mediachina

CORPORATION LIMITED

華 億 傳 媒 有 限 公 司

Media China Corporation Limited

華億傳媒有限公司

(Formerly known as: Asian Union New Media (Group) Limited (前稱華億新媒體(集團)有限公司)

(incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立之有限公司)

(Stock Code 股份代號：419)

annual report 2008

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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. Hau Wai Man, Raymond

Qualified Accountant
Mr. Hau Wai Man, Raymond

Independent Auditor
PricewaterhouseCoopers
Certified Public Accountants

Principal Bankers
Hang Seng Bank
DBS Bank

Solicitors
The Linklaters
Commerce & Finance Law Offices

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

Principal Office in Hong Kong
Room 1516, 15th Floor, Citic Tower
1 Tim Mei Avenue
Central, Hong Kong

Branch 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.mediachina-corp.com

Chairman's Statement

On behalf of Media China Corporation Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

During the year 2008, the Company changed the composition of its board of directors and adjusted the overall business strategies of the Group. Leveraging on the extensive experience and connections of new members of the board and management, we actively expanded traditional satellite TV channels and explored new media channels such as digital TVs, mobile TVs and IPTVs. The Group strove hard to establish an integrated platform that blended traditional media and new media together. Meanwhile, we further enhanced the quality of our TV programs to make them more varied and interesting. Through centralized management of various advertising resources, the Group realized economies of scale and synergies brought about by its cross media platform. To better reflect our expansion into other media, the name of the Company was changed from Asian Union New Media (Group) Limited to Media China Corporation Limited, effective from 20 October 2008.

Dramatic shifts in the global economy were taking place in the second half of 2008. On top of that, severe natural disasters swept across China. In the first half, calamitous earthquakes shook Sichuan Province, leading to a blackout of certain television programs and advertising. In the second half, the financial tsunami swiftly spread over the entire world. As a result, China's economy slowed down markedly, with GDP growth sliding to 6.8% in the fourth quarter. The national real GDP for the full year of 2008 grew by 9%, the lowest level for 7 years. Nonetheless, underpinned by the Beijing Olympic Games, expenditure on media advertising in China, which was mainly driven by domestic demand, soared by 15% over the previous year. Expenditure on television advertising continued to exceed that of other media. The Group's television advertising operation maintained satisfactory growth in 2008, with revenue from this segment increasing by 21% over 2007. However, in light of worsening economic conditions, the Group had to make a one-off non-cash impairment provision of HK$249,746,000 on goodwill, programme and film rights, programme and film production in progress and receivables arising from sales made in prior years, leading to a substantial loss for 2008. The provision will not affect the Group's cash position and the Board believes that the provision is adequate to cover the potential loss for 2008. Impairment provisions of such scale are unlikely to recur in 2009.

To strengthen the position of the Travel Channel as a travel, leisure and lifestyle program provider, the Group actively enhanced the quality of its programming by recruiting and cultivating good relationships with media talent. Our maneuvers were aimed at appealing to audiences with higher incomes and a taste for a better lifestyle so that more famous brands would use the Travel Channel as their priority advertising venue. In December last year, the production house jointly established by the Group and BAZAAR, a renowned magazine, rolled out two series of lifestyle programs for prime time airing on the Travel Channel. Our cooperation symbolized Media China's determination in making its programs more varied and interesting.

Chairman's Statement

We also made big strides toward the expansion of satellite TV channels advertising resources. In October 2008, the Group successfully acquired the entire equity interest in Blower Investments Limited and hence, through its subsidiary, became the exclusive advertising agency of Guangdong Satellite TV for a 3-year period from 1 January 2009 to 31 December 2011. Guangdong Satellite TV is a satellite television channel under Guangdong Television Station and its broadcasting footprint covers 690 million viewers in China and 2 billion viewers worldwide. The acquisition helps increase our market share and propel the rapid development of our operations. On top of that, Guangdong Satellite TV and the Travel Channel are complementary to each other and we can thus enhance our service to our advertisers.

Looking ahead in 2009, the Group will focus on strengthening existing operations, in particular the television advertising business as this will bring us steady cash flow. The global economy is expected to be very volatile. As a result, competition in the media industry will continue to intensify. Despite these concerns, with our cross media platform, extensive media experience and the synergies brought about by combining the resources of Guangdong Satellite TV and the Travel Channel, we believe our television advertising operation will achieve stable growth in 2009, laying a solid foundation for longer-term growth. Meanwhile, the Group will continue to actively develop existing media, advertising and related operations that hinge on the Travel Channel. We are determined to enhance the quality of our programs so as to increase advertising value and revenue for the Travel Channel. The Group will also expand the travel-related operation and try to make the most from our library of films and TV programs. We will also seek out targets for mergers and acquisition in a prudent manner.

We firmly believe that the booming growth of new media will provide valuable opportunities for the Group. Although challenges are lying ahead, we are confident of becoming a leading cross media operator in China. To achieve our goal, we will streamline our operations, exercise stringent control over our operating and management costs and further enhance our competitiveness.

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 stakeholders, the Group will be able to further enhance shareholder value.

Edward Tian Suning
Chairman

Hong Kong, 8 April 2009

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

The financial tsunami spread across the world in 2008, inflicting a heavy blow to the economies of China and the Asian region. Nevertheless, underpinned by a series of stimulus measures introduced by the Chinese government, China achieved a 9% growth in GDP last year and the disposable income per capita of urban residents increased by 8.4% year on year. China's economy still remained the driving force in the development of the global economy.

As the overall performance of the national economy was relatively good, China's media advertising industry excelled over its counterparts elsewhere last year. According to CTR Market Research, media advertising expenditure in China grew 15% over 2007 on the back of the Beijing Olympic Games. Meanwhile, media advertising expenditure in many developed countries edged up by less than 5% during the period, and those in a few developed countries even registered a decline. In terms of total media advertising expenditure, China was behind only the U.S.. Expenditure on television advertising exceeded that of other media, accounting for 76% of total media advertising expenditure in China. Last year, television advertising expenditure increased by 16%, beating the overall growth rate of the media advertising industry. Cosmetics/bathroom products, food, pharmaceuticals, commercial/service industries and beverages were the five sectors that spent the most on television advertising. Expenditures made by commercial and service industries posted the fastest growth at 34%.

Financial performance

The Group achieved a turnover of HK$179,431,000 in 2008, a decrease of 4% from HK$187,082,000 in 2007. Revenue from television advertising maintained satisfactory growth, increasing by 21% comparing to 2007. The competitive edges of the Group were further strengthened by successfully obtaining the exclusive advertising agency rights of Guangdong Satellite TV. On the other hand, revenue from content production stagnated during 2008 as the Group took a relatively conservative approach to developing the business and did not make any major investment in this field.

Loss attributable to shareholders for 2008 was HK$441,117,000 (2007: loss of HK$81,280,000). Basic loss per share was HK cents 2.49 (2007: loss per share of HK cents 0.56). The enlarged loss was primarily attributable to the fact that taking the deteriorating economic environment into consideration, the management decided to make a non-cash impairment provision of HK$249,746,000 on goodwill, programme and film rights, programme and film production in progress and receivables arising from sales made in prior years. The management believes that the provision should be adequate to cover the potential losses occurred in 2008 and does not foresee further provisions of a similar scale in 2009. In addition, certain stock options were granted during the year according to the Company's share option scheme, and non-cash share-based payment expense of HK$77,135,000 were incurred as a result. Excluding minority interests, taxes, finance costs and the non-cash asset impairment expense and share-based payment expense, the net loss of the Group was reduced to HK$75,302,000 and loss per share was reduced to HK cents 0.43.

Management Discussion and Analysis

Business review

Year 2008 marked a milestone in the Group's corporate development. After China Broadband Capital Partners, L.P. became the single largest shareholder of the Company, the board of directors underwent a major reshuffle and new talents with extensive media management experience were introduced into it. The strategic goal for the Group was adjusted towards becoming a leading cross media enterprise in China.

The Company's name was changed from Asian Union New Media (Group) Limited to Media China Corporation Limited, effective from 20 October 2008, to better reflect the future business development and direction of the Group. While continuing to expand traditional satellite TV channels, the Group will also explore and develop new media platforms such as digital TV, mobile TV and IPTV so as to establish a cross media platform that integrates traditional media and new media.

Television advertising

Despite a challenging operating environment, the Group's television advertising segment grew well last year. 2008 saw plenty of breaking news, which not only increased the popularity of provincial satellite TVs, but also boosted advertising expenditure on these channels. Revenue from television advertising amounted to HK$177,818,000 for the year ended 31 December 2008, an increase of 21% over 2007. Revenue was mainly derived from the following three areas: (1) being an exclusive advertising agency for the Travel Channel; (2) being an exclusive advertising agency for Guangdong Satellite TV; and (3) provision of media resources procurement services to international advertising agencies. As the last two businesses were developed after the completion of an acquisition in the fourth quarter of 2008, the majority of advertising revenue for 2008 still came from the Travel Channel.

As the audience of the Travel Channel in general possesses greater purchasing power and a taste for a better lifestyle, marketing efforts of many famous brands are aimed at appealing to this group of audience. In order to draw their attention, the Group recruited talented content producers during the year to produce a wide variety of creative and interesting TV programs which featured travel, lifestyle, drama, golf etc. As a result, the position of the Travel Channel as a travel, leisure and lifestyle program provider was further strengthened and its brand value was further enhanced. According to CTR Market Research, the popularity rating of the Travel Channel continued to rise. It showed that 86.6% of viewers rated its programs as "health-conscious and trendy". The Travel Channel was ranked the third among the "Ten Most Influential Provincial Satellite TV Channels in 2007" by the "2008 Report on the influence of TV networks in China". These results clearly demonstrate that Travel Channel is widely recognized in China and exerts great influence upon its viewers. The accurate position of the Travel Channel in the market helped draw advertisers from different industries in China and overseas such as financial services, automobile makers, consumer products and travel and leisure companies. These advertisers signed contracts for title sponsor, trailer sponsor, slogan sponsor and a whole range of brand marketing programs which lasted for a year or so. These transactions not only generated steady revenue to the Group, but also strengthened the image of the Travel Channel.

Management Discussion and Analysis

In October 2008, the Group successfully acquired the entire equity interests in Blower Investments Limited, whose subsidiary, Guangzhou Zhanshi Advertising Company Limited, was named as the exclusive advertising agency of Guangdong Satellite TV for a 3-year period from 1 January 2009 to 31 December 2011. Guangdong Satellite TV's broadcasting footprint covers 690 million viewers in China and 2 billion viewers worldwide. It airs a variety of programs such as dramas, news and documentaries, and grasped the second largest market share among TV channels covering the Guangdong Province. Combined annual advertising value of Guangdong Satellite TV and the Travel Channel owned and managed by the Group amounted to RMB 6 billion. The management believes that the Group will benefit from synergistic effects of the two satellite TV operations. We are confident that the Group's share in China's media advertising industry will be further enlarged, laying a solid foundation for its future development.

