DVN (Holdings) Limited
天地數碼(控股)有限公司

TOWARDS THE PROSPEROUS FUTURE

Annual Report 2008

STOCK CODE: 00500

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Ko Chun Shun, Johnson *(Chairman)*
Dr Lui Pan *(Chief Executive Officer)*
Mr Luo Ning
Mr Jin Wei
Mr Xu Qiang *(Chief Operating Officer)*
Mr Hu Qinggang *(Chief Financial Officer)*

Independent non-executive directors

Mr Chu Hon Pong
Mr Liu Tsun Kie
Mr Yap Fat Suan, Henry

Audit Committee

Mr Liu Tsun Kie *(Chairman)*
Mr Chu Hon Pong
Mr Yap Fat Suan, Henry

Remuneration Committee

Mr Liu Tsun Kie *(Chairman)*
Mr Chu Hon Pong
Mr Yap Fat Suan, Henry

COMPANY SECRETARY

Mr Chan Kam Kwan, Jason

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Baker & McKenzie
Kelvin Cheung & Co.

PRINCIPAL BANKERS

Bank of Communications Co., Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House
2 Church Street West
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Rooms 1304-05
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong branch share registrars and transfer office

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

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 00500
Board lot: 1,000 shares

INVESTOR RELATIONS

Investor Relations Department
DVN (Holdings) Limited
Telephone: (852) 2548 8781
Facsimile: (852) 2511 5522
Website: www.dvnholdings.com
www.irasia.com/listco/hk/dvn
Email: ir@dvnholdings.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2008	2007
Additional number of set top boxes using DVN's solutions	**2,383,000 units**	3,191,000 units
	HK$'000	HK$'000
Revenue	**759,833**	991,293
Profit attributable to equity holders of the Company	**92,888**	115,183
Earnings before interest, tax, depreciation and amortisation	**117,803**	148,113
Basic earnings per share	**HK$0.08**	HK$0.10
Dividends per share	**HK$0.02**	HK$0.02

	As at 31 December	
	2008	2007
	HK$'000	HK$'000
Total assets	**1,421,206**	1,370,263
Shareholders' funds	**1,048,483**	916,858
Net asset value per share	**HK$0.92**	HK$0.81
Total cash balance	**348,632**	403,995
Number of staff	**736**	793
Current ratio	**4.05**	3.36
Total liabilities-to-total assets ratio	**0.18**	0.24
Price to book ratio	**0.25**	1.20

SUMMARY OF MAJOR EVENTS

January 2008	*	The Group's Home Media Centre (HMC家庭多媒體中心) and STB8 series set top boxes were recognised and approved as hi-tech achievement transformation projects (高新技術成果轉化項目) by Shanghai High & New Technological Achievement Transformation Project Identification Office (上海市高新技術成果轉化項目認定辦公室) and Shanghai Service Center for High & New Technological Achievement Transformation (上海市高新技術成果轉化服務中心).
	*	The Group entered into a strategic cooperation agreement with Shanghai Oriental Pearl Radio and TV R&D Co., Ltd. (上海東方明珠廣播電視研究發展有限公司) for the joint development of the terrestrial TV broadcasting services in Shanghai.
March 2008	*	The Group won the contract for the provision of conditional access system to Jilin Province.
May 2008	*	The Group entered into a cooperation agreement with Jincheng Radio & Television Network Company in respect of the digitisation of the TV broadcasting of Jincheng City, Shanxi.
July 2008	*	The Group formally launched the self-developed portable conditional access embedded USB descrambler – USBDongle@CA.
August 2008	*	The Group's High Definition Home Media Centre started to be marketed to the consumers by Best Buy (百思買), a major consumer electronics discount store in Shanghai.
	*	The Group's set top box, STB8, was named as one of the major newly developed products in Shanghai for the year of 2008.
September 2008	*	The Group won the contract for the integration of conditional access system for Jiangsu Broadcasting Television Network Corporation Limited.
October 2008	*	The Group won the tender for the Hangzhou WASU mobile TV project as the provider and integrator of the terrestrial TV broadcasting system in Hangzhou.
	*	The Group won the tender for the conditional access system project of Zhejiang provincial cable TV network.

SUMMARY OF MAJOR EVENTS

November 2008	*	The Group's middleware and set top boxes were named as "The Most Satisfaction Brand for China Digital TV Users for 2008" (2008年年度中國數字電視用戶最滿意品牌) in the second China Digital TV Users Satisfaction Survey (2008).
December 2008	*	The Group won the tender for the conditional access system project of Chongqing City.
	*	The Group was granted a contract again for the supply of 300,000 set top boxes and smart cards to Yunnan Province.
January 2009	*	The Group was named as one of the "Top Ten National Brands for Digital Broadcasting Business for 2008" (2008廣電行業(傳輸覆蓋)十大民族品牌) and Dr Lui Pan, the Chief Executive Officer of the Company, was elected as one of the "Ten Most Powerful Executives in China Broadcasting Industry for 2008" (2008廣電行業十大風雲人物).
March 2009	*	The Group announced the strategies for Post-Digitisation Era and the use of the Group's self-developed cost efficient technology, Tian De Tong (天地通), for the two-way transformation of the existing digital broadcasting systems and set top boxes.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING REVIEW AND PROSPECTS

Overall Performance

Summary

In light of the rapid progression of the global financial tsunami, management decided to scale back its instalment sales program in the fourth quarter of the year and this scaling back together with the impact on sales caused by the delayed implementation of the Henan project until 2009 meant that the volume of sales was below what had initially been planned. There was also a general drop in the average selling prices ("ASP") in the markets for some of the main digital TV products in 2008. As a result, the Group's consolidated revenue for the year ended December 2008 retreated to HK$759.8 million or 23% decrease from HK$991.3 million in 2007. Consolidated net profit decreased to HK$92.9 million or 19% decrease from HK$115.2 million in 2007, influenced in part by sales and marketing expenses resulting from increased competition and also by the impact of the first full year cost of the Beijing office established in the second half of 2007.

Digital Broadcasting Business

The Group is one of the largest developers and suppliers of digital TV systems in China. Its products are marketed under the brand of "DVN/天柏". China is in the process of converting TV broadcasting from analogue to digital. There are about 400 million TV households in China and only about 45 million households have migrated to digital by 2008.

The Group's business was adversely affected by several external factors in 2008. The Henan Province digital mass migration project, a major project that initially scheduled to commence last year, was postponed to 2009 because the required government hearing for fee adjustment was delayed until the fourth quarter of 2008 as inflation control was still a key focus of government policies until October. In addition, the Group's operation was interrupted by the snow storm at the beginning of the year, the earth quake in May, and the Olympics in August during which period digital conversion projects across the country were essentially halted for 6-8 weeks. In the fourth quarter, observing the drastically changing business climate caused by the rapid progression of the global financial tsunami, management consciously decided to conserve resources and forgo short term pursuit of market share by scaling back new set top box ("STB") sales orders including instalment sales. Competition also caused market ASP of digital TV products, especially STB ASP, to fall in 2008.

After recording growth in the first half, both segmental revenue and profit from digital broadcasting business for the full year of 2008 were HK$735.5 million and HK$115.6 million respectively, corresponding to 24% and 22% decrease from 2007. In 2008, the Group distributed hardware and software for 2.4 million units of STB, down 25% from 3.2 million units in 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has acquired a reputation for being an industry pioneer and innovator, and offers one of the most comprehensive ranges of products and solutions in the market, including:

1.	User terminal:	STB solutions BIOC (2-way networking solutions) DASS (DVN Application Support System, a suite of STB application software and middleware)
2.	Security system:	Conditional Access System ("CA")/smart card

3. Head-end systems and software, including DVN Business Operation Support System (DBOSS)

In the second "China Digital TV Users Satisfaction Survey" jointly organised by a number of respected publications in October 2008, both the Group's STB and middleware software were recognised again for delivering the highest consumer satisfaction.

Ever since the Group successfully completed the first mass migration project for Qingdao in 2004, it has been a leading STB supplier and innovator in the market. As this product market develops, more suppliers have appeared including many of the leading domestic TV brands. In 2008, average STB market price dropped as a result of increased competition. In addition, the central government's credit tightening policy had led cable operators to place more emphasis on supplier credit. With the increasing commoditisation of the STB business, the Group has begun to focus more on opportunities and developments of user terminal software systems and user terminal networking products. The DASS software suite and BIOC networking devices are examples of such developments.

