidiaries of JCE were unsecured, non-interest bearing and repayable on demand.

The carrying amounts of prepayments, deposits and other receivables approximated their fair value.

The maximum exposure to credit risk at the balance sheet date is the fair value of prepayments, deposits and other receivables disclosed above.

23. Cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**131,305**	13,447	**933**	3,509
Pledged bank deposits	**33,983**	17,000	**—**	—
	165,288	30,447	**933**	3,509
Denominated in				
HK$	**140,818**	20,828	**933**	3,509
RMB	**24,470**	9,568	**—**	—
USD	**—**	51	**—**	—
	165,288	30,447	**933**	3,509
Maximum exposure to credit risk	**165,288**	30,447	**933**	3,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

24. Trade payables

At 31st December 2007, the aging analysis of trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 — 3 months	**—**	17
4 — 6 months	**—**	231
Over 6 months	**—**	35
	—	283

25. Short-term bank borrowings

	Group	
	2007	2006
	HK$'000	HK$'000
Wholly repayable within one year:		
Bank loan	**32,332**	16,000
Other loan	**—**	6,776
	32,332	22,776

The bank loan is interest-bearing at 5% per annum and is secured against the Group's pledged bank deposits of HK$33,983,000 (2006: HK$17,000,000). The other loan was interest bearing at 6% per annum, unsecured and was fully repaid during the year.

The fair values of current borrowings equal their carrying amount.

26. Convertible notes

In September 2006, the Company issued a convertible note ("Second Tranche Convertible Note") which can be converted into 3,202,234,673 ordinary shares at a conversion price of HK$0.049 per share, as additional considerations for the acquisition of the 100% equity interest in Anglo Alliance Co., Ltd completed in May 2005. The terms of the Second Tranche Convertible Note are disclosed in the Company's circular dated 13th May 2005.

During the year, part of the Second Tranche Convertible Note has been converted into 2,202,234,673 ordinary shares at a conversion price of HK$0.049 per share. The remaining part of the outstanding convertible notes as at 31st December 2007 is convertible into 1,000,000,000 ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

26. Convertible notes *(Continued)*

The fair value of Second Tranche Convertible Note has been split between the liability and equity portion, as follows:

	Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
Equity portion		
Beginning of year	**181,000**	—
Issuance	**—**	181,000
Conversion	**(124,477)**	—
End of year	**56,523**	181,000
Liability portion		
Beginning of year	**121,230**	—
Issuance	**—**	118,820
Conversion	**(85,141)**	—
Interest accretion	**4,842**	2,410
End of year	**40,931**	121,230
Total fair value		
Beginning of year	**302,230**	—
End of year	**97,454**	302,230

The net book value of the liability portion of Second Tranche Convertible Note at 31st December 2007 approximated its fair value, which is calculated using cash flows discounted at a rate of 7.85% per annum, based on the yield of bonds issued in US dollar with a rating of B, whose maturity is 3 to 4 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

27. Share capital

	Authorized				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		*No. of shares*		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1st January 2006 and 31st December 2006	240,760	2,408	30,000,000	300,000	302,408
At 1st January 2007 and 31st December 2007	240,760	2,408	30,000,000	300,000	302,408

	Issued and fully paid				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		*No. of shares*		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1st January 2006	—	—	9,916,474	99,165	99,165
Conversion of convertible notes (i)	—	—	2,122,137	21,221	21,221
At 31st December 2006	—	—	12,038,611	120,386	120,386
At 1st January 2007	—	—	12,038,611	120,386	120,386
Issue of shares on placements (1), (4)	—	—	1,700,000	17,000	17,000
Conversion of convertible notes (2)	—	—	2,202,235	22,022	22,022
Issue of shares — exercise of share options (3)	—	—	277,400	2,774	2,774
At 31st December 2007	—	—	16,218,246	162,182	162,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

27. Share capital *(Continued)*

Ordinary shares

During the year ended 31st December 2007, the Company issued ordinary shares as follows:

(1) In March 2007, 500,000,000 new ordinary shares were issued upon a share placement at a subscription price of HK$0.07 per share. Details of the transaction is disclosed in the Company's announcement dated 20th March 2007.