Meanwhile, the Group expanded its operation to the provision of media resources procurement services through Guangdong Sinofocus Media Limited, a subsidiary of Blower Investments Limited. Its target customers are mainly major international advertising agencies. Through centralized procurement of the media resources from regional TV stations across the nation, the Group provides the customers with one-stop solutions ranging from broadcasting and monitoring of advertising to the arrangement of payment. With its extensive marketing experience and good connections in China's media advertising market, we believe that Guangdong Sinofocus Media Limited can make a breakthrough in the media resources procurement business with the financial support of the Group. It should be one of the catalysts to propel the growth of our television advertising operation.

While actively expanding new businesses, the Group made relentless efforts in reducing costs during the year. The ratio of marketing and selling expense to sales for 2008 was 14%, down from 17% in 2007.

Content production

Revenue from content production segment for 2008 was HK$1,613,000 (2007: 39,581,000), down 96% year-on-year. The lower revenue of this segment was due to a lack of investment in new projects during the year. The Group has taken a relatively long-term strategy to develop this business and will invest in the production of films and TV programs in a prudent manner with an emphasis on small scale investments with a reasonable return. This strategy will help us to better control our risk and to secure a stable source of revenue. At the end of last year, the production house jointly established by the Group and BAZAAR, a renowned magazine, rolled out two series of lifestyle programs at the prime time on Travel Channel. The programs were warmly received by their audiences.

The market for new media has been flourishing. According to research, users of Internet Protocol TV (IPTV) increased to some 1.97 million while mobile TV users were over 1.2 million during the Beijing Olympic Games. Moreover, switching of broadcast signals to digital is scheduled in 2015. As such, China is stepping up efforts in preparing the transformation. New media is expected to experience phenomenal growth in the nation. The management firmly believes it will not only provide more channels for distributing our films and TV programs, but will also create synergy effects with our existing businesses such as television advertising business.

Management Discussion and Analysis

Business outlook

Global economies are expected to remain volatile under the impact of financial tsunami. We foresee that the media industry in China will be full of challenges. Nonetheless, in order to maintain the steady growth of the national economy, the central government and local governments may launch new stimulus measures to boost demand. These measures would likely give support to the development of media industry.

By taking advantage of the combined resources of the Travel Channel and Guangdong Satellite TV, as well as accurate market positioning and unique programs, the Group will continue to increase its market coverage and grasp the opportunities brought about by a booming domestic media sector. We will beef up efforts in cost control and streamline the management process. An integrated platform for traditional media and new media will be developed, setting a solid foundation for becoming a leading cross media operator in China. In doing so, the Group will create greater value for shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2008, the Group held cash and bank balances of approximately HK$216,511,000, being a 31% increase compared to 31 December 2007. This is mainly because the funds raised through share issuances during the year have not yet been fully invested and utilized. The current ratio slightly decreased from 1.04 as at 31 December 2007 to 0.99 as at 31 December 2008. The gearing ratio, representing long term liabilities to net assets, decreased from 0.63 at 31 December 2007 to 0.57 at 31 December 2008.

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. The Group had no bank loan outstanding as at 31 December 2008 (2007: short-term bank loan of HK$32,332,000).

Capital structure

The Group has mainly relied on its equity and internally generated cash flow to finance its operations. As at 31 December 2008, the Group has no outstanding borrowings (2007: short-term bank loan of HK$32,332,000).

During the year, the Company has (i) issued 1,900,000,000 new ordinary shares at HK$0.0991 each upon the exercise of warrants; (ii) issued 700,000,000 new ordinary shares upon completion of an acquisition; and (iii) repurchased 120,600,000 ordinary shares at an average cost of HK$0.038 each.

Management Discussion and Analysis

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

As at 31 December 2008, the Group employed a total of 5 full-time employees in Hong Kong and a work force of about 79 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

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed in achieving high standards of corporate governance. For the year ended 31 December 2008, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has applied the principles in and complied with the code provisions on the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), save for certain deviations from the code provisions in respect of the separation of the role of Chairman and Chief Executive Officer and the appointment of the non-executive directors, details of which will be explained below.

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.

As at the date of this annual report, the Board comprises seven Directors, including Chairman and Non-executive Director (Mr. Edward Tian Suning), one Vice Chairman and Independent Non-executive Director (Mr. Zhang Changsheng), one Executive Director (Mr. Zhao Anjian), four Independent Non-executive Directors (Mr. Jiang Jianning, Mr. Li Ruigang, Dr. Wong Yau Kar, David and Mr. Yuen Kin).

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his independence to the Company. The Company considers that they are independent.

Biographical details of all Directors are given on pages 19 to 22 of this Annual Report.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Following the appointment of Mr. Edward Tian Suning and Mr. Wang Hong as the Chairman and the Chief Executive Officer of the Company respectively on 11 January 2008, the Company complied with such provision.

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 so 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 Director 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 contribution to the Board's functions. The Board has taken appropriate steps to ensure effective communication with shareholders.

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.

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 caliber to be a director of the Company.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specified term and subject to re-election.

Mr. Edward Tian Suning was not appointed for a specific term on 11 January 2008, but is subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

Following the entering into the agreement with Mr. Edward Tian Suning to fix the term of his appointment to 3 years and subject to the retirement by rotation and re-election in accordance with the articles of association of the Company, the Company complied with such provision.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Code of Conduct applies to all the relevant persons as defined in the Code, including Directors of the Company, any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2008.

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 34 which acknowledges the reporting responsibilities of the Group's Auditors.

Annual Report and Financial Statements

The Directors acknowledge their responsibilities for preparing the 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.

COMPANY SECRETARY

The Company Secretary is responsible to assist the Chairman to prepare agendas for meeting 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.

Corporate Governance Report

AUDITOR'S REMUNERATION

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

Nature of the services	2008	2007
	HK'000	*HK'000*
Audit services	1,680	1,980
Non-audit services	500	200
Due diligence related services	800	—
	2,980	2,180

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises three independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Audit Committee is chaired by Mr. Yuen Kin and the other members of the Committee are Dr. Wong Yau Kar David and Mr. Li Ruigang.

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.

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.

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 reviews 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

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 within 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 between the Audit Committee and 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.

REMUNERATION COMMITTEE

As at the date of this annual report, the Remuneration Committee comprises four members with expertise in human resources and personnel emoluments. The Remuneration Committee is currently chaired by Mr. Edward Tian Suning, with Mr. Jiang Jianning, Dr. Wong Yau Kar, David and Mr. Yuen Kin as members. The Remuneration Committee meets for the determination of the remuneration packages of Directors and senior management of the Group. The remuneration packages to Directors and staffs are determined with reference to the Company's remuneration policy, remuneration benchmark in the industry and prevailing market conditions. In addition, the Remuneration Committee also meets as and when required to consider remuneration related matters.

Corporate Governance Report

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.

MEETING RECORDS

Attendance records of the Board Meetings, Audit Committee Meetings and Remuneration Committee Meeting during the year ended 31 December 2008 are set out below:

	Meetings attended / Number of meetings held		
Name of Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Zhao Anjian	7/7	—	—
Dong Ping *(resigned on 11 January 2008)*	1/1	—	—
Ko Chun Shun, Johnson *(resigned on 11 January 2008)*	1/1	—	—
Non-executive Director			
Edward Tian Suning	7/7	—	1/1
Independent Non-executive Directors			
Zhang Changsheng	6/7	—	—
Jiang Jianning	7/7	—	1/1
Li Ruigang	7/7	1/2	—
Wong Yau Kar, David	7/7	2/2	1/1
Yuen Kin	7/7	2/2	1/1

STRATEGY COMMITTEE

On 11 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

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 (www.mediachina-corp.com).

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business 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 resolutions at the annual general meeting are decided on a poll. The poll is conducted by the Share Registrars. Feedback and comments from shareholders are always encouraged.

By Order of the Board

Edward Tian Suning
Chairman

Hong Kong, 8 April 2009

Biographical Details of Directors and Senior Management

Chairman and Non-executive Director

Mr. Edward Tian Suning

Mr. Edward Tian Suning, aged 46, was appointed as the Chairman and Non-executive Director in January 2008. Mr. Tian is also the Chairman 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; Independent Non-executive Director of Taikang Life Insurance Company Limited; 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 61, 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 54, was appointed as the Executive Director in January 2008 and being appointed as directors of several subsidiaries of the Company. 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 Group 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 Vice General Manager 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 46, 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 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 Department directly under the Central Committee of the Communist Party of China in 1999; In January 2001, he was selected to be one of the "a hundred people that might affect China in the 21 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. In 2007, he was awarded as The Best Individual of the 12th Capital Tourism Cup. In November 2008, he was awarded as the Man of the Year of Travel Services for the China Travel Industry Award by Travel Weekly China. 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 40, 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 1998 to 2001, Mr. Li was the Deputy Director of the Programming Department of Shanghai Municipal Government. Mr. Li has more than 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 and granted as Young Global Leader by World Economic Forum in 2009. 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 Journalism 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 51, 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 54, 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 44, 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 34, is the Chief Financial Officer, Qualified Accountant, Company Secretary and directors of several subsidiaries 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. Huang Mingguo, Martin

Mr. Huang Mingguo, Martin, aged 38, is the Senior Vice President of the Company and is responsible for the strategy planning of the television advertising business of the Company. He is also the general manager of Guangdong Sinofocus Media Limited, the wholly-owned subsidiary of Blower Investments Limited acquired by the Company in 2008. He holds a Bachelor degree in Chemistry from Peking University and has over 13 years of experience in advertising, media, project management and investment.

Report of the Directors

The board of directors of the Company (the "Board") is pleased to submit its report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

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.

CHANGE OF COMPANY NAME

The Company changed its name to Media China Corporation Limited on 20 October 2008.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 36 of this Annual Report.

The Board do not recommend the payment of any dividend in respect of the year ended 31 December 2008.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 114 of this Annual Report.

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 AND CONVERTIBLE NOTES

Details of the movements in share capital and convertible notes of the Company are set out in notes 25 and 26 to the consolidated financial statements respectively.

Report of the Directors

DIRECTORS

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

Mr. Edward Tian Suning (Chairman)[2]	(appointed on 11 January 2008)
Mr. Zhang Changsheng (Vice Chairman)[3]	(appointed on 11 January 2008)
Mr. Zhao Anjian[1]	(appointed on 11 January 2008)
Mr. Jiang Jianning[3]	(appointed on 11 January 2008)
Mr. Li Ruigang[3]	(appointed on 11 January 2008)
Dr. Wong Yau Kar, David [3]	
Mr. Yuen Kin [3]	
Mr. Dong Ping[1]	(resigned on 11 January 2008)
Mr. Ko Chun Shun, Johnson [1]	(resigned on 11 January 2008)
Mr. Tsoi Tong Hoo, Tony [2]	(resigned on 11 January 2008)
Mr. Yin Dikun [3]	(resigned on 11 January 2008)

1 Executive Director
2 Non-executive Director
3 Independent Non-executive Director

In accordance with Article 87(1) of the Company's Articles of Association, Dr. Wong Yau Kar, David and Mr.Li Ruigang will retire from office by rotation, and being eligible, offers themselves for re-election at the forthcoming annual general meeting respectively.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and Senior Management as at the date of this report are set out on pages 19 to 22 of this Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST-PAID EMPLOYEES

Particulars of the emoluments of the Directors and the five highest-paid employees of the Group during the year are set out in note 13 to the consolidated financial statements.