At the beginning of 2008, the Group initiated a strategy to create an open CA platform available to all STB suppliers through the launch of an independent CA/smart card division. The undertaking has been quite successful, with DVN CA solution now being adopted by over 40 STB suppliers and smart card shipment exceeded the Group's STB shipment for the first time in 2008.

A substantial DBOSS contract for approximately RMB35 million was signed at year end. Delivery is scheduled over the course of 2009-2010. Over 70% of the contract value will be DVN software.

The Group also received a number of trial orders for its BIOC products in 2008 indicating increasing interest from cable operators in the higher APRU potential from 2-way networks.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's key new developments in 2008 include 2-way CA and DASS on the software side, and CA embedded USB dongle – a wireless antenna and descrambler on the hardware side. DASS is a key component in the Group's product strategy to advance its competitiveness from STB hardware to software, and a building block towards new digital TV application and value added service ("VAS") business. The DASS is an open software platform concept, which through the placing of an universal adopting software layer on top of the different STB operating systems, creates a homogeneous environment to develop application/VAS software independent of STB hardware differences; allows smooth operation of digital TV applications with hardware systems of multiple STB mixtures; and gives cable operators the freedom to change/up-grade hardware without interfering with the normal operation of applications/VAS. Since completing development, DASS has received positive response from cable operators.

During the year, the Group also undertook cost rationalisation exercises and has trimmed headcount.

Financial Market Information Business

Revenue from the Group's financial market information business unit for the year increased 14% to HK$24.3 million (2007: HK$21.2 million). However, segmental profit decreased to HK$2.0 million from HK$3.8 million in 2007.

The primary business of this unit is the provision of online financial information through internet in Hong Kong and other parts of Asia.

Prospects

Despite the current difficult business climate, we are confident about the mid to long term prospects of China's digital TV industry. In the central government's recent stimulus plan for the electronic and information industry, the promotion and propagation of digital TV was listed as one of the six key undertakings. Monetary easing since the last fourth quarter also should lead to new credits for cable operators to fund their digitisation plans. With less than seven years to go before the government's analogue switch off deadline in 2015 and only about 45 million households having completed digitisation, the future market demand for digital TV systems will be strong.

However, we remain cautious about the near term outlook of our industry. This outlook will depend on how strongly the Chinese economy can grow this year and, notwithstanding China's huge stimulus program, the growth of the Chinese economy will be affected by the global economic environment where large uncertainty will likely persist given the uncertain time lag for the several stimulus packages introduced in a number of countries to generate results. Management's cautious strategy in the fourth quarter places the Group in a better position to benefit from a pick up in economic growth in China while projects such as those in Henan and Chongqing will help support our business while we wait for the recovery in China's economic growth rate.

MANAGEMENT DISCUSSION AND ANALYSIS

We always view the development of VAS would be the next logical step of progression for cable operators after digitisation, since the potential value of digitisation can only be realise through the higher ARPU of VAS. It appears this has begun to unfold. Market signs in 2008 point towards emerging demand from cable operators for 2-way network upgrade products and new digital TV applications, likely influenced by: competition from Telcos which now are permitted to offer value added TV services and the desire of cable operators to boost APRU particularly after the recent credit tightening. We believe this demand will soon become substantial given digitised TV users have reached a considerable size and potential funding from the government's stimulus package. The Group already has both hardware and software solutions for this emerging opportunity including: BIOC systems and devices for 2-way network upgrade; 2-way CA to meet security requirements in an interactive setting; DASS software suite as a bridge for new digital TV applications and VAS.

Based on experience in other markets, majority of VAS are interactive products while the basis of interactivity is a 2-way cable infrastructure. With 90% of China's cable network is currently one way, 2-way network upgrade becomes the essential first step in cable operators' post-digitisation developments. We also feel that VAS, like most new businesses, will most likely evolve along a path of least resistance/lowest cost. The Group's BIOC products offer the lowest cost 2-way upgrade technology with the simplest engineering requirements, allowing cable operators to achieve interactivity at the lowest risk and thus could maximise their 2-way user base to fertilise the development of VAS products and services.

We believe another key factor that could help to facilitate VAS developments, is the availability of application systems that could help cable operators to effectively organise and deliver VAS products on the one hand and simplify technical execution of new VAS products for service providers on the other hand. The DASS software suite is the Group's first product in this area.

The Group will continue to streamline its business and operations to rationalise cost, reduce capital requirements, and improve competitiveness.

Employees

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

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The total number of employees of the Group as at 31 December 2008 was 736 (2007: 793), out of which 671 (2007: 720) employees were stationed in Mainland China. The number of employees as at 31 December 2008 categorised according to their functions is as follows:

Research and development	397
Sales and marketing	164
Technical support	50
Procurement and engineering support	17
Accounting and finance	27
Administration and management	81
	736

FINANCIAL REVIEW

Liquidity and Financial Resources

At 31 December 2008, the Group recorded total assets of HK$1,421.2 million (2007: HK$1,370.3 million) which were financed by liabilities of HK$255.0 million (2007: HK$335.6 million), minority interests of HK$117.8 million (2007: HK$117.8 million) and shareholders' equity of HK$1,048.4 million (2007: HK$916.9 million). The Group's net asset value per share (excluding minority interests) as at 31 December 2008 amounted to HK$0.92 (2007: HK$0.81).

The Group had a total cash and bank balance of HK$348.6 million (2007: HK$404.0 million) and bank borrowings of HK$33.8 million (2007: Nil) as at 31 December 2008. Its gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, as at 31 December 2008 was 0.03 (2007: Negligible). The Group has sufficient banking facilities available from its bankers for its daily operations.

Treasury Policies

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

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in Hong Kong dollars and United States dollars. The exchange rate of United States dollars against Hong Kong dollars is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in Renminbi. Due to limitations in financial markets and regulatory constraints in Mainland China, the Group has an increasing exposure to Renminbi as its investments in Mainland China increase. Given the appreciation of Renminbi against Hong Kong dollars during the year under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of Renminbi would have a favourable impact on the Group.

Material Acquisitions and Disposals of Subsidiaries and Associates

In March 2008, the Group acquired 51% equity interest of an entity incorporated in the PRC for a consideration of approximately HK$12.7 million. The principal activity of the acquired entity is the design and development of digital broadcasting network equipment and systems.

Charges on Assets

At 31 December 2008, the Group had a bank deposit of HK$6 million and trade receivables of approximately HK$39.9 million pledged to banks as security for general banking facilities.

Future Plans for Material Investments or Capital Assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2008.

Capital Commitments

The Group had no capital expenditure commitments as at 31 December 2008 (2007: HK$14.8 million).

Contingent Liabilities

The Company and the Group did not have any significant contingent liabilities as at 31 December 2008.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability, transparency and protection of shareholders' interest in general. Following the issue of 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 (the "Listing Rules"), the Company adopted the code provisions of the Code as its own corporate governance code in 2005.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2008.

BOARD OF DIRECTORS

The board of directors of the Company (the "Board") currently comprises 9 directors, including 6 executive directors (Mr Ko Chun Shun, Johnson (Chairman), Dr Lui Pan (Chief Executive Officer), Mr Luo Ning, Mr Jin Wei, Mr Xu Qiang (Chief Operating Officer) and Mr Hu Qinggang (Chief Financial Officer)) and 3 independent non-executive directors (Mr Chu Hon Pong, Mr Liu Tsun Kie and Mr Yap Fat Suan, Henry). The roles of the Chairman and the Chief Executive Officer are segregated and are not exercised by the same individual. One of the three independent non-executive directors is professional accountant, which is in compliance with the requirement of the Listing Rules. There are also two board committees under the Board, which are the Audit Committee and the Remuneration Committee.