(2) In March and April 2007, a total of 2,202,234,673 new ordinary shares were issued upon the conversion of part of the Second Tranche Convertible Note at a conversion rate of HK$0.049 per share (note 26).

(3) In May 2007, a total of 277,400,000 new ordinary shares were issued upon the exercise of outstanding share options at an exercise price of HK$0.054 per share.

(4) In August 2007, 1,200,000,000 new ordinary shares were issued upon a share placement at a subscription price of HK$0.16 per share. Details of the transaction is disclosed in the Company's announcement dated 31st August 2007.

During the year ended 31st December 2006, the Company issued ordinary shares as follows:

(i) In May 2006, 2,122,136,612 new ordinary shares were issued upon the full conversion of the First Tranche Convertible note at a conversion rate of HK$0.049 per share. Details of the transaction is disclosed in the Company's circular dated 13th May 2005.

Share options

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons (as defined in the Option Scheme) 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 both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 30th June 2005, the Company can grant up to 991,647,402 share options to the Qualified Persons.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

27. Share capital *(Continued)*

Share options *(Continued)*

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. During the year, no share-based compensation is charged to the consolidated income statement (2006: Nil).

Movement of share options during the year is as follows:

Date of share options granted	Number of share options outstanding as at 1st January 2007	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2007	Exercise period	Exercise price per share
							HK$
1/12/2004	277,400,000	—	—	(277,400,000)	—	1/1/2005 to 31/12/2009	0.054
	277,400,000	—	—	(277,400,000)	—		

Warrants

In March 2007, the Company has agreed to issue 1,900,000,000 warrants, together with 500,000,000 new ordinary shares at a subscription price of HK$0.07 each as abovementioned, to Speedy Swift Investments Limited, a company wholly-owned by China Broadband Capital Partners, L.P. Each warrant will confer upon its holder the right to subscribe for one new ordinary share of the Company at the exercise price of HK$0.10 per share (subject to adjustments) within one year after the issue of the warrant. The warrants have been exercised by Speedy Swift Investments Limited in full in April 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

28. Reserves

Group

	Attributable to the equity holders of the Company									
	Share premium *(ii)*	Merger reserve *(i)*	Available-for-sale investments	Equity component of convertible notes	Currency translation reserve	Interests in a former associated company	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January 2006	447,208	860,640	120	29,984	1,358	1,566	(1,013,193)	327,683	—	327,683
Profit for the year	—	—	—	—	—	—	264,604	264,604	(147)	264,457
Conversion of convertible notes	87,803	—	—	(29,984)	—	—	—	57,819	—	57,819
Issue of convertible notes — equity component	—	—	—	181,000	—	—	—	181,000	—	181,000
Dividend in specie — interest in ordinary shares of DVN (Holdings) Limited	(209,640)	—	—	—	—	(1,566)	—	(211,206)	—	(211,206)
Currency translation differences	—	—	—	—	(341)	—	—	(341)	—	(341)
Injection by minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	147	147
Balance at 31st December 2006	325,371	860,640	120	181,000	1,017	—	(748,589)	619,559	—	619,559
Balance at 1st January 2007	325,371	860,640	120	181,000	1,017	—	(748,589)	619,559	—	619,559
Loss for the year	—	—	—	—	—	—	(81,280)	(81,280)	—	(81,280)
Conversion of convertible notes	187,597	—	—	(124,477)	—	—	—	63,120	—	63,120
Issuance of shares — placement	202,578	—	—	—	—	—	—	202,578	—	202,578
Issuance of shares — exercise of share options	12,206	—	—	—	—	—	—	12,206	—	12,206
Revaluation of available-for-sale investment	—	—	(120)	—	—	—	—	(120)	—	(120)
Currency translation differences	—	—	—	—	(2,327)	—	—	(2,327)	—	(2,327)
Balance at 31st December 2007	727,752	860,640	—	56,523	(1,310)	—	(829,869)	813,736	—	813,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