Report of the Directors

SHARE OPTIONS AND WARRANTS

A share option scheme (the "Option Scheme") was adopted by the Company on 30 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 limit 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.

The scheme mandate limit under the Option Scheme was refreshed and renewed by an ordinary resolution passed by the shareholders at the annual general meeting held on 10 June 2008 which enabled the grant of further share options to subscribe up to 1,811,824,531 shares representing 10% of the shares in issue as at the date of such annual general meeting. As at the date of this report, the total number of shares available for issue under the Option Scheme is 2,736,824,531 shares (including options for 1,805,000,000 shares that have been granted but not yet lapsed or exercised), which represent 14.64% of the issued share capital of the Company.

The period during which an option may be exercised in accordance with the terms of the Option Scheme ("Option Period") shall be the period set out in the Offer Letter provided that such period shall commence on the date upon which such option is deemed to be accepted in accordance with the terms of the Option Scheme and must expire no later than the tenth anniversary of the Offer Date.

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.

Report of the Directors

SHARE OPTIONS AND WARRANTS *(Continued)*

Details of the share option movements during the year were as follows:

		No. of share options						
Name or Category of Grantees	Exercise price per share (HK$)	Outstanding as at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2008	% of total issued share capital of the Company	Notes
Directors								
Edward TIAN Suning	0.134	—	20,000,000	—	—	20,000,000	0.11	(2) (4) (7)
	0.044	—	40,000,000	—	—	40,000,000	0.21	(3) (4) (7)
ZHANG Changsheng	0.134	—	10,000,000	—	—	10,000,000	0.05	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
ZHAO Anjian	0.134	—	60,000,000	—	—	60,000,000	0.32	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
JIANG Jianning	0.134	—	10,000,000	—	—	10,000,000	0.05	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
LI Ruigang	0.134	—	10,000,000	—	—	10,000,000	0.05	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
WONG Yau Kar, David	0.134	—	10,000,000	—	—	10,000,000	0.05	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
YUEN Kin	0.134	—	10,000,000	—	—	10,000,000	0.05	(2) (4) (7)
	0.044	—	20,000,000	—	—	20,000,000	0.11	(3) (4) (7)
Continuous Contract employee in aggregate	0.154	—	157,000,000	—	(2,000,000)	155,000,000	0.83	(1) (4) (5)
	0.044	—	250,000,000	—	—	250,000,000	1.34	(3) (4) (8)
Others	0.154	—	643,000,000	—	—	643,000,000	3.44	(1) (4) (6)
	0.044	—	470,000,000	—	—	470,000,000	2.51	(3) (4) (9)

SHARE OPTIONS AND WARRANTS *(Continued)*

Details of the share option movements during the years are as follows: *(Continued)*

Notes:-

1. These options were granted on 7 March 2008.

2. These options were granted on 5 May 2008.

3. These options were granted on 4 November 2008.

4. At the dates before the options were granted, 7 March 2008, 5 May 2008 and 4 November 2008, the market value per share was HK$0.038, HK$0.129 and HK$0.04 respectively.

5. These options can be exercised in 5 instalments from 1 April 2009, 1 October 2009, 1 March 2010, 1 October 2010, 1 March 2011 respectively to 31 December 2012.

6. These options can be (i) fully exercised from 1 April 2008 to 31 December 2012 or (ii) exercised in 5 instalments from 1 April 2009, 1 October 2009, 1 March 2010, 1 October 2010, 1 March 2011 respectively to 31 December 2012.

7. These options can be fully exercised from 1 April 2009 to 31 December 2015.

8. These options can be exercised in 5 instalments from 8 March 2009, 8 October 2009, 8 March 2010, 8 October 2010, 8 March 2011 respectively to 31 December 2015.

9. These options can be fully exercised from 8 March 2009 to 31 December 2015.

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 CBC China Media Limited. CBC China Media Limited exercised all the warrants on 11 April 2008.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2008, 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$457,416,000 (2007: HK$765,834,000), representing the share premium of HK$916,039,000 (2007: HK$727,752,000) less the accumulated losses of HK$458,623,000 (2007: plus the retained earnings of HK$38,082,000). 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.

Report of the Directors

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	18%
–	five largest customers combined	45%

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.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme of the Group are set out in note 2(m) to the consolidated financial statements.

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

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, 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 31 December 2008, 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 ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

(i) Long positions in the shares of the Company:

Director	Capacity		Number of shares held	% of total issue share capital of the Company
Edward TIAN Suning	Interest held by controlled corporation	Note	3,553,700,000	19.01

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

Director	Capacity		Amount of the convertible notes	Number of the total underlying shares	% of total issued share capital of the Company
Edward TIAN Suning	Interest held by controlled corporation	Note	HK$49,000,000	1,000,000,000	5.35

(iii) Long positions in the underlying shares of the Company – share options:

Share options were granted to Directors pursuant to the Company's Share Option Scheme. Details of the Directors' interests in share options granted by the Company are set out under the section headed "Share Options and Warrants" of this report.

Note: CBC China Media Limited is controlled by China Broadband Capital Partners, L.P., and Mr. Edward TIAN Suning is the Chairman and Non-executive Director of the Company and the director of CBC China Media Limited. Mr. Tian is deemed to be interested in CBC China Media Limited. As at 31 December 2008, through CBC China Media Limited, Mr. Tian held (i) 3,553,700,000 shares and (ii) convertible notes of the Company due 2010 with a principal amount of HK$49,000,000 which were convertible into 1,000,000,000 shares (subject to adjustments).

Save as disclosed above, as at 31 December 2008, none of the directors, the chief executives nor their associates had any other beneficial interests in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed under the section headed "Shares Options and Warrants" above, at no time during the year was the Company, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporation.

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 31 December 2008, in addition to those disclosed under the section "Directors' and Chief Executives' interests and short positions in 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.

(i) Long positions in the shares of the Company:

Name of the Shareholders	Capacity	Note	Number of shares held	% of total issue share capital of the Company
CBC China Media Limited	Beneficial owner	1	3,553,700,000	19.01
Milo Investments International Limited	Beneficial owner	2	994,784,673	5.32
Dong Ping	Beneficial owner		1,343,800,000	7.19
Selamead Holdings Limited	Beneficial owner	3	2,100,000,000	11.23

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 Company – convertible notes:

Names of the holder of the convertible notes	Note	Amount of the convertible notes	Number of the total underlying shares	% of total issue share capital of the Company
CBC China Media Limited	1	HK$49,000,000	1,000,000,000	5.35

Notes:

1. As at 31 December 2008, CBC China Media Limited held (i) 3,553,700,000 shares; and (ii) convertible notes of the Company due 2010 with a principal amount of HK$49,000,000 which were convertible into 1,000,000,000 shares (subject to adjustments).

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

3. The 1,400,000,000 Shares of which is the maximum number of Shares to be issued by the Company to Selamead Holdings Limited pursuant to the share purchase agreement dated 31 March 2008.

As at 31 December 2008, save as 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, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Transactions carried out with related parties are set out in note 30 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.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the year, the Company has repurchased a total of 120,600,000 ordinary shares of HK$0.01 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all of which were cancelled. The Board consider the share repurchases will lead to an enhancement of the Company's earnings per share and net assets per share. Details on the shares repurchased during the year shown as follows:

		Price per share (HK$)		
Repurchase Date	No. of shares repurchased	Highest	Lowest	Aggregate price paid
27 October 2008	8,000,000	0.030	0.025	215,850
28 October 2008	6,000,000	0.030	0.030	180,000
29 October 2008	8,000,000	0.035	0.031	261,850
30 October 2008	17,000,000	0.035	0.032	561,600
31 October 2008	3,500,000	0.036	0.033	121,800
03 November 2008	4,000,000	0.040	0.038	156,500
05 November 2008	23,000,000	0.046	0.044	1,026,200
06 November 2008	5,200,000	0.044	0.040	217,100
07 November 2008	2,000,000	0.041	0.039	80,100
10 November 2008	3,900,000	0.044	0.042	165,900
11 November 2008	1,000,000	0.042	0.041	41,500
12 November 2008	2,500,000	0.042	0.040	101,000
13 November 2008	11,500,000	0.042	0.039	463,200
17 November 2008	1,500,000	0.042	0.041	61,600
18 November 2008	5,300,000	0.040	0.038	210,100
19 November 2008	600,000	0.041	0.039	23,800
20 November 2008	3,200,000	0.040	0.038	123,500
21 November 2008	3,000,000	0.039	0.038	114,500
24 November 2008	2,500,000	0.039	0.038	95,050
25 November 2008	1,500,000	0.039	0.038	57,300
02 December 2008	1,000,000	0.039	0.038	38,600
03 December 2008	2,300,000	0.040	0.039	90,700
09 December 2008	2,300,000	0.043	0.041	95,900
10 December 2008	1,800,000	0.042	0.040	74,900

Save as disclosed above, neither the Company nor any of its subsidiaries has 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.

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.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 10 to 18 of this Annual Report.

AUDITOR

The consolidated 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, 8 April 2009

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF MEDIA CHINA CORPORATION LIMITED
(formerly known as Asian Union New Media (Group) Limited)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Media China Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 113, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

Independent Auditor's Report

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.

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 31 December 2008 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, 8 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Note 32)
Sales	5	179,431	187,082
Cost of sales		(230,144)	(155,774)
Gross (loss)/profit		(50,713)	31,308
Other gains/(losses), net	5	12,588	(13,728)
Marketing and selling expenses		(25,862)	(32,203)
Administrative expenses		(177,681)	(38,843)
Provision for impairment of intangible assets	15	(173,843)	—
		(415,511)	(53,466)
Finance costs	7	(40,963)	(48,184)
Share of profits of jointly controlled entities		13,328	3,990
Loss before taxation	8	(443,146)	(97,660)
Taxation	9	2,091	16,380
Loss for the year		(441,055)	(81,280)
Attributable to:			
Equity holders of the Company		(441,117)	(81,280)
Minority interests		62	—
		(441,055)	(81,280)
Loss per share for loss attributable to the equity holders of the Company during the year		HK Cents	HK Cents
– Basic	11	(2.49)	(0.56)
– Diluted	11	N/A	N/A
Dividend	12	—	—

The notes on pages 42 to 113 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	7,489	8,759
Intangible assets	15	978,060	1,296,322
Interests in jointly controlled entities	17	267,639	240,532
Deferred tax assets	9	35,794	34,629
		1,288,982	1,580,242
CURRENT ASSETS			
Exclusive advertising agency right	15	401,911	—
Trade receivables	19	55,248	77,711
Amounts due from a jointly controlled entity and its subsidiaries	17	106,798	108,712
Financial assets at fair value through profit or loss	20	11,130	20,538
Prepayments, deposits and other receivables	21	121,196	49,483
Pledged bank deposits	22	—	33,983
Cash and cash equivalents	22	216,511	131,305
		912,794	421,732
CURRENT LIABILITIES			
Agency fee payables - current	15	785,367	317,809
Trade payables	23	24,880	—
Receipt in advance, other payables and accrued liabilities	23	79,532	30,204
Current income tax liabilities		30,062	26,594
Short-term bank borrowing	24	—	32,332
		919,841	406,939
NET CURRENT (LIABILITIES)/ASSETS		(7,047)	14,793
TOTAL ASSETS LESS CURRENT LIABILITIES		1,281,935	1,595,035

Consolidated Balance Sheet

as at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Agency fee payables - non-current	15	418,209	573,603
Convertible notes	25	44,271	40,931
Deferred tax liabilities	9	4,076	4,583
		466,556	619,117
NET ASSETS		815,379	975,918
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	26	186,976	162,182
Reserves	27	627,762	813,736
		814,738	975,918
Minority interests	27	641	—
TOTAL EQUITY		815,379	975,918

Edward Tian Suning
Director

Zhao Anjian
Director

The notes on pages 42 to 113 are an integral part of these consolidated financial statements.