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating and reviewing internal controls, formulating the Company's corporate governance practices, supervising the management's performance while the day-to-day operations and management of the Group are delegated by the Board to the management, and ensuring adequacy of resources, qualifications, experience and training programmes and budget of the financial staff. The Company has received acknowledgements from the directors of their responsibility for preparing the consolidated financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

CORPORATE GOVERNANCE REPORT

The Board held six board meetings during the year ended 31 December 2008. The attendance of the directors at the board meetings is as follows:

Director	Attended/Eligible to attend
Mr Ko Chun Shun, Johnson	6/6
Dr Lui Pan	6/6
Mr Luo Ning	6/6
Mr Qiu Yiyong (resigned on 31 October 2008)	0/4
Mr Jin Wei	6/6
Mr Wang Daoyi (resigned on 23 January 2009)	6/6
Mr Xu Qiang (appointed on 23 January 2009)	N/A
Mr Hu Qinggang	6/6
Mr Shaw Sun Kan, Gordon (retired and not offered for re-election on 12 June 2008)	2/4
Mr Jerry Sze (resigned on 15 December 2008)	1/4
Mr Chu Hon Pong	6/6
Mr Liu Tsun Kie	6/6
Mr Yap Fat Suan, Henry	5/6

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. Board minutes are kept by the Company Secretary of the Company and are sent to the directors for endorsement.

In accordance with the Company's Bye-laws, at each annual general meeting of the Company one-third of the directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years.

The non-executive directors have been appointed for a term of one to two years and are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee, established in 2005, currently comprises three independent non-executive directors, namely Mr Liu Tsun Kie (Chairman), Mr Chu Hon Pong and Mr Yap Fat Suan, Henry. The primary responsibilities of the Remuneration Committee include, among other things, determining the remuneration packages of all executive directors of the Company, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2008, the Remuneration Committee met once to discuss the remuneration packages of the executive directors of the Company. The attendance of the members of the Remuneration Committee at the meeting is as follows:

Committee member	Attended/Eligible to attend
Mr Liu Tsun Kie	1/1
Mr Chu Hon Pong	1/1
Mr Yap Fat Suan, Henry	1/1

AUDIT COMMITTEE

The Company established an Audit Committee in 1998. The Audit Committee currently comprises three independent non-executive directors, namely Mr Liu Tsun Kie (Chairman), Mr Chu Hon Pong and Mr Yap Fat Suan, Henry.

Under its terms of reference, the Audit Committee is required, among other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual consolidated financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the internal control procedures of the Company, to discuss with management and ensure discharge of duties for an effective internal control, to ensure adequacy of resources, qualifications, experience and training programmes and budget of the financial staff, and to engage independent legal or other advisers if necessary to perform investigations.

The Audit Committee held two meetings during the year ended 31 December 2008. In these meetings, the Audit Committee, among other matters, reviewed interim financial results and reports from the external auditors regarding their audit on annual consolidated financial statements and review on non-exempted continuing connected transactions, discussed the internal control of the Group, and met with the external auditors. The attendance of each member of the Audit Committee at the meetings is as follows:

Committee member	Attended/Eligible to attend
Mr Liu Tsun Kie	2/2
Mr Chu Hon Pong	2/2
Mr Yap Fat Suan, Henry	2/2

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders of the Company to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws. No meeting was held by the Board for the nomination of director during the year ended 31 December 2008.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") to regulate the directors' securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions throughout the year ended 31 December 2008.

AUDITORS' REMUNERATION

The Company engaged PricewaterhouseCoopers as its statutory auditors for the year ended 31 December 2008. The remuneration in respect of services provided by PricewaterhouseCoopers to the Group in 2008 is summarised as follows:

	HK$'000
Auditing services	1,819
Non-auditing services	2,700
	4,519

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness. The Company and its subsidiaries have adopted a set of internal control procedures and policies to safeguard the assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The internal control systems are designed to ensure the financial, operational and compliance controls, and risk management functions are in place and functioning effectively.

The Board and the Audit Committee have delegated the Group's Internal Audit Department, which was established in December 2007, to conduct review of the effectiveness of the internal control system of the Group. The review did not identify any significant issues in the internal control system of the Group.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

The Company actively promotes investor relations and communications by setting up regular briefing meetings with the investment community when the Group's interim and annual financial results are announced. The Company, through its Investor Relations Department, responds to request for information and queries from the investment community.

The Board is committed to providing clear and full performance information of the Group to shareholders through various circulars, notices, and financial reports. Additional information is also available to shareholders through the Company's website.

Shareholders are encouraged to attend the annual general meeting for which notice of at least 20 clear business days is given. The Chairman and other 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 the shareholders.

The Group values feedback from the shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are welcome and can be addressed to the Chief Executive Officer by mail or by e-mail to the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Ko Chun Shun, Johnson, aged 57, has been the Chairman of the Group since 1998 and is an executive director of various subsidiaries of the Group. He is also the chairman of China WindPower Group Limited, MAE Holdings Limited and Varitronix International Limited, all of which are listed on the Main Board of The Hong Kong Stock Exchange Limited (the "Stock Exchange"). He has extensive experience in direct investment, merger and acquisition, TMT (Telecommunications, Media and Technology), advertising, electronic manufacturing service, financial service and property investment.

Dr Lui Pan, aged 54, is the Chief Executive Officer of the Company and is an executive director of various subsidiaries of the Group. He is one of the founders of the existing business of the Group. His length of service with the Company is over 10 years. Dr Lui has spent near 30 years working in high technology sector and the information technology industry. He is very experienced in developing new technologies and formulating business and market strategies. Dr Lui is well recognised and over the years has been named "Top Executive", "Innovative Individual", "Most Influential Figure" and "Most Powerful Executive" in China broadcasting industry. He has also received numerous technology awards including the Best Design of Consumer Product Award from the Hong Kong government in 1998 and technology innovation award from China government in 2007. He is appointed as a member of the Sub-Committee of the China Digital Television Standards Committee and plays a key role in the development of China's digital television standard. Dr Lui holds a master degree in Electrical and Electronics Engineering from the Zhejiang University in the PRC, a master degree in Business Administration from the Chinese University of Hong Kong, and a Degree of Doctor of Philosophy from the Hong Kong Polytechnic University. He is the spouse of Ms Chan Ping, the Senior Vice President – China Operations of the Group.

Mr Luo Ning, aged 49, is an executive director of the Company since October 2006. He has extensive experience in business management. He is currently a director of CITIC Group, which is a substantial shareholder of the Company, and a vice-chairman of CITIC Guoan Group and the chairman of CITIC Networks Co., Ltd.. He is also a director of CITIC Guoan Information Industry Company Limited and an executive director of CITIC 21CN Company Limited, public companies listed on the Shenzhen Stock Exchange in the PRC and the Main Board of the Stock Exchange respectively. He also holds directorships in several other subsidiaries of CITIC Group. Mr Luo holds a bachelor degree in Communication Speciality from The Wuhan People's Liberation Army Institute of Communication Command（武漢解放軍通信指揮學院）.

Mr Jin Wei, aged 46, is an executive director of the Company since October 2006. He has extensive experience in the communication field. He is currently an assistant to the general manager of CITIC Networks Co., Ltd., a group company of CITIC Group which is a substantial shareholder of the Company. Mr Jin holds a bachelor degree in Communication from the Beijing Institute of Posts and Telecommunications and a master degree in Automation from the Beijing University of Science and Technology in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr Xu Qiang, aged 46, is the Chief Operating Officer of the Company since October 2006 and was appointed as an executive director of the Company on 23 January 2009. He is also an executive director of certain subsidiaries of the Company. He has extensive experience in the telecommunication field. He is an assistant to the general manager of CITIC Networks Co., Ltd. and an employee of a subsidiary of CITIC Group, a substantial shareholder of the Company. He also worked in the Qingdao branch of China Unicom Limited and Qingdao Posts and Telecommunications Bureau. Mr Xu holds a bachelor degree in Engineering from the Beijing Institute of Posts and Telecommunications in the PRC.