28. Reserves *(Continued)*

Company

	Share premium (ii)	Equity component of convertible notes	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2006	447,208	29,984	(154,246)	322,946
Conversion of convertible notes	87,803	(29,984)	—	57,819
Issue of convertible notes — equity component	—	181,000	—	181,000
Dividend in specie — interest in ordinary shares of DVN (Holdings) Limited	(209,640)	—	—	(209,640)
Profit for the year	—	—	199,774	199,774
At 31st December 2006	325,371	181,000	45,528	551,899
At 1st January 2007	325,371	181,000	45,528	551,899
Conversion of convertible notes	187,597	(124,477)	—	63,120
Issuance of shares — placement	202,578	—	—	202,578
Issuance of shares — exercise of shares options	12,206	—	—	12,206
Loss for the year	—	—	(7,446)	(7,446)
At 31st December 2007	727,752	56,523	38,082	822,357

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

29. Notes to the consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations

	2007	2006
	HK$'000	HK$'000
(Loss)/profit before taxation	(97,660)	276,522
Adjustments for:		
— Share of profit of jointly controlled entities	(3,990)	(10,944)
— Share of profit of a former associated company	—	(5,990)
— Interest income	(15,131)	(9,047)
— Depreciation	1,647	1,306
— Loss on disposal of property, plant and equipment	72	—
— Amortization of intangible assets	180,230	181,760
— Fair value gain on financial assets at fair value through profit or loss	—	(185,553)
— Impairment loss on long-term investment	240	—
— Preference share dividend income	(3,180)	(6,589)
— Finance costs	48,184	51,232
— Decrease/(increase) in fair value of preference shares	30,708	(34,317)
— Increase in fair value of preference share dividend receivable	—	(2,257)
Operating profit before working capital changes	141,120	256,123
Change in working capital:		
— Decrease in inventories	—	10
— Increase in amounts due from a jointly controlled entity and its subsidiaries	(23,683)	(10,880)
— Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	4,361	(49,538)
— Decrease in agency fee payable, trade payables, other payables and accrued liabilities	(117,155)	(169,933)
Cash generated from operations	4,643	25,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

29. Notes to the consolidated cash flow statement *(Continued)*

(b) Acquisition of subsidiaries

Details of acquisition of subsidiaries are as follows:

	2007	2006
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	—	723
Prepayments, deposits and other receivables	—	36,914
Cash and cash equivalents	—	1,589
Payables and accrued liabilities	—	(40,399)
	—	(1,173)
Goodwill	—	3,846
	—	2,673
Satisfied by:		
Cash	—	2,673
Cash and cash equivalents in subsidiaries acquired	—	(1,589)
Cash outflow on acquisition	—	1,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

29. Notes to the consolidated cash flow statement *(Continued)*

(c) Disposal of subsidiaries

Details of disposal of subsidiaries are as follows:

	2007	2006
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**1,619**	—
Trade receivables	**608**	—
Prepayments, deposits and other receivable	**2,971**	—
Cash and cash equivalents	**4,469**	—
Payables and accrued liabilities	**(1,362)**	—
	8,305	—
Gain/loss on disposal	**—**	—
Consideration receivable	**(8,305)**	—
Cash received upon disposal of subsidiaries	**—**	—
Cash and cash equivalents in subsidiaries disposed	**(4,469)**	—
Cash outflow on disposal of subsidiaries	**(4,469)**	—

(d) Significant non-cash transactions

In March and April 2007, a total of 2,202,234,673 new ordinary shares were issued upon the conversion of part of the Second Tranche Convertible Note at a conversion rate of HK$0.049 per share.

During the year, the Group received interest income of HK$12,669,000 (2006: HK$8,798,000) from a jointly controlled entity, which remained unsettled as at 31st December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

30. Commitments

At 31st December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**5,198**	128
Later than one year and not later than five years	**7,252**	—
	12,450	128

	Equipment	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**—**	14
Later than one year and not later than five years	**—**	42
	—	56

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

31. Related party transactions

(i) Saved as disclosed elsewhere, the Group has entered into the following significant related party transactions during the year:

	2007	2006
	HK$'000	*HK$'000*
Purchase of programs and film rights from a JCE	**—**	1,000
Sale of advertising resources to an associated company of a JCE	**—**	44,136
Interest income from loans to a JCE	**12,669**	8,798
Purchase of property, plant and equipment from a JCE	**—**	2,040
Reduction of agency fee payable to Hainan Haishi	**33,006**	—

(ii) Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 13(a) and certain of the highest paid employees is disclosed in note 13(b).

32. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 24th April 2008.

33. Events after the balance sheet date

(i) On 31st March 2008, the Company has conditionally agreed with Selamead Holdings Limited (the "Vendor"), a company incorporated in the British Virgin Islands, and Mr. Huang Ming Guo (the "Guarantor") to purchase the entire issued share capital of Blower Investments Limited, which is wholly-owned by the Vendor. Blower Investments Limited and its subsidiaries will be engaged in advertising agency business mainly in respect of television advertising in the PRC. The total consideration for the acquisition depends on the fair value of the exclusive advertising agency agreement with respect to a major satellite television channel in the PRC for years 2009 to 2011 to be entered by the Blower Investments Group, and the results of the Blower Investments Group for year 2008 and 2009. The consideration will be ranged from HK$0 to HK$420 million which shall be satisfied by the issue of consideration shares at an issue price of HK$0.20 per share to the Vendor over three tranches. For details of the transaction, please refer to the announcement issued by the Company dated 9th April 2008. As of the date of the financial statements, the acquisition has not been completed.

(ii) On 11th April 2008, Speedy Swift Investments Limited has exercised all the warrants carrying rights to subscribe for 1,900,000,000 shares of the Company at a price of HK$0.0991 (after adjustment) per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2007

34. Particulars of principal subsidiaries

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Anglo Alliances Co. Ltd (#)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (*)	PRC, co-operative joint venture	RMB30,000,000	100%	Investment holding and licensing of films and TV drama
Beijing Hua Yi Qian Si Advertising Company Limited (*)	PRC, co-operative liability company	RMB5,000,000	100%	Advertising agency
Asian Union New Media (Hong Kong) Limited (#)	Hong Kong, limited company	HK$2 ordinary	100%	Group treasury and administrative services in Hong Kong
Universal Appliances Limited (#)	Hong Kong, limited company	HK$499,373,000 ordinary HK$43,337,000 preference	100%	Investment holding and licensing of films

Shares held directly by the Company

* The names of the companies referred to above represent management's best effort in translating the Chinese names of the companies as no English names for these companies have been registered.

Except for Asian Union New Media (Hong Kong) Limited and Universal Appliances Limited, the statutory financial statements of all other subsidiaries for year ended 31st December 2006 and 2007 are not audited by PricewaterhouseCoopers.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, are summarized below.

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
Continuing operations	**187,082**	304,902	34,072	38,630	30,011
(Loss)/profit before tax	**(97,660)**	276,522	(21,857)	(8,839)	(69,851)
Taxation	**16,380**	(12,065)	(330)	(1,092)	(195)
Minority interests	**—**	147	—	—	—
(Loss)/profit attributable to shareholders	**(81,280)**	264,604	(22,187)	(9,931)	(70,046)
Property, plant and equipment	**8,759**	7,057	622	2,520	2,560
Intangible assets	**1,296,322**	1,414,069	247,957	—	1,685
Interests in jointly controlled entities and subsidiaries	**240,532**	70,259	56,130	—	—
Interests in associated companies	**—**	—	19,663	15,348	15,837
Preference dividend receivable — non-current portion	**—**	—	14,896	—	—
Available-for-sale financial assets	**—**	360	360	—	—
Investment in preference shares-non-current	**—**	—	63,578	—	—
Investment securities	**—**	—	—	36,000	36,000
Other assets	**34,629**	12,171	—	2,065	4,533
Current assets	**421,732**	339,633	129,812	38,046	72,653
Total assets	**2,001,974**	1,843,549	533,018	93,979	133,268
Current liabilities	**406,939**	290,830	29,100	35,070	59,428
Long-term liabilities	**619,117**	812,774	77,070	5,000	10,000
Total liabilities	**1,026,056**	1,103,604	106,170	40,070	69,428
Minority interests	**—**	—	—	—	—
Net assets	**975,918**	739,945	426,848	53,909	63,840

Notes to the five year summary:

(1) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting period beginning on or after 1st January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in the financial statements. Figures for 2007, 2006 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions but figures for earlier years have not been restated.