Balance Sheet

as at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSET			
Investments in subsidiaries	16	163,294	539,295
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	1,188	1,071
Amounts due from subsidiaries	16	627,391	486,491
Cash and cash equivalents	22	35,254	933
		663,833	488,495
CURRENT LIABILITIES			
Receipt in advance, other payables and accrued liabilities		3,600	2,320
NET CURRENT ASSETS		660,233	486,175
TOTAL ASSETS LESS CURRENT LIABILITIES		823,527	1,025,470
NON-CURRENT LIABILITY			
Convertible notes	25	44,271	40,931
NET ASSETS		779,256	984,539
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	186,976	162,182
Reserves	27	592,280	822,357
TOTAL EQUITY		779,256	984,539

Edward Tian Suning
Director

Zhao Anjian
Director

The notes on pages 42 to 113 are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash used in operations	28(a)	(67,410)	(4,745)
Interest paid		(1,492)	(1,438)
Tax paid		(160)	(12)
Net cash used in operating activities		(69,062)	(6,195)
Cash flows from investing activities			
Interest received		2,031	2,462
Purchases of property, plant and equipment		(1,628)	(4,950)
Acquisition of subsidiaries net of cash	28(b)	(1,581)	—
Purchases of intangible assets		(30,449)	(10,120)
Disposals of property, plant and equipment		726	277
Disposals of subsidiaries net of cash	28(c)	—	(4,469)
Loan to a jointly controlled entity		—	(154,155)
Disposals of preference shares		—	67,188
Net cash used in investing activities		(30,901)	(103,767)
Cash flows from financing activities			
Decrease/(increase) in pledged bank deposits		33,983	(16,983)
Proceeds from issuance of shares on exercise of warrants		188,290	—
Proceeds from issuance of shares on placements - net of expenses		—	219,579
Proceeds from issuance of shares on exercise of share options		—	14,979
Repurchases of shares		(4,609)	—
Proceeds from short-term loans		—	15,144
Repayments of short-term loans		(33,000)	(5,412)
Net cash generated from financing activities		184,664	227,307
Net increase in cash and cash equivalents		84,701	117,345
Cash and cash equivalents at 1 January		131,305	13,447
Exchange gain on cash and cash equivalent		505	513
Cash and cash equivalents at 31 December		216,511	131,305

The notes on pages 42 to 113 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Other reserves *HK$'000*	Accumulated losses *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2007	120,386	1,368,148	(748,589)	—	739,945
Conversion of convertible notes	22,022	63,120	—	—	85,142
Issuance 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 31 December 2007	162,182	1,643,605	(829,869)	—	975,918
Balance at 1 January 2008	162,182	1,643,605	(829,869)	—	975,918
Issuance of shares upon exercise of warrants	19,000	169,290	—	—	188,290
Issuance of shares upon completion of an acquisition	7,000	22,400	—	—	29,400
Repurchase of shares	(1,206)	(2,197)	(1,206)	—	(4,609)
Acquisition of a subsidiary	—	—	—	579	579
Share-based payments	—	77,135	—	—	77,135
Loss for the year	—	—	(441,117)	62	(441,055)
Currency translation differences	—	(10,279)	—	—	(10,279)
Transfer to statutory reserve	—	47	(47)	—	—
Balance at 31 December 2008	186,976	1,900,001	(1,272,239)	641	815,379

The notes on pages 42 to 113 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Media China Corporation Limited (formerly known as Asian Union New Media (Group) Limited) (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 27 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 consistently 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"). These 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 is carried at fair value.

As at 31 December 2008, the Group had net current liabilities of approximately HK$7 million (2007: net current assets of approximately HK$15 million). The directors are of the opinion that, having taken into account the expected operating cash inflow and the available financial resources of the Group, the Group has sufficient financial resources to meet its liabilities as and when they fall due for the foreseeable future and the Group will be able to continue as a going concern. Consequently, the consolidated financial statements have been prepared on a going concern basis.

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) Amendment and interpretations effective in 2008

- HKAS 39, 'Financial Instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial Instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(a) Amendment and interpretations effective in 2008 (Continued)

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and Treasury Share Transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parents and group companies. The adoption of this interpretation did not result in any significant changes to the Group's accounting policies.

(b) Interpretation effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

- HK(IFRIC) - Int 14, 'HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'; and

- HK(IFRIC) - Int 12, 'Service Concession Arrangements'.

(c) 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 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- HKAS 23 (Revised), 'Borrowing Costs' (effective from 1 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 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, 'Operating Segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 'Segment Reporting' 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 1 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.

- HKAS 32 (Amendment), 'Financial Instruments', and HKAS 1 (Amendment), 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amendments require 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 1 January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- HKAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires non-controlling 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 having 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 are measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 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 1 July 2009). The revised standard 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. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

- HKFRS 2 (Amendment) 'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 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 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 1 January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- HK(IFRIC) - Int 16, 'Hedges of a Net Investment in a Foreign Operation' (effective from 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The Effects of Changes in Foreign Exchange Rates', do apply to the hedged item. The Group will apply HK(IFRIC) - Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

- HK(IFRIC) - Int 17, 'Distributions of Non-Cash Assets to Owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:

  — a dividend payable shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity.

  — the dividend payable shall be measured at the fair value of the assets to be distributed.

  — the difference between the dividend paid and the carrying amount of the assets distributed shall be recognized in profit or loss.

  HK (IFRIC) - Int 17 is not relevant to the Group's operations because none of the Group's companies have distributed non-cash assets to owners.

- HK(IFRIC) - Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009). It clarifies that an asset received from a customer should be recognized initially at fair value, and the related income should be recognized immediately or if there is a future service obligation, over the relevant service period. This Interpretation also applies to cash received from a customer for the acquisition or construction of an asset. HK(IFRIC)-Int 18 is not relevant to the Group's operations because none of the Group's companies have received any assets nor cash from customers.

- Certain HKICPA's improvements to HKFRS published in October 2008.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but are not relevant for the Group operations:

- HK(IFRIC) - Int 13, 'Customer Loyalty Programmes' (effective from 1 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.

- HKFRS 1 (Amendment), 'First-time Adoption of Hong Kong Financial Reporting Standards' and HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed costs of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This amendment is not relevant to the Group.

- Certain HKICPA's improvements to HKFRS published in October 2008.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 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 interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

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 in the consolidated financial statements 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. Expenses relating to share options granted by the Company to (i) certain employees working for; and (ii) parties providing services to, subsidiaries of the Group is recognised as deemed investments in subsidiaries. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(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 entities ("JCE")

Associated companies 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, A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. 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 loss) 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.

Unrealized gains on transactions between the Group and its associated companies or JCE are eliminated to the extent of the Group's interests 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.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(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, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or 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. The carrying amount of the replaced part is recognized. 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 their costs 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.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets retained by 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 period of the lease.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(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 interests 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 rights

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

The cost of the exclusive advertising agency rights 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 rights are 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 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.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(e) Intangible assets *(Continued)*

(iii) Programmes and film rights (Continued)

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. Additional amortization will be charged if estimated projected revenues adversely differ from 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, 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.

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.

(iv) Programmes and films production in progress

Programmes and films production in progress are accounted for on a programme-by-programme or film-by-film basis and are stated at cost less accumulated impairment losses, if any. Cost of programmes or films production in progress 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.

(v) Customer relationships

Customer relationships acquired as part of a business combination are carried at their fair value at the date of acquisition less accumulated amortization. Amortization is calculated based on the timing of projected discounted cash flows of the customer relationships over their estimated economic lives of one year.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(f) Financial assets

Classification

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 financial assets were acquired. Management determines the classification of its financial assets 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 also categorized 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. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

(iii) Available-for-sale financial assets

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

Recognition and measurement

Regular way 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. Financial assets 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 financial assets have expired or have been transferred and the Group has transferred substantially all 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.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(f) Financial Assets *(Continued)*

Recognition and measurement (Continued)

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 gains/(losses), net", 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 gains/(losses), net" 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 gains/(losses), net". Dividends on available-for-sale equity instruments are recognized in the consolidated income statement as part of "other gains/(losses), net" 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.

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. Impairment testing on loans and receivable are described in note 2(h).

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(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 Hong Kong dollars.

In prior years, the directors regarded Hong Kong dollar as the functional currency of the Company. During the year ended 31 December 2008, the directors reassessed the Company's functional currency after the acquisition of subsidiaries in October 2008 (for details, please refer to note 31 to the consolidated financial statements). The directors considered that the functional currency of the Company should be changed from Hong Kong dollar to Renminbi starting from 31 December 2008. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 'The Effect of Changes in Foreign Exchange Rates'. As the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, the directors considers that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's 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.

Translation differences on non-monetary financial assets and liabilities are recognized in the income statement as part of the fair value gain or loss.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(g) Foreign currency translation *(Continued)*

(iii) Group companies

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

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

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

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

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.

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.

(h) Trade and other receivables

Trade and other receivables are recognized initially 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default of delinquency in payments are considered indicators that the receivable is impaired. 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 receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the consolidated income statement.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with banks.

(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 the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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 tax expense for the year comprises current and deferred 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, 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.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(k) Current and deferred income tax *(Continued)*

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.

(l) Revenue recognition

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

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits with flow to the entity and specific criteria have been met for each of the Group's activities as described below.

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

Revenue from the sale of television programmes and film rights is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the television programmes and film rights are delivered to customers and the title has passed or rights have been assigned.

Income from licensing and sub-licensing of television programmes 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 to 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.

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

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

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(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.