Mr Hu Qinggang, aged 34, the Chief Financial Officer of the Company since October 2006 and is an executive director of various subsidiaries of the Group. He has extensive experience in the finance field and has worked in the Finance Department of CITIC Group, a substantial shareholder of the Company, as the Deputy Director of the Finance and Planning Division. Mr Hu holds a bachelor degree in Economics from the Beijing University of Technology and a master degree in Economics from the University of International Business and Economics in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Chu Hon Pong, aged 59, is an independent non-executive director of the Company since 2000. He is also a committee member of the Audit Committee and the Remuneration Committee of the Company. He holds a master degree in Business Administration from Stevens Institute of Technology in New Jersey, the United States of America. He has extensive experience in direct investment, international trade, manufacturing, business and industrial management in the PRC, Vietnam and the United States of America. He is also an executive director and the vice-chairman of New Chinese Medicine Holdings Limited, which is listed on the Growth Enterprise Market Board of the Stock Exchange.

Mr Liu Tsun Kie, aged 58, is an independent non-executive director of the Company since 2000. He is also the chairman of the Audit Committee and the Remuneration Committee of the Company. He holds a master degree in Business Administration in International Finance from the Graduate School of Keio University, Tokyo in Japan. He has extensive experience in electronic engineering, telecommunication, corporate finance and general administration. He was appointed to sit on the Singapore Broadcasting Authority Board by the Minister of Information and Arts in 2000. He is also an independent non-executive director of MAE Holdings Limited, which is listed on the Main Board of the Stock Exchange, and the deputy chairman of Roly International Holdings Limited.

Mr Yap Fat Suan, Henry, aged 62, is an independent non-executive director of the Company since 2004. He is also a committee member of the Audit Committee and the Remuneration Committee of the Company. He holds a master degree in Business Administration from the University of Strathclyde, Glasgow, in the United Kingdom. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in finance and accounting. He retired as the managing director of Johnson Matthey Hong Kong Limited in June 2007 and prior to that appointment he was the general manager of Sun Hung Kai China Development Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms Chan Ping, aged 51, is the Senior Vice President – China Operations of the Group. Her length of service with the Company is over 8 years. She has extensive experience in operations and marketing in the PRC. She is the spouse of Dr Lui Pan, the Chief Executive Officer of the Company.

Mr Zhang Yi Jun, aged 44, is the Executive Vice President of 天栢寬帶網絡科技(上海)有限公司, a wholly-owned subsidiary of the Company, and is responsible for the sales, marketing and operational management of the Group in the PRC. Mr Zhang has been working in product research, market strategy and operational management in the PRC since 1991. He holds a master degree in Automation Control from the Southeast University in the PRC.

Mr Fung Man Yin, Sammy, aged 49, is the Group Financial Controller of the Company. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He is also a Certified Public Accountant (Practising) in Hong Kong. Mr Fung holds a bachelor degree in Economics and Accounting from the University of Newcastle Upon Tyne, England. Before joining the Company in October 2006, he worked with several international accounting firms and listed companies in England and Hong Kong over 20 years.

Mr Chan Kam Kwan, Jason, aged 35, is the Company Secretary of the Company. He graduated from the University of British Columbia in Canada with a bachelor degree in Commerce and is a member of the American Institute of Certified Public Accountants. He has over 10 years of experience in accounting and corporate finance.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 17 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 29.

The directors recommend to declare a final dividend of HK$0.02 per share in respect of the year (2007: HK$0.02 per share).

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 100 of the Annual Report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

There was no movement in the share capital of the Company during the year. Details of the share capital of the Company are set out in Note 27 to the consolidated financial statements.

SHARE OPTIONS

Details of the movements in the share options of the Company during the year are set out in Note 28 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserves, consisting of contributed surplus and retained earnings, as at 31 December 2008 amounted approximately to HK$891,202,000 (2007: HK$721,219,000).

DONATIONS

During the year, the Group made charitable donations totalling HK$115,000 (2007: HK$28,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or there is no restriction against such rights under the laws of Bermuda.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

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

Executive directors

Mr Ko Chun Shun, Johnson	
Dr Lui Pan	
Mr Luo Ning	
Mr Qiu Yiyong	(resigned on 31 October 2008)
Mr Jin Wei	
Mr Wang Daoyi	(resigned on 23 January 2009)
Mr Xu Qiang	(appointed on 23 January 2009)
Mr Hu Qinggang	

REPORT OF THE DIRECTORS

Non-executive directors

Mr Shaw Sun Kan, Gordon	(retired and not offered for re-election on 12 June 2008)
Mr Jerry Sze	(resigned on 15 December 2008)

Independent non-executive directors

Mr Chu Hon Pong
Mr Liu Tsun Kie
Mr Yap Fat Suan, Henry

In accordance with Bye-laws 98 and 104 of the Company's Bye-laws, Messrs Luo Ning, Jin Wei and Hu Qinggang and Mr Xu Qiang will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting respectively.

The Company has received annual confirmations of independence from Messrs Chu Hon Pong, Liu Tsun Kie and Yap Fat Suan, Henry and considers them to be independent. Under the terms of their appointment, the independent non-executive directors are appointed for specific terms of one to two years and are subject to retirement by rotation in accordance with the Company's Bye-laws.

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 or its subsidiaries 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 19 of the Annual Report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

At 31 December 2008, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and 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"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Ordinary shares of HK$0.10 each in the Company

		Number of ordinary shares held				% of the issued
Name of director	Note	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**share capital of the Company**
Mr Ko Chun Shun, Johnson ("Mr Ko")	(i)	–	2,040,816	54,276,719	56,317,535	4.95%
Dr Lui Pan		2,698,000	3,200,000	–	5,898,000	0.52%
Mr Chu Hon Pong		450,000	–	–	450,000	0.04%

Note:

(i) Mr Ko was deemed to be interested in the 54,276,719 ordinary shares of the Company held by First Gain International Limited under the SFO as this company is controlled by Mr Ko.

The interests of the directors in the share options of the Company are disclosed in Note 28 to the consolidated financial statements.

In addition to the above, Dr Lui Pan has non-beneficial personal equity interest in a subsidiary held on trust for the benefits of the Company.

Save as mentioned above, at 31 December 2008, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above and in the share option scheme disclosures in Note 28 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

		Number of ordinary shares held			
Name	Note	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**% of the issued share capital of the Company**
Easy Flow Investments Limited		237,592,607	–	237,592,607	20.88%
CITIC United Asia Investments Limited	(i)	–	237,592,607	237,592,607	20.88%
CITIC Projects Management (HK) Limited	(ii)	–	237,592,607	237,592,607	20.88%
CITIC Group	(iii)	–	237,592,607	237,592,607	20.88%
Motorola-Dragon Investment, Inc.		175,500,000	–	175,000,000	15.42%
Motorola, Inc.	(iv)	–	175,500,000	175,000,000	15.42%

Notes:

(i) CITIC United Asia Investments Limited was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in Easy Flow Investments Limited.

(ii) CITIC Projects Management (HK) Limited was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in CITIC United Asia Investments Limited.

(iii) CITIC Group was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in CITIC Projects Management (HK) Limited.

(iv) Motorola, Inc. was deemed to be interested in the 175,500,000 ordinary shares of the Company held by Motorola-Dragon Investment, Inc. under the SFO by virtue of its interest in Motorola-Dragon Investment, Inc..

REPORT OF THE DIRECTORS

Save as disclosed above, at 31 December 2008, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 46% (2007: 49%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 13% (2007: 18%). Purchases from the Group's five largest suppliers accounted for approximately 78% (2007: 70%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 53% (2007: 43%).

The Group's five largest customers include two companies in which CITIC Group, a substantial shareholder of the Company, has indirect interests.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own 5% or more of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or suppliers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in Note 34 to the consolidated financial statements also constitute non-exempted continuing connected transactions for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules as below.

During the year, the Group sold set top boxes and related software amounting to approximately HK$243,659,000 to certain customers in which associates (as defined under the Listing Rules) of CITIC Group, a substantial shareholder of the Company, have indirect interests. The independent non-executive directors of the Company have reviewed these continuing connected transactions and have confirmed that:

a) These transactions were entered into in the ordinary and usual course of business of the Group;

b) These transactions were executed on normal commercial terms or on terms not less favourable than those given to independent third parties (if there were no sufficient comparable transactions to judge whether the transactions were executed on normal commercial terms);

REPORT OF THE DIRECTORS

c) The sales were executed in accordance with the relevant agreements governing them and were in the interests of the shareholders of the Company as a whole; and

d) The annual aggregate amount of the sales has not exceeded the cap of HK$2 billion for the year ended 31 December 2008 as approved by the independent shareholders of the Company in a special general meeting held on 16 October 2006.