(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 1 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 independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

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

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(m) Employee benefits *(Continued)*

(ii) Retirement benefit costs (Continued)

For both retirement benefits schemes, the Group has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

(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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability and sales growth targets and remaining an employee of the entity over specific time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

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.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Notes to the Consolidated Financial Statements

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 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 is subject to risks and returns that are different from those of segments operating in other economic environments.

(p) Impairment of investments in subsidiaries, associated companies JCE and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. 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.

Notes to the Consolidated Financial Statements

2 Principal accounting policies *(Continued)*

(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. Costs directly attributable to the repurchase of issued ordinary shares are shown in equity as a deduction and the nominal value of the shares repurchased is transferred from the retained earnings to the capital redemption reserve.

(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, or directors where appropriate.

(s) Borrowing Costs

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

(t) Trade payables

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

Notes to the Consolidated Financial Statements

3. Financial Risk Management

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, foreign exchange risk, price risk and liquidity 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 fair value interest rate risk*

The Group has loans 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 analyzes 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, if the interest rate increased/decreased by 60 basis-point with all other variables held constant, loss attributable to the equity holders of the Company for the year ended 31 December 2008 would have been approximately HK$1,543,000(2007: HK$1,228,000) lower/higher, respectively.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amounts of bank balances, trade receivable 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 bank balances is limited because the counterparties are financial institutions with good credit standing.

Other than concentration of credit risk on 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.

Notes to the Consolidated Financial Statements

3. Financial Risk Management *(Continued)*

(i) Financial risk factors *(Continued)*

(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.

(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 as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. If the equity price had increased/decreased by 15% with all other variables held constant, the loss for the year would decrease/increase by HK$1,670,000 (2007: HK$3,081,000) as a result of gain/loss on financial assets classified as fair value through profit or loss.

(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 monitors the current and expected liquidity requirements and maintains flexibility in funding by maintaining sufficient cash and cash equivalent to meet operational needs and possible investment opportunities.

Notes to the Consolidated Financial Statements

3. Financial Risk Management *(Continued)*

(i) Financial risk factors *(Continued)*

(e) Liquidity risk (Continued)

The table below analyzed 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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	HK$'000	*HK$'000*	*HK$'000*
Group			
At 31 December 2008			
Agency fee payables	785,367	234,723	234,723
Trade payables, receipt in advance, other payables and accrued liabilities	104,412	—	—
Current income tax liabilities	30,062	—	—
At 31 December 2007			
Agency fee payables	317,809	212,697	441,731
Trade payables, receipt in advance, other payables and accrued liabilities	30,204	—	—
Current income tax liabilities	26,594	—	—
Short-term bank borrowings	32,332	—	—
Company			
At 31 December 2008			
Receipt in advance, other payables and accrued liabilities	3,600	—	—
At 31 December 2007			
Receipt in advance, other payables and accrued liabilities	2,320	—	—

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 2008, 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 31 December 2008 was 0% (2007: 3%).

(iii) Fair value estimation

The fair value of financial instrument traded in active market (such as financial assets at fair value through profit or loss) is based on quoted market price at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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

Notes to the Consolidated Financial Statements

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 addressed 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 fair value less cost to sell 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. Details of the assumptions are described in note 15 to the consolidated financial statements.

(ii) Impairment of exclusive advertising agency rights

The Group tests annually whether the exclusive advertising agency rights have suffered any impairment in accordance with HKAS 36. The recoverable amounts have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates. In determining the fair value less costs to sell, expected cash flows generated by the rights 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 rights 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

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 content production 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 recognizes taxation liabilities based on estimates of anticipated amounts of taxes that will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(vi) Recoverability of investments in film production

Management assesses annually whether the programmes and films production 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 investments deteriorates, provision for impairment may be required.

(vii) Purchase price allocation

The fair value of the assets of the subsidiaries acquired at the acquisition date was determined by management's assessment of the fair value of the assets. A portion of the purchase price is allocated to the business of the acquired subsidiaries based on the projected cash flow forecast of the business. Had management determined that a different fair value of the assets of the subsidiaries acquired at the acquisition date and different assumptions used for the preparation of the cash flow forecast of the business of the acquired subsidiaries, this would have caused different amount of asset value and goodwill at the date of acquisition.

Notes to the Consolidated Financial Statements

5 Sales and other gains/(losses), net

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Sales		
Television advertising	177,818	146,796
Licensing and sub-licensing of film and TV programs	1,613	39,581
Others	—	705
	179,431	187,082
Other gains/(losses), net		
Dividend income	246	3,180
Interest income	21,411	15,131
Fair value loss on financial assets at fair value through profit or loss	(9,408)	(1,652)
Fair value loss on investment in preference shares	—	(30,708)
Miscellaneous	339	321
	12,588	(13,728)
Total	192,019	173,354

The non-cash revenue arising from exchange of goods or services during the year included in sales from television advertising amounted to approximately HK$6,755,000 (2007: HK$1,537,000).

6 Segment information

At 31 December 2008, the Group is organized into two main business segments: (i) television advertising business; and (ii) content production business (formerly known as film and TV drama business). Others mainly comprise securities investment business, which does not constitute a separately reportable segment for the year.

There are no sales between the business segments.

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

Notes to the Consolidated Financial Statements

6 Segment information *(Continued)*

	2008			
	Television advertising *HK$'000*	Content production *HK$'000*	Others *HK$'000*	Total *HK$'000*
Sales	177,818	1,613	—	179,431
Segment results	(100,766)	(48,627)	(9,437)	(158,830)
Interest income on loan from a JCE				19,381
Exchange gain				22,891
Provision for impairment of intangible assets	—	(173,843)	—	(173,843)
Share-based payments				(77,135)
Unallocated costs, net				(47,975)
				(415,511)
Finance costs				(40,963)
Share of profits of jointly controlled entities				13,328
Loss before taxation				(443,146)
Taxation				2,091
Loss for the year				(441,055)
Minority interests				(62)
Loss attributable to equity holders of the Company				(441,117)
Segment assets	1,114,971	90,580	11,196	1,216,747
Goodwill	397,433	—	—	397,433
Interests in jointly controlled entities				
- current				106,798
- non-current				267,639
Unallocated assets				213,159
Total assets				2,201,776
Segment liabilities	1,299,505	4,649	—	1,304,154
Unallocated liabilities				82,243
Total liabilities				1,386,397
Capital expenditure				
Allocated	393,688	2,293	—	395,981
Unallocated				579
Depreciation				
Allocated	599	339	—	938
Unallocated				1,418
Amortization	185,071	1,164	—	186,235

Notes to the Consolidated Financial Statements

6 Segment information *(Continued)*

	2007			
	Television advertising *HK$'000*	Content production *HK$'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 loans from a JCE				12,669
Exchange gain				22,425
Unallocated costs, net				(45,115)
				(53,466)
Finance costs				(48,184)
Share of profits of jointly controlled entities				3,990
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	778,444	163,746	21,049	963,239
Goodwill	379,213	117,166	—	496,379
Interests in jointly controlled entities				
- current				108,712
- non-current				240,532
Unallocated assets				193,112
Total assets				2,001,974
Segment liabilities	913,995	37,484	—	951,479
Unallocated liabilities				74,577
Total liabilities				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

6 Segment information *(Continued)*

Segment assets consist primarily of tangible and intangible assets, other non-current assets, receivables and operating cash. They exclude interests in jointly controlled entities, financial assets at fair value through profit and loss, deferred tax assets, amounts due from a jointly controlled entity and its subsidiaries 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 note, current income tax liabilities and deferred tax liabilities.

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

7 Finance costs

	Group	
	2008	2007
	HK$'000	*HK$'000*
Interest expenses on bank loan wholly repayable within 5 years	1,492	1,438
Notional non-cash interest accretion on:		
- Convertible notes	3,340	4,842
- Pre-agreed periodic payments on exclusive advertising agency right	36,131	41,904
	39,471	46,746
	40,963	48,184

Notes to the Consolidated Financial Statements

8 Loss before taxation

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Other gains		
Exchange gain	22,891	22,425
Expenses by nature		
Depreciation of property, plant and equipment	2,356	1,647
Amortization of intangible assets	186,235	180,230
Auditor's remuneration	2,321	1,980
Provision for impairment of trade and other receivables	75,903	27,038
Provision for impairment of intangible assets	173,843	—
Loss on disposal of property, plant and equipment	82	72
Operating lease rentals - land and buildings	5,156	4,532
Share-based payments (excluding those disclosed in staff costs below)	57,748	—
Staff costs:		
Directors' fees	720	576
Wages and salaries	17,330	12,315
Share-based payments	19,387	—
Contributions to defined contribution pension schemes	731	703
	38,168	13,594

Notes to the Consolidated Financial Statements

9 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit of the year. 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.

Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC are required to determine and pay the Corporate Income Tax ("CIT") in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007.

According to the new CIT Law and DIR, the income tax rates for both domestic and foreign investment enterprises have been unified at 25% effective from 1 January 2008.

	Group	
	2008	2007
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	—	—
– PRC Corporate Income Tax	924	12
Deferred income tax	(3,015)	(16,392)
	(2,091)	(16,380)

Notes to the Consolidated Financial Statements

9 Taxation *(Continued)*

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the domestic tax rate applicable to the profit or loss before taxation of the consolidated entities in the respective countries as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Loss before taxation	(443,146)	(97,660)
Tax calculated at domestic tax rates applicable to the profit or loss in the respective countries	(82,750)	(29,223)
Income not subject to tax	(1,904)	(556)
Expenses not deductible for tax purposes	33,215	6,943
Utilization of previously unrecognized tax losses	—	(5,983)
Unrecognized tax losses	49,348	2,718
Effect on deferred taxation arising from change in statutory tax rate	—	9,721
Tax credit	(2,091)	(16,380)

The weighted average applicable tax rate was 18.7% (2007: 29.9%). The decrease is mainly caused by the decrease of statutory tax rate of the Group's subsidiaries in the PRC from 33% to 25% since 1 January 2008.

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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Deferred tax assets to be recovered after 12 months	35,794	34,629
Deferred tax liabilities to be recovered after 12 months	(4,076)	(4,583)
Deferred tax assets, net	31,718	30,046

Notes to the Consolidated Financial Statements

9 Taxation *(Continued)*

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 losses	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	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
Credited/(charged) to the consolidated income statement	6,955	8,470	(7,318)	8,107
Exchange difference	1,215	591	1,781	3,587
At 31 December 2008	26,168	14,999	8,945	50,112

Notes to the Consolidated Financial Statements

9 Taxation *(Continued)*

Deferred tax liabilities:

	Group		
	Intangible assets *HK$'000*	Exchange difference *HK$'000*	Total *HK$'000*
At 1 January 2007	—	(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)
Acquisition of subsidiaries	(4,301)	—	(4,301)
Credited/(charged) to the consolidated income statement	225	(5,317)	(5,092)
Exchange difference	—	(629)	(629)
At 31 December 2008	(4,076)	(14,318)	(18,394)

Deferred tax assets are recognized for tax losses carry forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2008, the Group had unrecognized tax losses of approximately HK$357,866,000 (2007: HK$153,613,000) to carry forward against future taxable income indefinitely, subject to agreement by the Inland Revenue Department of Hong Kong and local tax bureau of the PRC. The tax losses of the PRC subsidiaries have an expiry period of five years, while the tax losses of Hong Kong subsidiaries have no expiry date.