On 16 October 2006, the Group obtained the independent shareholders' approval for the non-exempt continuing connected transactions in relation to the purchase of set top boxes and headend equipment by the Group from group companies of Motorola-Dragon Investment, Inc., a substantial shareholder of the Company. The independent non-executive directors of the Company have reviewed these continuing connected transactions and have confirmed that there were no such transactions executed during the year ended 31 December 2008.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed-upon procedures to the Board of Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of 25% public float during the year as required under the Listing Rules.

AUDITORS

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

On behalf of the Board

Ko Chun Shun, Johnson
Chairman

Hong Kong, 23 April 2009

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DVN (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of DVN (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group"), set out on pages 29 to 99 which comprise the consolidated and the 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, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit 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, 23 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** **HK$'000**	2007 HK$'000
REVENUE	6	**759,833**	991,293
Cost of sales		**(460,693)**	(685,989)
Gross profit		**299,140**	305,304
Other income	7	**69,262**	51,487
Marketing, selling and distribution costs		**(100,524)**	(63,603)
Administrative expenses		**(150,595)**	(126,478)
Other operating expenses		**(27,547)**	(41,227)
Operating profit	8	**89,736**	125,483
Finance costs	10	**(1,866)**	(8)
Share of profits of associates		**4,358**	71
PROFIT BEFORE INCOME TAX		**92,228**	125,546
Income tax credits/(expenses)	11	**660**	(8,910)
PROFIT AFTER INCOME TAX		**92,888**	116,636
Dividends on preference shares		**–**	(1,453)
PROFIT FOR THE YEAR		**92,888**	115,183
Attributable to:			
Equity holders of the Company	29	**92,888**	115,183
Minority interests		**–**	–
		92,888	115,183
DIVIDENDS	13	**22,762**	22,762
EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	14	**HK$0.08**	HK$0.10
Diluted	14	**HK$0.08**	HK$0.10

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**15,105**	11,872
Intangible assets	16	**68,710**	50,324
Interest in a jointly controlled entity	18	**–**	–
Interests in associates	19	**31,948**	1,846
Trade receivables	21	**327,551**	173,013
Deferred income tax assets	30	**9,638**	5,261
Total non-current assets		**452,952**	242,316
CURRENT ASSETS			
Inventories	20	**95,518**	141,554
Trade receivables	21	**443,345**	520,533
Prepayments, deposits and other receivables	21	**70,553**	52,761
Tax receivables		**10,206**	9,104
Pledged bank deposit	22	**6,000**	6,000
Short-term bank deposit		**10,000**	–
Cash and bank balances	23	**332,632**	397,995
Total current assets		**968,254**	1,127,947
CURRENT LIABILITIES			
Trade payables	24	**126,811**	222,915
Other payables and accruals		**89,368**	101,519
Bank loans	25	**21,723**	–
Tax payables		**1,154**	11,205
Obligations under finance leases	26	**–**	8
Total current liabilities		**239,056**	335,647
Net current assets		**729,198**	792,300
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,182,150**	1,034,616
NON-CURRENT LIABILITIES			
Deferred income tax liabilities	30	**3,852**	–
Bank loans	25	**12,057**	–
Total non-current liabilities		**15,909**	–
Net assets		**1,166,241**	1,034,616
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	27	**113,808**	113,808
Reserves	29	**934,675**	803,050
		1,048,483	916,858
Minority interests	31	**117,758**	117,758
Total equity		**1,166,241**	1,034,616

Ko Chun Shun, Johnson
Director

Lui Pan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note(s)	Attributable to equity holders of the Company			
		Ordinary shares	Reserves	Minority interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007		108,167	498,854	117,758	724,779
Exchange differences		–	34,778	–	34,778
Profit for the year		–	115,183	–	115,183
Total recognised income and expenses for the year ended 31 December 2007		–	149,961	–	149,961
Share option scheme:					
– share-based compensation	29	–	15,895	–	15,895
– proceeds from shares issued	27 & 29	641	7,946	–	8,587
Issue of ordinary shares, net of issuing expenses	27 & 29	5,000	130,394	–	135,394
		5,641	154,235	–	159,876
At 31 December 2007		113,808	803,050	117,758	1,034,616
At 1 January 2008		113,808	803,050	117,758	1,034,616
Exchange differences		–	38,511	–	38,511
Dividends		–	(22,762)	–	(22,762)
Profit for the year		–	92,888	–	92,888
Total recognised income and expenses for the year ended 31 December 2008		–	108,637	–	108,637
Share option scheme:					
– share-based compensation	29	–	22,988	–	22,988
		–	22,988	–	22,988
At 31 December 2008		113,808	934,675	117,758	1,166,241

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	**2008** **HK$'000**	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	32	**4,966**	(239,014)
Interest paid		**(1,351)**	(8)
Tax paid		**(11,018)**	(14,523)
Net cash used in operating activities		**(7,403)**	(253,545)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment ("PPE")		**(7,589)**	(8,567)
Proceeds from disposal of PPE		**608**	179
Acquisition of associates		**(25,313)**	(1,073)
Acquisition of other supply rights		**(7,125)**	–
Payment for deferred development costs		**(29,900)**	(27,945)
Increase in short-term bank deposit		**(10,000)**	–
Interest received		**8,220**	19,391
Net proceeds from disposal of financial assets		**–**	5,065
Net cash used in investing activities		**(71,099)**	(12,950)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		**42,482**	–
Repayment of bank loans		**(8,465)**	–
Decrease in pledged bank deposits		**–**	4,007
Proceeds from issuance of ordinary shares		**–**	142,500
Cost of issuance of ordinary shares		**–**	(7,106)
Proceeds from exercise of share options		**–**	8,587
Capital element of finance lease payments		**(8)**	(8)
Dividends on ordinary shares		**(22,762)**	–
Dividends on preference shares		**–**	(3,875)
Net cash generated from financing activities		**11,247**	144,105
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(67,255)**	(122,390)
Cash and cash equivalents at beginning of the year		**397,995**	516,413
Effect of foreign exchange rate changes		**1,892**	3,972
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	**332,632**	397,995

BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**208**	305
Intangible assets	16	**–**	–
Interests in subsidiaries	17	**965,748**	827,815
Interest in a jointly controlled entity	18	**–**	–
Total non-current assets		**965,956**	828,120
CURRENT ASSETS			
Prepayments, deposits and other receivables		**523**	632
Cash and bank balances	23	**86,683**	41,340
Total current assets		**87,206**	41,972
CURRENT LIABILITIES			
Amount due to a related company		**–**	963
Other payables and accruals		**9,893**	6,454
Total current liabilities		**9,893**	7,417
Net current assets		**77,313**	34,555
Total assets less current liabilities/Net assets		**1,043,269**	862,675
EQUITY			
Capital and reserves attributable to			
the Company's equity holders			
Ordinary shares	27	**113,808**	113,808
Reserves	29	**929,461**	748,867
Total equity		**1,043,269**	862,675

Ko Chun Shun, Johnson
Director

Lui Pan
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HKD") and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors ("the Board") of the Company on 23 April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

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

Adoption of new/revised HKFRSs

The following new and revised HKFRSs are mandatory for the Group's accounting period beginning on or after 1 January 2008 and are relevant to the Group's operations:

HKAS 39 (Amendment) and HKFRS 7 (Amendment)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The principal changes in accounting policies are as follows:

(a) 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.

(b) 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 parent and group companies. This interpretation does not have any impact on the Group's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

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

HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedge Items
HKFRS 1 (Amendment) and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

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

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

2.2 Consolidation

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

(a) Subsidiaries

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment Reporting

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign Currency Translation *(Continued)*

(c) Group companies *(Continued)*

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

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

2.5 Property, Plant and Equipment

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

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

Leasehold improvements	Over the shorter of the term of the lease and the estimated useful life
Furniture and fixtures	18% to 30%
Office equipment	18% to 25%
Network equipment and tooling	25% to 33.3%
Motor vehicles	18% to 33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains or other operating expenses in the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/JCE at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates/JCE is included in investments in associates/JCE and is tested annually for impairment as part of the overall balance. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary/associate/JCE acquired, the difference is recognised directly in the consolidated income statement.

(b) Research and development costs

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

(c) Film rights

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

(d) Priority and other supply rights

Priority supply rights represent the costs paid for the priority rights to supply certain units of set top boxes to certain cable TV operators. Other supply rights represent the costs paid for the right to demand a third party to assist the Group to secure sales orders of certain units of set top boxes.

Expenditure incurred for the acquisition of the priority and other supply rights is capitalised. The priority and other supply rights are amortised upon consumption of the number of rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of Assets

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

2.8 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 those with maturities greater than 12 months after the balance sheet date classified as non-current assets. Loans and receivables are classified as trade receivables, other receivables and cash and cash equivalents (Note 2.10 and Note 2.11).

2.9 Inventories

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

2.10 Trade and Other Receivables

Trade and other receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date are classified as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Cash and Cash Equivalents

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

2.12 Share Capital

Ordinary shares are classified as equity.

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

2.13 Trade Payables

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

2.14 Borrowings

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

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

2.15 Government Grants

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Current and Deferred Income Tax

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

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

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

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

2.17 Employee Benefits

(a) Pension obligations

The Group participates in several defined contribution plans, under which the Group pays fixed contributions into separate entities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee Benefits *(Continued)*

(b) Share-based compensation

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

(c) Employee leave entitlement and long service payment

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

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

(d) Bonus plans

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Provisions and Contingent Liabilities

(a) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

(b) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

2.19 Revenue Recognition

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue Recognition *(Continued)*

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

(b) Instalment sales

Revenue attributable to the sales price, exclusive of interest, is recognised when the significant risks and rewards of ownership have been transferred to the customers. The sales price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest method.

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

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

(d) Rendering of services

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

(e) Licensing income

Licensing income is recognised when the licences are granted to the licensees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue Recognition *(Continued)*

(f) Leasing income

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

(g) Interest income

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

2.20 Leases

(a) Operating lease

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

(b) Finance lease

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

2.21 Dividend Distribution

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The management periodically analyses and reviews measures to manage its exposure to market risk (including foreign currency risk, cash flow and interest rate risk and price risk), credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management and has not used any derivatives or other instruments for hedging purposes.

At 31 December 2008, the Group's financial instruments mainly consisted of non-current receivables, trade receivables and other receivables, bank balances and deposits, trade payables and other payables, and bank loans.

(a) Market risk

i. Foreign currency risk

The Group operates mainly in Mainland China and Hong Kong and the major foreign currency risk arises from fluctuations in Renminbi ("RMB"). For majority of transactions conducted in Hong Kong, both sales and cost of sales are denominated in the same currency. For operations in Mainland China, all revenues and purchases are denominated in RMB. As such, the Group does not hold or issue any derivative financial instruments for trading purposes. Given the recently strong performance of RMB against HKD, the directors expect that the appreciation of RMB would have a favourable impact on the Group. Therefore, the Group has not used any financial instrument to hedge its foreign currency risk.

At 31 December 2008, if HKD had weakened/strengthened by 10% against RMB with all other variables held constant, the Group's profit after income tax and retained earnings would have been approximately HK$14,676,000 (2007: HK$21,281,000) higher/lower. Other components of equity would have been approximately HK$84,157,000 (2007: HK$51,074,000) higher/lower.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the exposure to foreign currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange currency rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(a) Market risk *(Continued)*

ii. Cash flow and interest rate risk

The management considers the Group has no cash flow risk within the Group.

The Group's interest rate risk arises primarily from interest-bearing current bank balances and deposits.

At 31 December 2008, if interest rates at that date had been increased/decreased by 40 basis points with all other variables held constant, the Group's profit after income tax and retained earnings would have been increased/decreased by approximately HK$1,505,000 (2007: HK$9,304,000). Other components of equity would have no significant impact as the Group recognised interest income/expense arisen from operating transactions in the consolidated income statement.

The sensitivity analysis above has been determined assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date, and that all other variables remain constant. The stated increase/decrease represents management's assessment of reasonably possible changes in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2007.

iii. Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

(b) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the respective notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(b) Credit risk *(Continued)*

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

(c) Liquidity risk

The Group implements a prudent liquidity risk management to regularly monitor current and expected liquidity requirements for maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet its liquidity requirements in the short and longer term.

Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit facilities available from various banks. The liquidity risk of the Group is primarily attributable to bank loans, trade payables and other payables.

The Group's financial liabilities that having contractual maturities as at the balance sheet date were summarised as follows:

	On demand HK$'000	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
As at 31 December 2008				
Trade payables	7,307	119,504	–	126,811
Bank loans	–	21,723	12,057	33,780
	7,307	141,227	12,057	160,591
As at 31 December 2007				
Trade payables	7,192	215,723	–	222,915
Obligations under finance leases	–	8	–	8
	7,192	215,731	–	222,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to support the Group's sustainable growth and to maintain an optimal capital structure to reduce the cost of capital.

The Group reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007. The Group is not subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of a total liabilities-to-total assets ratio. During 2008, the Group's strategy was to maintain the total liabilities-to-total assets ratio below 50%. The total liabilities-to-total assets ratio at 31 December 2008 was 18% (2007: 24%).

3.3 Fair Value Estimation

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Revenue

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The Group granted certain credit terms to instalment sales customers by allowing them to settle the sales over a period of several years and revenue is recognised based on present value of the consideration. The Group is required to exercise considerable judgement in revenue recognition, particularly on the discount rate and the assessment whether it is probable that the future economic benefits will flow to the Group. The Group bases its estimates on historical results, taking into consideration the type and background of customers, the credit terms offered to them and the specifics of each arrangement.

4.2 Deferred Income Tax

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

4.3 Property, Plant and Equipment and Depreciation

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.4 Trade Receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectibility and aging analysis of trade receivables and judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment provision may be required.

4.5 Inventories

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

4.6 Intangible Assets

The Group tests regularly whether the capitalised deferred development costs and other intangible assets have suffered any impairment in accordance with HKAS 36. The recoverable amounts have been determined based on fair value less cost to sell calculations. These calculations require the use of estimates. In determining the fair value less cost to sell, expected cash flows generated by the intangibles are discounted to their present value, which requires judgement. The Group uses all readily available information in determining an amount that is a reasonable approximation of the 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 intangible assets might result in impairment.

4.7 Purchase Price Allocation

The fair value of the assets and liabilities of the associate acquired at the acquisition date was determined by management's assessment of the corresponding fair value. Had management determined that a different fair value of the assets and liabilities acquired at the acquisition date and different assumptions used for the preparation of the cash flow forecast of the business of the acquired associate, this would have caused different amount of asset value and goodwill at the date of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION

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

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

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

(ii) Financial market information business ("FMI Business") – Provision of international financial market information and selective consumer data; and

(iii) Corporate – Corporate income and expenses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(Continued)*

(a) Business segment

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the year ended 31 December 2008 by business segment is as follows:

	DVB Business		FMI Business		Corporate		Unallocated		Total	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Revenue	**735,526**	970,062	**24,307**	21,231	**–**	–	**–**	–	**759,833**	991,293
Segment results	**115,644**	147,677	**1,988**	3,817	**(27,896)**	(26,011)	**–**	–	**89,736**	125,483
Finance costs	**(1,864)**	–					**(2)**	(8)	**(1,866)**	(8)
Share of profits of associates	**4,358**	71							**4,358**	71
Profit before income tax									**92,228**	125,546
Income tax credits/ (expenses)									**660**	(8,910)
Profit after income tax									**92,888**	116,636
Dividends on preference shares									**–**	(1,453)
Profit for the year									**92,888**	115,183