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 approximately HK$495,499,000 (2007: loss of HK$7,446,000).

Notes to the Consolidated Financial Statements

11 Loss per share

Basic

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

	2008	2007
Loss attributable to equity holders of the Company (HK$'000)	(441,117)	(81,280)
Weighted average number of ordinary shares in issue (thousands)	17,708,924	14,611,619
Basic loss per share (HK cents per share)	(2.49)	(0.56)

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2008, the Company has two categories of potential ordinary shares: share options and convertible notes (2007: convertible notes and warrants). The convertible notes are assumed to have been converted into ordinary shares, and the net loss 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 market share price of the Company's shares during the year) 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.

Diluted loss per share has not been disclosed since the conversion of all potential ordinary shares arising from convertible notes, share options and warrants would have an anti-dilutive effect on the basic loss per share for the year ended 31 December 2008 (2007: same).

12 Dividend

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2008 (2007: Nil).

Notes to the Consolidated Financial Statements

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:

	2008	2007
	HK'000	*HK'000*
Fees	720	576
Salaries, bonuses, allowances and benefits in kind	1,682	1,210
Contributions to defined contribution pension schemes	—	24
Sub-total	2,402	1,810
Share-based payments (a)	8,531	—
Total	10,933	1,810

The remuneration of each director for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to defined contribution pension schemes	Sub-total	Share-based payments (a)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Edward Tian Suning	—	—	—	—	1,453	1,453
Mr. Zhao Anjian	—	1,682	—	1,682	3,443	5,125
Mr. Zhang Changsheng	144	—	—	144	727	871
Mr. Jiang Jianning	144	—	—	144	727	871
Mr. Li Ruigang	144	—	—	144	727	871
Dr. Wong Yau Kar David	144	—	—	144	727	871
Mr. Yuen Kin	144	—	—	144	727	871

(a) Share-based payments represent the recognition of the fair value of share options of the Company granted to the directors over the vesting period.

Notes to the Consolidated Financial Statements

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

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to defined contribution pension schemes	Sub-total	Share-based payments (a)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Dong Ping (c)	—	400	8	408	—	408
Mr. Ko Chun Shun, Johnson (c)	—	790	4	794	—	794
Mr. Tsoi Tong Hoo, Tony (c)	240	20	12	272	—	272
Mr. Wilton Timothy Carr Ingram (b)	—	—	—	—	—	—
Dr. Wong Yau Kar David	144	—	—	144	—	144
Mr. Yuen Kin	144	—	—	144	—	144
Mr. Yin Dikun (c)	48	—	—	48	—	48

(b) Resigned in June 2007

(c) Resigned in January 2008

Other than as presented above, for 2007 and 2008 there were:

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

(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

Notes to the Consolidated Financial Statements

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 (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the three (2007: three) individuals during the year are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries, bonuses, allowances and benefits in kind	4,030	1,959
Share-based payments	6,217	—
Contributions to defined contribution pension schemes	12	24
	10,259	1,983

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
HK$NIL - HK$1,500,000	—	3
HK$2,000,001- HK$2,500,000	1	—
HK$3,500,001- HK$4,000,000	1	—
HK$4,000,001- HK$4,500,000	1	—
	3	3

Notes to the Consolidated Financial Statements

14 Property, plant and equipment

	Property, plant and equipment *HK$'000*
Cost	
At 1 January 2007	16,057
Additions	4,950
Disposals	(533)
Disposal of subsidiaries *(note 28(c))*	(9,792)
Exchange difference	470
At 31 December 2007	11,152
Accumulated depreciation	
At 1 January 2007	9,000
Disposals	(184)
Disposal of subsidiaries *(note 28(c))*	(8,173)
Depreciation for the year	1,647
Exchange difference	103
At 31 December 2007	2,393
Net book value:	
At 31 December 2007	8,759

Notes to the Consolidated Financial Statements

14 Property, plant and equipment *(Continued)*

	Property, plant and equipment *HK$'000*
Cost	
At 1 January 2008	11,152
Additions	1,628
Disposals	(1,362)
Exchange difference	387
At 31 December 2008	11,805
Accumulated depreciation	
At 1 January 2008	2,393
Disposals	(554)
Depreciation for the year	2,356
Exchange difference	121
At 31 December 2008	4,316
Net book value:	
At 31 December 2008	7,489

Depreciation expense of HK$2,356,000 (2007: HK$1,647,000) has been expensed in administrative expenses.

Notes to the Consolidated Financial Statements

15 Intangible assets

	Non-current assets						Current assets
	Goodwill	Exclusive advertising agency right	Programme and film rights	Programme and film production in progress	Others	Total	Exclusive advertising agency right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007							
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 31 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 31 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

15 Intangible assets *(Continued)*

	Non-current assets						Current assets
	Goodwill	Exclusive advertising agency right	Programme and film rights	Programme and film production in progress	Others	Total	Exclusive advertising agency right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2008							
Opening net book amount	496,379	719,263	49,656	31,024	—	1,296,322	—
Acquisition of subsidiaries (note 28(b))	17,984	—	—	—	1,284	19,268	373,563
Additions	—	—	2,101	—	—	2,101	28,348
Provision for impairment	(117,166)	—	(43,499)	(13,178)	—	(173,843)	—
Disposals	—	—	(1,134)	(14,849)	—	(15,983)	—
Amortization expense	—	(184,120)	(1,164)	—	(951)	(186,235)	—
Exchange difference	236	34,284	1,052	858	—	36,430	—
Closing net book amount	397,433	569,427	7,012	3,855	333	978,060	401,911
At 31 December 2008							
Cost	397,433	1,138,853	82,832	17,440	1,284	1,637,842	401,911
Accumulated amortization and impairment	—	(569,426)	(75,820)	(13,585)	(951)	(659,782)	—
Net book amount	397,433	569,427	7,012	3,855	333	978,060	401,911

Amortization of HK$186,235,000 (2007: HK$180,230,000) is included in the cost of sales.

During the year ended 31 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 for a period of up to six years with effect from 1 January 2006. In return, Qiansi has agreed to make pre-agreed monthly payments to Travel TV during the same period.

During the year, the Group has acquired an exclusive advertising agency right through acquisition of Blower Investments Limited and its subsidiaries (Note 31).

Notes to the Consolidated Financial Statements

15 Intangible assets *(Continued)*

The Group considers the exclusive advertising agency rights to be an intangible asset representing the right to sell 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 shorter of the remaining license period and the non-cancellable license period and is stated net of accumulated amortization. Interest accreted on the present value of pre-agreed periodic payments, if any, is charged to the consolidated income statement within finance costs.

Impairment tests for goodwill

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

	2008 *HK$'000*	2007 *HK$'000*
TV advertising business	397,433	379,213
Content production business	—	117,166
	397,433	496,379

The recoverable amount of the CGU is determined based on fair value less cost to sell calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-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 fair value less cost to sell calculations:

	Television advertising business
- Average annual revenue growth rate in six-year period	0%-12%
- Annual growth rate beyond the six-year period	0%
- Discount rate	14 %

	Content production business
- Average annual revenue growth rate in six-year period	0%
- Annual growth rate beyond the six-year period	0%
- Discount rate	15.4%

Notes to the Consolidated Financial Statements

15 Intangible assets *(Continued)*

Management determined the average annual revenue growth rate based on past performance and its expectation for market development. The discount rates used reflect specific risks relating to the relevant segments.

The cash flow projections of both television advertising and content production CGU were adjusted to reflect the effect of deteriorating economic environment. Impairment testing taking into account of these latest developments resulted in the impairment loss of goodwill associated with content production CGU of HK$117,166,000 (2007: Nil).

It the average annual revenue growth rate in the first six-year period applied had been 1% lower or the discount rate applied had been 1% higher than management's estimates as at 31 December 2008 with all other variables held constant, no impairment provision would be required for the goodwill associated with the television advestlsing business CGU. The goodwill associated with content production business CGU was fully impaired as at 31 December 2008.

16 Investments in subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares at cost (note a)	782,130	679,295
Provision for impairment loss	(618,836)	(140,000)
	163,294	539,295

As at 31 December 2008 and 2007, all the balances with subsidiaries were unsecured, interest-free and repayable on demand.

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

Note a: Expenses relating to share options granted by the Company to (i) certain employees working for, and (ii) parties providing services to, subsidiaries of the Group is recognized as deemed investments in subsidiaries.

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Share of net assets	17,503	3,565
Loan to a jointly controlled entity	250,136	236,967
	267,639	240,532

Notes to the Consolidated Financial Statements

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

As at 31 December 2008 and 2007, 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 amounts due from jointly controlled entity and its subsidiaries are unsecured, interest-bearing at prevailing market rates and repayment on demand.

The principal jointly controlled entities and its subsidiaries as at 31 December 2008 are as follows:

	Name	Place of incorporation and kind of legal entity	Registered capital	Interest held indirectly 2008	Interest held indirectly 2007	Principal activities and place of operation
(1)	AUFM GROUP					
	Asia Union Film and Media (*) (#)	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 in the PRC

(#) On 3 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 27 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

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

The consolidated results and financial position of the AUFM at 31 December 2008 were as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Assets:		
Non-current assets	414,775	359,941
Current assets	25,518	20,873
	440,293	380,814
Liabilities:		
Current liabilities	(426,301)	(384,850)
Long-term liabilities	(80,818)	(76,650)
	(507,119)	(461,500)
Net Liabilities	(66,826)	(80,686)

	2008	2007
	HK$'000	*HK$'000*
Income	9,546	14,995
Share of profit of an associated company	49,932	29,485
Expenses	(41,706)	(36,374)
Profit for the year	17,772	8,106

There are no contingent liabilities and commitments relating to the Group's interest in the jointly controlled entities, and no contingent liabilities and commitment of the jointly controlled entities itself.