	DVB Business		FMI Business		Corporate		Total	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment assets	**1,290,552**	1,317,146	**11,292**	8,994	**87,414**	42,277	**1,389,258**	1,368,417
Interests in associates	**31,948**	1,846	**–**	–	**–**	–	**31,948**	1,846
Total assets	**1,322,500**	1,318,992	**11,292**	8,994	**87,414**	42,277	**1,421,206**	1,370,263
Segment liabilities	**241,471**	324,696	**4,192**	3,534	**9,302**	7,417	**254,965**	335,647
Capital expenditure	**44,356**	35,852	**223**	281	**35**	379	**44,614**	36,512
Depreciation	**3,821**	6,604	**186**	179	**132**	74	**4,139**	6,857
Amortisation	**19,570**	15,702	**–**	–	**–**	–	**19,570**	15,702

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(Continued)*

(b) Geographical segment

An analysis of the Group's revenue assets and expenditure information for the year ended 31 December 2008 by geographical segment is as follows:

	Mainland China		Hong Kong		Other Southeast Asian countries		Total	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue	**664,783**	885,720	**87,651**	97,801	**7,399**	7,772	**759,833**	991,293
Other segment information								
Segment assets	**1,222,820**	961,169	**196,338**	406,079	**2,048**	3,015	**1,421,206**	1,370,263
Capital expenditure	**38,400**	31,247	**6,138**	5,169	**76**	96	**44,614**	36,512

6 REVENUE

An analysis of revenue is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Revenue from sales of goods	**691,610**	921,676
Revenue from design, integration and installation of platforms for digital broadcasting systems	**21,338**	9,624
Revenue from provision of international financial market information and selective consumer data	**24,307**	21,231
Licensing income	**18,501**	35,188
Leasing income	**4,077**	3,574
	759,833	991,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 OTHER INCOME

	Group	
	2008	2007
	HK$'000	HK$'000
Interest income on bank balances	**8,220**	19,391
Interest accretions	**14,272**	–
Value-added tax refund	**32,294**	18,048
Short-term investment income	**–**	5,065
Government grants	**2,747**	608
Others	**11,729**	8,375
	69,262	51,487

8 OPERATING PROFIT

The Group's operating profit is arrived after charging/(crediting):

	Group	
	2008	2007
	HK$'000	HK$'000
		Note 35
Cost of inventories sold	**453,366**	680,166
Cost of provision of international financial market information and selective consumer data	**7,327**	5,823
Depreciation	**4,139**	6,857
Auditors' remuneration		
Provision for the year	**1,587**	1,938
Under-provision for previous years	**337**	327
Employee benefit expenses (Note 9)	**124,113**	94,259
Operating lease rentals on land and buildings	**12,060**	8,305
Operating lease rentals on motor vehicle	**235**	–
Net exchange losses/(gains)	**1,573**	(3,607)
Net loss on disposal of property, plant and equipment	**139**	400
Other operating expenses including:		
Amortisation of intangibles (Note 16)	**19,570**	15,702
Write-off of deferred development costs (Note 16)	**969**	4,513
Provision for impairment of a JCE	**–**	3,285
Provision for impairment of associates	**–**	1,207
Provision for impairment of goodwill in interests in associates	**–**	547
Provision for inventories	**1,000**	7,012
Provision for impairment of trade receivables, prepayments, deposits and other receivables	**5,868**	8,545

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES

	Group	
	2008	2007
	HK$'000	HK$'000
		Note 35
Wages and salaries	**111,414**	86,092
Share-based compensation	**22,746**	15,067
Pension costs – defined contribution plans	**7,184**	5,923
Termination benefits	**916**	137
Unutilised annual leave	**663**	854
Long service payment	**693**	418
Other benefits	**4,830**	2,260
	148,446	110,751
Less: Costs capitalised	**(24,333)**	(16,492)
	124,113	94,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' emoluments

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

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000 Note (i)	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Ko Chun Shun, Johnson	120	–	1,350	–	1,139	–	2,609
Dr Lui Pan	144	4,051	1,350	239	2,291	36	8,111
Mr Luo Ning	–	–	–	–	–	–	–
Mr Qiu Yiyong	–	–	–	–	–	–	–
Mr Jin Wei	–	–	–	–	1,476	–	1,476
Mr Wang Daoyi	–	–	–	–	1,476	–	1,476
Mr Hu Qinggang	–	1,095	1,230	–	2,399	–	4,724
Mr Shaw Sun Kan, Gordon	–	–	–	–	179	–	179
Mr Jerry Sze	–	–	–	–	246	–	246
Mr Chu Hon Pong	144	–	–	–	246	–	390
Mr Liu Tsun Kie	144	–	–	–	246	–	390
Mr Yap Fat Suan, Henry	144	–	–	–	246	–	390
Total	696	5,146	3,930	239	9,944	36	19,991

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

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000 Note (i)	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Ko Chun Shun, Johnson	120	–	1,500	–	696	–	2,316
Dr Lui Pan	144	3,796	1,500	81	1,864	20	7,405
Mr Luo Ning	–	–	–	–	–	–	–
Mr Qiu Yiyong	–	–	–	–	–	–	–
Mr Jin Wei	–	–	–	–	–	–	–
Mr Wang Daoyi	–	–	–	–	–	–	–
Mr Hu Qinggang	–	1,040	1,100	50	2,311	–	4,501
Mr Shaw Sun Kan, Gordon	–	–	–	–	149	–	149
Mr Jerry Sze	–	–	–	–	149	–	149
Mr Itzhak Shenberg	–	–	–	–	–	–	–
Mr Chu Hon Pong	144	–	–	–	149	–	293
Mr Liu Tsun Kie	144	–	–	–	149	–	293
Mr Yap Fat Suan, Henry	144	–	–	–	149	–	293
Total	696	4,836	4,100	131	5,616	20	15,399

Note:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2007: two) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: three) individuals during the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**3,248**	4,008
Discretionary bonuses	**2,460**	4,000
Share-based compensation	**4,450**	3,544
Contributions to pension schemes	**36**	20
	10,194	11,572

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2008**	2007
HK$2,000,001 – HK$2,500,000	**–**	1
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,000,001 – HK$5,500,000	**1**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank and other borrowings	**709**	–
Loan facility fee	**1,155**	–
Interest element of finance leases	**2**	8
	1,866	8

11 INCOME TAX CREDITS/(EXPENSES)

	Group	
	2008	2007
	HK$'000	HK$'000
Current		
– Hong Kong	**(130)**	–
– outside Hong Kong		
– provision for the year	**(9,130)**	(8,051)
– prior years overprovision	**9,393**	–
Deferred income tax		
– Hong Kong	**(3,676)**	(859)
– outside Hong Kong	**4,203**	–
Total tax credits/(expenses) for the year	**660**	(8,910)

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits less estimated available tax losses.

Tax outside Hong Kong has been provided for at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The current PRC corporate income tax has been provided in respect of operations in the PRC at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSES *(Continued)*

According to the new Corporate Income Tax Law in the PRC, the tax rate of certain PRC entities has been changed from 33% to 25% with effect from 1 January 2008.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Profit before income tax	**92,228**	125,546
Notional tax calculated at the rates applicable in the countries concerned	**(14,223)**	(65,817)
Tax incentives	**21,767**	62,453
Income not subject to taxation	**9,383**	2,962
Expenses not deductible for taxation purposes	**(6,943)**	(6,260)
Utilisation of previously unrecognised tax losses	**1,818**	938
Temporary differences not recognised	**2,143**	4,046
Tax losses not recognised	**(12,984)**	(7,232)
Tax effect on change in tax rate	**(301)**	–
Tax credits/(expenses)	**660**	(8,910)

The weighted average applicable tax rate for the year was 15% (2007: 52%). The change in weighted average applicable tax rate was mainly caused by a change in mix of profits earned in different Group companies which are subject to different tax rates, while there were no significant changes in the respective tax rates.

12 PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY

The profit attributable to the ordinary equity holders of the Company for the year ended 31 December 2008 dealt with in the financial statements of the Company was approximately HK$180,368,000 (2007: HK$158,807,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 DIVIDENDS

No interim dividend was paid during the year and previous year. The Board recommends to declare a final dividend of HK$0.02 per share (2007: HK$0.02 per share) for the year ended 31 December 2008 subject to the approval of shareholders at the forthcoming annual general meeting.

14 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to the ordinary equity holders of the Company of approximately HK$92,888,000 (2007: HK$115,183,000) and the weighted average number of 1,138,081,432 (2007: 1,128,390,172) ordinary shares in issue during the year.