Notes to the Consolidated Financial Statements

18 Financial instruments by category - Group and Company

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

Group

Assets as per consolidated balance sheet

	Loans and receivables	Financial assets at fair value through profit or loss	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2008			
Trade receivables	55,248	—	55,248
Amounts due from a jointly controlled entity and its subsidiaries	106,798	—	106,798
Financial assets at fair value through profit or loss	—	11,130	11,130
Prepayments, deposits and other receivables	121,196	—	121,196
Cash and cash equivalents	216,511	—	216,511
Total	499,753	11,130	510,883
As at 31 December 2007			
Trade receivables	77,711	—	77,711
Amounts 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
Prepayments, deposits and other receivables	49,483	—	49,483
Pledged bank deposits	33,983	—	33,983
Cash and cash equivalents	131,305	—	131,305
Total	401,194	20,538	421,732

Notes to the Consolidated Financial Statements

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

Group

Liabilities as per consolidated balance sheet

	Other financial liabilities
	HK$'000
As at 31 December 2008	
Agency fee payables	1,203,576
Trade payables	24,880
Current income tax liabilities	30,062
Receipt in advance, other payables and accrued liabilities	79,532
Convertible notes	44,271
Total	1,382,321
As at 31 December 2007	
Short-term bank borrowing	32,332
Agency fee payable	891,412
Current income tax liabilities	26,594
Receipt in advance, other payables and accrued liabilities	30,204
Convertible notes	40,931
Total	1,021,473

Notes to the Consolidated Financial Statements

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

Company

Assets as per balance sheet

	Loans and receivables
	HK$'000
As at 31 December 2008	
Prepayments, deposits and other receivables	1,188
Amounts due from subsidiaries	627,391
Cash and cash equivalents	35,254
Total	663,833
As at 31 December 2007	
Prepayments, deposits and other receivables	1,071
Amounts due from subsidiaries	486,491
Cash and cash equivalents	933
Total	488,495

Company

Liabilities as per balance sheet

	Other financial liabilities
	HK$'000
As at 31 December 2008	
Receipt in advance, other payables and accrued liabilities	3,600
Convertible notes	44,271
Total	47,871
As at 31 December 2007	
Receipt in advance, other payables and accrued liabilities	2,320
Convertible notes	40,931
Total	43,251

Notes to the Consolidated Financial Statements

19 Trade receivables

At 31 December 2008, the aging analysis of trade receivables were as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 - 3 months	47,943	46,886
4 - 6 months	6,326	1,812
Over 6 months	30,638	56,665
	84,907	105,363
Provision for doubtful debts (all made against trade receivables aged over 6 months)	(29,659)	(27,652)
	55,248	77,711

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
HK$	—	35,000
RMB	55,248	42,711
	55,248	77,711

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 as contracted. As at 31 December 2008, trade receivables of HK$29,659,000 (2007: HK$27,652,000) 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).

Notes to the Consolidated Financial Statements

19 Trade receivables *(Continued)*

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
4 - 6 months	6,326	1,812
Over 6 months	979	29,013
	7,305	30,825

Management does not expect any material losses from non-performance by these counterparties.

Movements on the provision for doubtful debts were as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	27,652	—
Provision for doubtful debts	49,971	27,038
Write-off against trade receivables	(49,284)	—
Exchange differences	1,320	614
At 31 December	29,659	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.

The carrying amounts of trade receivables approximated their respective fair values.

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

Notes to the Consolidated Financial Statements

20 Financial assets at fair value through profit or loss

	Group	
	2008	2007
	HK$'000	*HK$'000*
Equity security:		
Listed in Hong Kong	11,130	20,538
Market value of listed security	11,130	20,538

The fair value of the equity security is based on its current bid prices in active market.

21 Prepayments, deposits and other receivables

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments, deposits and other receivables	120,310	40,177	1,188	1,071
Amounts due from related companies	886	9,306	—	—
	121,196	49,483	1,188	1,071

The amounts due from related companies were unsecured, non-interest bearing and repayable on demand. The carrying amounts of prepayments, deposits and other receivables of the Group and the Company were denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	60,876	14,511	1,188	1,071
RMB	60,320	34,972	—	—
	121,196	49,483	1,188	1,071

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.

Notes to the Consolidated Financial Statements

22 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	216,511	131,305	35,254	933
Pledged bank deposits	—	33,983	—	—
	216,511	165,288	35,254	933
Denominated in :				
HK$	161,330	140,818	35,254	933
RMB	45,456	24,470	—	—
United States Dollar (USD)	9,725	—	—	—
	216,511	165,288	35,254	933
Maximum exposure to credit risk	216,511	165,288	35,254	933

23 Trade payables, receipt in advance, other payables and accrued liabilities

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	24,880	—	—	—
Receipt in advance	43,282	13,282	—	—
Other payables and accrued liabilities	36,250	16,922	3,600	2,320
Total	104,412	30,204	3,600	2,320

Notes to the Consolidated Financial Statements

23 Trade payables, receipt in advance, other payables and accrued liabilities *(Continued)*

At 31 December 2008, the aging analysis of trade payables were as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 - 3 months	20,170	—
4 - 6 months	4,710	—
	24,880	—

24 Short-term bank borrowing

	Group	
	2008	2007
	HK$'000	*HK$'000*
Wholly repayable within one year:		
Bank loan	—	32,332

The bank loan as at 31 December 2007 was interest-bearing at 5% per annum and was secured against the Group's pledged bank deposits of HK$33,983,000. The bank loan has been fully repaid during the year ended 31 December 2008.

As at 31 December 2007, the fair values of the borrowing approximated its their carrying amount.

25 Convertible note

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 13 May 2005.

During the year, no part of the Second Tranche Convertible Note has been converted into ordinary shares. The remaining part of the outstanding convertible notes as at 31 December 2008 is convertible into 1,000,000,000 ordinary shares of the Company.

Notes to the Consolidated Financial Statements

25 Convertible note *(Continued)*

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

	Group and Company	
	2008	2007
	HK$'000	*HK$'000*
Equity portion		
Beginning of year	56,523	181,000
Conversion	—	(124,477)
End of year	56,523	56,523
Liability portion		
Beginning of year	40,931	121,230
Conversion	—	(85,141)
Interest accretion	3,340	4,842
End of year	44,271	40,931
Total fair value		
Beginning of year	97,454	302,230
End of year	100,794	97,454

The carrying amount of the liability portion of Second Tranche Convertible Note at 31 December 2008 approximated its fair values which was 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 shareholder's equity.

Notes to the Consolidated Financial Statements

26 Share capital

	Authorized				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares '000	*HK$'000*	*No. of shares '000*	*HK$'000*	*HK$'000*
At 1 January 2007, 31 December 2007 and 31 December 2008	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$0.01 each		Total
	No. of shares '000	*HK$'000*	*No. of shares '000*	*HK$'000*	*HK$'000*
At 1 January 2007	—	—	12,038,611	120,386	120,386
Issuance of shares on placements (i) & (iv)	—	—	1,700,000	17,000	17,000
Conversion of convertible notes (ii)	—	—	2,202,235	22,022	22,022
Issuance of shares upon exercise of share options (iii)	—	—	277,400	2,774	2,774
At 31 December 2007	—	—	16,218,246	162,182	162,182
At 1 January 2008	—	—	16,218,246	162,182	162,182
Issuance of shares upon exercise of warrants (1)	—	—	1,900,000	19,000	19,000
Issuance of shares upon completion of an acquisition (2)	—	—	700,000	7,000	7,000
Shares repurchased and cancelled (3)	—	—	(120,600)	(1,206)	(1,206)
At 31 December 2008	—	—	18,697,646	186,976	186,976

Notes to the Consolidated Financial Statements

26 Share capital *(Continued)*

Ordinary shares

During the year ended 31 December 2008, the Company has issued and reduced its ordinary shares as follows:

(1) In April 2008, 1,900,000,000 new ordinary shares were issued upon the exercise of warrants at a price of HK$0.0991 per share. Details of the transaction are disclosed in the Company's announcement dated 11 April 2008.

(2) In October 2008, 700,000,000 new ordinary shares were issued upon the completion of the acquisition of the entire issued share capital of Blower Investments Limited. Details of the transaction are disclosed in the Company's circular dated 17 September 2008.

(3) During the year, the Company has repurchased 120,600,000 ordinary shares at an average cost of HK$0.038 per share from the public market. These repurchased shares were cancelled immediately upon repurchase.

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

(i) 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 are disclosed in the Company's announcement dated 20 March 2007.

(ii) 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 25).

(iii) 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.

(iv) 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 are disclosed in the Company's announcement dated 31 August 2007.

26 Share capital *(Continued)*

Share options

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30 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 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 10 June 2008, the Company can grant up to 1,811,824,531 share options to the Qualified Persons. Subsequent to that, 880,000,000 share options has been granted to the Qualified Persons.

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, share-based payment expense of approximately HK$77,135,000 is charged to the consolidated income statement (2007: Nil).

Movement of share options during the year is as follows:

		Number of share options						
Tranche	Date of share options granted	Outstanding as at 1 January 2008	Granted during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2008	Exercisable as at 31 December 2008	Vesting date	Expiry date
1	7 March 2008	—	800,000,000	(2,000,000)	798,000,000	3,000,000	From 1 April 2008 to 1 March 2011	31 December 2012
2	5 May 2008	—	130,000,000	—	130,000,000	—	From 1 April 2009	31 December 2015
3	4 November 2008	—	880,000,000	—	880,000,000	—	From 8 March 2009 to 8 March 2011	31 December 2015
		—	1,810,000,000	(2,000,000)	1,808,000,000	3,000,000		

26 Share capital *(Continued)*

Share options *(Continued)*

There are no performance conditions or market conditions required for these tranches of issued options. The fair value of share options granted during the year was calculated based on Binomial model, and the significant inputs into the model were:

	Tranche 1	Tranche 2	Tranche 3
Exercise price per share	HK$0.154	HK$0.134	HK$0.044
Current share price at grant date	HK$0.147	HK$0.134	HK$0.044
Risk free interest rate	2.407%	2.599%	2.171%
Security volatility	83%	82%	86%
Dividend yield	0%	0%	0%
Exercise multiples	2 times	2 times	1.5 to 2 times
Option life (number of years)	7.8	7.7	7.2
Weighted average fair value per share option	HK$0.0832	HK$0.0746	HK$0.0211

The security volatility is based on the weekly price change of historical volatility of the Company prior to the issuance of share options.

27 Reserves

Group

	Share premium HK$'000 (note ii)	Merger reserve HK$'000 (note i)	Available-for-sale investment reserve HK$'000	Equity component of convertible notes HK$'000	Statutory reserve HK$'000 (note iii)	Share option reserve HK$'000	Capital redemption reserve HK$'000 (note iv)	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 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 on placement	202,578	—	—	—	—	—	—	—	—	202,578	—	202,578
Issuance of shares upon 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 31 December 2007	727,752	860,640	—	56,523	—	—	—	(1,310)	(829,869)	813,736	—	813,736

27 Reserves *(Continued)*

Group *(Continued)*

	Share premium HK$'000 (note ii)	Merger reserve HK$'000 (note i)	Available-for-sale investment reserve HK$'000	Equity component of convertible notes HK$'000	Statutory reserve HK$'000 (note iii)	Share option reserve HK$'000	Capital redemption reserve HK$'000 (note iv)	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2008	727,752	860,640	—	56,523	—	—	—	(1,310)	(829,869)	813,736	—	813,736
Loss for the year	—	—	—	—	—	—	—	—	(441,117)	(441,117)	62	(441,005)
Grant of share options	—	—	—	—	—	77,135	—	—	—	77,135	—	77,135
Issuance of shares upon exercise of warrants	169,290	—	—	—	—	—	—	—	—	169,290	—	169,290
Issuance of shares upon completion of an acquisition	22,400	—	—	—	—	—	—	—	—	22,400	—	22,400
Share repurchases	(3,403)	—	—	—	—	—	1,206	—	(1,206)	(3,403)	—	(3,403)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	579	579
Currency translation differences	—	—	—	—	—	—	—	(10,279)	—	(10,279)	—	(10,279)
Transfer to statutory reserve	—	—	—	—	47	—	—	—	(47)	—	—	—
Balance at 31 December 2008	916,039	860,640	—	56,523	47	77,135	1,206	(11,589)	(1,272,239)	627,762	641	628,403

Notes to the Consolidated Financial Statements

27 Reserves *(Continued)*

Company

	Share premium HK$'000 (note ii)	Equity component of convertible note HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000 (note iv)	Retained earnings/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2007	325,371	181,000	—	—	45,528	551,899
Conversion of convertible notes	187,597	(124,477)	—	—	—	63,120
Issuance of shares on placement	202,578	—	—	—	—	202,578
Issuance of shares upon exercise of shares options	12,206	—	—	—	—	12,206
Loss for the year	—	—	—	—	(7,446)	(7,446)
At 31 December 2007	727,752	56,523	—	—	38,082	822,357
At 1 January 2008	727,752	56,523	—	—	38,082	822,357
Grant of share options	—	—	77,135	—	—	77,135
Issuance of shares upon exercise of warrants	169,290	—	—	—	—	169,290
Issuance of shares upon completion of an acquisition	22,400	—	—	—	—	22,400
Share repurchases	(3,403)	—	—	1,206	(1,206)	(3,403)
Loss for the year	—	—	—	—	(495,499)	(495,499)
At 31 December 2008	916,039	56,523	77,135	1,206	(458,623)	592,280

Notes to the Consolidated Financial Statements

27 Reserves *(Continued)*

Company *(Continued)*

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.

(iii) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

(iv) During the year ended 31 December 2008, the Company repurchased 120,600,000 issued ordinary shares on the Stock Exchange, These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$4,609,000 were deducted from shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$1,206,000 has been transferred from accumulated losses to capital redemption reserve.

Notes to the Consolidated Financial Statements

28 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash used in operations

	2008 *HK$'000*	2007 *HK$'000*
Loss before taxation	(443,146)	(97,660)
Adjustments for:		
- Share of profit of jointly controlled entities	(13,328)	(3,990)
- Interest income	(21,412)	(15,131)
- Depreciation	2,356	1,647
- Loss on disposal of property, plant and equipment	82	72
- Provision for impairment of intangible assets	173,843	—
- Amortization of intangible assets	186,235	180,230
- Share-based payments	77,135	—
- Fair value loss/(gain) on financial assets at fair value through profit or loss	9,408	(9,388)
- Finance costs	40,963	48,184
- Impairment loss on long-term investment	—	240
- Preference share dividend income	—	(3,180)
- Decrease in fair value of preference shares	—	30,708
Operating profit before working capital changes	12,136	131,732
Change in working capital:		
- Decrease/(increase) in amounts due from a jointly controlled entity and its subsidiaries	8,125	(23,683)
- (Increase)/decrease in trade receivables, prepayments, deposits and other receivables	(20,771)	4,361
- Decrease in programme and film rights	1,134	—
- Decrease in programme and film production in progress	14,849	—
- Decrease in agency fee payables, trade payables, receipt in advance, other payables and accrued liabilities	(82,883)	(117,155)
Cash used in operations	(67,410)	(4,745)

Notes to the Consolidated Financial Statements

28 Notes to the consolidated cash flow statement *(Continued)*

(b) Acquisition of subsidiaries

Details of acquisition of subsidiaries are as follows:

	2008	2007
	HK$'000	*HK$'000*
Net assets acquired:		
Intangible assets	374,847	—
Prepayments, deposits and receivables	30,938	—
Cash and cash equivalents	3,786	—
Payables and accrued liabilities	(387,908)	—
Deferred tax liabilities	(4,301)	—
Minority interests	(579)	—
	16,783	—
Goodwill	17,984	—
	34,767	—
Satisfied by:		
Issuance of new ordinary shares	29,400	—
Cash paid	536	
Transaction costs	4,831	—
	34,767	—
Cash outflow on acquisition:		
Transaction costs	(4,831)	—
Cash paid	(536)	—
Cash and cash equivalents in subsidiaries acquired	3,786	—
	(1,581)	—

Notes to the Consolidated Financial Statements

28 Notes to the consolidated cash flow statement *(Continued)*

(c) Disposal of subsidiaries

Details of disposal of subsidiaries are as follows:

	2008	2007
	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 April 2008, a total of 1,900,000,000 new ordinary shares were issued upon the exercise of warrants at a price of HK$ 0.0991 per share.

Notes to the Consolidated Financial Statements

29 Commitments

At 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2008	2007
	HK$'000	*HK$'000*
Not later than one year	5,119	5,198
Later than one year and not later than five years	2,133	7,252
	7,252	12,450

30 Related party transactions

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

	2008	2007
	HK$'000	*HK$'000*
Interest income on loan to a JCE	19,381	12,669
Reduction of agency fee payable to Hainan Haishi	—	33,006
Consulting fee payable to Hainan Haishi	28,600	—

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).

Notes to the Consolidated Financial Statements

31 Significant acquisition

Details of net assets and goodwill acquired through business combinations during the year are as follows:

	HK$'000
Cash paid	536
Transaction costs	4,831
Fair value of shares issued (note 26)	29,400
Total purchase consideration	34,767

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

The assets and liabilities acquired through business combinations as of respective dates of acquisition are as follow:

	Fair value	Acquiree's carrying amount
	HK$'000	*HK$'000*
Net assets acquired:		
Intangible assets	374,847	—
Prepayments, deposits and receivables	30,938	30,938
Cash and cash equivalents	3,786	3,786
Receipt in advance, other payables and accrued liabilities	(387,908)	(30,415)
Deferred tax liabilities	(4,301)	—
	17,362	4,309
Minority interests	(579)	
Goodwill	17,984	
Total purchase consideration	34,767	

Notes to the Consolidated Financial Statements

31 Significant acquisition *(Continued)*

In October 2008, the Company has completed the acquisition of the entire issued share capital of Blower Investments Limited. 700 million ordinary shares of the Company have been issued as the first tranche of considerations for the acquisition. Pursuant to the acquisition agreement, a maximum of another 1,400 million ordinary shares of the Company will be issued as the second and third tranche of the considerations for the acquisition subject to certain conditions, one of which being whether the consolidated net profit of Blower Investments Limited and its subsidiaries (the "Blower Group") for the 12 months ending 30 June 2009 and 30 June 2010 (subject to certain adjustments) is or exceeds HK$80 million and HK$100 million respectively. For details, please refer to the Circular issued by the Group on 17 September 2008.

One of the key assets of the Blower Group is the exclusive advertising agency agreement with Guangdong Provincial Satellite Television ("Guangdong SAT TV"), pursuant to which Guangzhou Zhanshi Advertising Co., Ltd, a wholly-owned subsidiary of the Blower Group, has been appointed as the exclusive advertising agency for Guangdong SAT TV for the period from 1 January 2009 to 31 December 2011. The exclusive advertising agency right is subject to annual renewal.

During the year, the Blower Group contributed sales and profits attributable to equity holders of the Company of HK$6,171,000 and HK$1,585,000 respectively for the period from October 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's sales and profits attributable to equity holders of the Company would have been increased by HK$4,223,000 and HK$3,093,000 respectively.

There was no acquisition in the year ended 31 December 2007.

32. Comparative figures

Certain 2007 comparative figures have been reclassified in order to be consistent with the current year presentation. The fair value losses on financial assets at fair value through profit or loss and fair value losses on investment in preference shares have been included in other gains/(losses), net.

33. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 8 April 2009.

Notes to the Consolidated Financial Statements

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 (1)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (3)	PRC, co-operative joint venture	RMB120,000,000	100%	Investment holding and licensing of films and TV drama in the PRC
Beijing Hua Yi Qian Si Advertising Company Limited (3)	PRC, co-operative liability company	RMB5,000,000	100%	Advertising agency in the PRC
Blower Investments Limited (1)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
KAF Outdoor Media Limited	Hong Kong limited company	HK$10,000 ordinary	100%	Advertising agency in Hong Kong
Guangdong Sinofocus Media Limited	PRC, wholly-owned foreign enterprise	RMB10,000,000	100%	Advertising agency in the PRC
Guangzhou Zhanshi Advertising Company Limited (2)(3)	PRC, domestic limited company	RMB500,000	100%	Advertising agency in the PRC
Asian Union New Media (Hong Kong) Limited (1)	Hong Kong, limited company	HK$2 ordinary	100%	Group treasury and administrative services in Hong Kong
Universal Appliances Limited (1)	Hong Kong, limited company	HK$499,373,000 ordinary HK$43,337,000 preference	100%	Investment holding and licensing of films in Hong Kong

(1) Shares held directly by the Company.

(2) Based on the group structure, the Group does not have equity ownership in this PRC domestic subsidiary. Nevertheless, the Group has entered into certain contractual agreements between this subsidiary and the registered owners of this subsidiary. The Group is able to irrevocably authorize individuals designated by the Group to exercise equity owner's rights over this subsidiary. In addition, the Group has entered into an agreement with this subsidiary to enable the Group to absorb majority of the risks and rewards from this subsidiary. Based on these arrangements, the Group believes that, notwithstanding the lack of equity ownership, the contractual arrangements described above give the Group control over the PRC domestic company in substance. As a result, this subsidiary is presented as consolidating subsidiary of the Group.

(3) 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 KAF Outdoor Media Limited, Asian Union New Media (Hong Kong) Limited and Universal Appliances Limited, the statutory financial statements of all other subsidiaries for year ended 31 December 2008 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.

	2008 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*
Turnover					
Continuing operations	179,431	187,082	304,902	34,072	38,630
(Loss)/profit before tax	(443,146)	(97,660)	276,522	(21,857)	(8,839)
Taxation	2,091	16,380	(12,065)	(330)	(1,092)
Minority interests	(62)	—	147	—	—
(Loss)/profit attributable to shareholders	(441,117)	(81,280)	264,604	(22,187)	(9,931)
Property, plant and equipment	7,489	8,759	7,057	622	2,520
Intangible assets	978,060	1,296,322	1,414,069	247,957	—
Interests in jointly controlled entities and subsidiaries	267,639	240,532	70,259	56,130	—
Interests in associated companies	—	—	—	19,663	15,348
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
Other assets	35,794	34,629	12,171	—	2,065
Current assets	912,794	421,732	339,633	129,812	38,046
Total assets	2,201,776	2,001,974	1,843,549	533,018	93,979
Current liabilities	919,841	406,939	290,830	29,100	35,070
Long-term liabilities	466,556	619,117	812,774	77,070	5,000
Total liabilities	1,386,397	1,026,056	1,103,604	106,170	40,070
Net assets	815,379	975,918	739,945	426,848	53,909

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 1 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 2004 have not been adjusted for these new and revised policies.