The calculation of the diluted earnings per share for the year is based on the Group's profit attributable to the ordinary equity holders of the Company of approximately HK$92,888,000 (2007: HK$115,183,000) and the weighted average number of ordinary shares in issue during the year assuming the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the period) based on the monetary value of the subscription rights attached to the outstanding share options. The weighted average number of ordinary shares for the calculation of the diluted earnings per share is set out as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Weighted average number of ordinary shares in issue	**1,138,081,432**	1,128,390,172
Adjustment for share options	**–**	6,862,889
Weighted average number of ordinary shares for diluted earnings per share	**1,138,081,432**	1,135,253,061

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Network equipment and tooling HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2007						
Cost	4,808	72,183	14,029	2,614	4,300	97,934
Accumulated depreciation and impairment	(4,031)	(65,013)	(13,042)	(2,211)	(3,353)	(87,650)
Net carrying amount	777	7,170	987	403	947	10,284
Year ended 31 December 2007						
Opening net carrying amount	777	7,170	987	403	947	10,284
Exchange differences	45	233	88	28	63	457
Additions	2,051	133	4,893	665	825	8,567
Disposals	–	(205)	(124)	(87)	(163)	(579)
Depreciation (Note 8)	(229)	(5,003)	(1,264)	(110)	(251)	(6,857)
Closing net carrying amount	2,644	2,328	4,580	899	1,421	11,872
At 31 December 2007						
Cost	3,471	68,035	4,718	2,599	4,566	83,389
Accumulated depreciation and impairment	(827)	(65,707)	(138)	(1,700)	(3,145)	(71,517)
Net carrying amount	2,644	2,328	4,580	899	1,421	11,872
Year ended 31 December 2008						
Opening net carrying amount	2,644	2,328	4,580	899	1,421	11,872
Exchange differences	111	3	305	42	69	530
Additions	680	1,343	2,982	1,431	1,153	7,589
Disposals	–	–	(324)	(228)	(195)	(747)
Depreciation (Note 8)	(1,363)	(125)	(2,000)	(266)	(385)	(4,139)
Closing net carrying amount	2,072	3,549	5,543	1,878	2,063	15,105
At 31 December 2008						
Cost	3,971	70,732	13,103	2,412	3,550	93,768
Accumulated depreciation and impairment	(1,899)	(67,183)	(7,560)	(534)	(1,487)	(78,663)
Net carrying amount	2,072	3,549	5,543	1,878	2,063	15,105

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements HK$'000
At 1 January 2007	
Cost	–
Accumulated depreciation	–
Net carrying amount	–
Year ended 31 December 2007	
Opening net carrying amount	–
Additions	379
Depreciation	(74)
Closing net carrying amount	305
At 31 December 2007	
Cost	379
Accumulated depreciation	(74)
Net carrying amount	305
Year ended 31 December 2008	
Opening net carrying amount	305
Additions	35
Depreciation	(132)
Closing net carrying amount	208
At 31 December 2008	
Cost	414
Accumulated depreciation	(206)
Net carrying amount	208

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS

Group

	Goodwill	Deferred development costs	Film rights	Other supply rights	Priority supply rights	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007						
Cost	95,905	72,493	49,309	–	686,642	904,349
Accumulated amortisation and impairment	(95,905)	(30,411)	(49,309)	–	(686,642)	(862,267)
Net carrying amount	–	42,082	–	–	–	42,082
Year ended 31 December 2007						
Opening net carrying amount	–	42,082	–	–	–	42,082
Exchange differences	–	512	–	–	–	512
Additions	–	27,945	–	–	–	27,945
Amortisation charge (Note 8)	–	(15,702)	–	–	–	(15,702)
Write-off (Note 8)	–	(4,513)	–	–	–	(4,513)
Closing net carrying amount	–	50,324	–	–	–	50,324
At 31 December 2007						
Cost	–	83,483	49,309	–	686,642	819,434
Accumulated amortisation and impairment	–	(33,159)	(49,309)	–	(686,642)	(769,110)
Net carrying amount	–	50,324	–	–	–	50,324
Year ended 31 December 2008						
Opening net carrying amount	–	50,324	–	–	–	50,324
Exchange differences	–	1,235	–	–	–	1,235
Additions	–	30,565	–	7,125	–	37,690
Amortisation charge (Note 8)	–	(18,591)	–	(979)	–	(19,570)
Write-off (Note 8)	–	(969)	–	–	–	(969)
Closing net carrying amount	–	62,564	–	6,146	–	68,710
At 31 December 2008						
Cost	–	111,581	49,309	7,125	–	168,015
Accumulated amortisation and impairment	–	(49,017)	(49,309)	(979)	–	(99,305)
Net carrying amount	–	62,564	–	6,146	–	68,710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS *(Continued)*

Company

	Priority supply rights HK$'000
At 1 January 2007	
Cost	686,642
Accumulated amortisation and impairment	(686,642)
Net carrying amount	–
Year ended 31 December 2007	
Opening net carrying amount	–
Additions	–
Amortisation charge	–
Write-off	–
Closing net carrying amount	–
At 31 December 2007	
Cost	686,642
Accumulated amortisation and impairment	(686,642)
Net carrying amount	–
Year ended 31 December 2008	
Opening net carrying amount	–
Additions	–
Amortisation charge	–
Write-off	–
Closing net carrying amount	–
At 31 December 2008	
Cost	–
Accumulated amortisation and impairment	–
Net carrying amount	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted investments, at cost	**68,307**	67,732
Less: Provision for impairment	**(68,307)**	(67,732)
	–	–
Loan to a subsidiary	**26,736**	26,736
Amounts due from subsidiaries	**1,057,074**	1,139,388
	1,083,810	1,166,124
Less: Provision for amounts due from subsidiaries	**(118,062)**	(338,309)
	965,748	827,815
End of the year	**965,748**	827,815

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

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

Name	Place of incorporation or registration/operation	Nominal value of issued ordinary shares/ preference shares/ registered capital	Interest held	Principal activities
DVN (Group) Limited	British Virgin Islands	US$10 ordinary US$15,000,000 preference	[1]100%	Investment holding
DVN (Management) Limited	Hong Kong	HK$2 ordinary	[1]100%	Provision of administrative services
DVN Technology Limited	Hong Kong	HK$2 ordinary	[1]100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/operation	Nominal value of issued ordinary shares/ preference shares/ registered capital	Interest held	Principal activities
Digital Video Networks Company Limited	[2]Mainland China	US$13,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
天栢寬帶網絡科技(上海)有限公司	[2]Mainland China	US$20,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
天柏寬帶網絡科技(北京)有限公司	[2]Mainland China	RMB100,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
DVN Technology (Shenzhen) Company Limited	[2]Mainland China	HK$6,000,000 registered capital	100%	Development of hardware and software in relation to digital broadcasting
廣西天柏寬帶網絡科技有限公司	[2]Mainland China	RMB3,000,000 registered capital	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
天數寬頻科技(上海)有限公司	[2]Mainland China	US$10,000,000 registered capital	100%	Sales of digital set top boxes, digital broadcasting systems and related software
Digital Video Networks Limited	Hong Kong	HK$2 ordinary	[1]100%	Holding of patents
Rich Linkage Limited	British Virgin Islands	US$1 ordinary	100%	Investment holding

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/operation	Nominal value of issued ordinary shares/ preference shares/ registered capital	Interest held	Principal activities
Rise Reach Limited	British Virgin Islands	US$1 ordinary	100%	Provision of marketing services
Step Success Trading Company Limited	British Virgin Islands	US$1 ordinary	100%	Investment holding
Whizz Kid Limited	British Virgin Islands	US$1 ordinary	100%	Investment holding
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	[1]100%	Investment holding
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	100%	Provision of international financial market information and selective consumer data
Telequote Network (Singapore) Pte Limited	Singapore	SGD2 ordinary	100%	Provision of international financial market information and selective consumer data

1 Shares held directly by the Company.

2 Registered as wholly foreign owned enterprise with limited liability under the PRC law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**–**	3,285
Share of loss of a JCE	**–**	–
Provision for impairment	**–**	(3,285)
End of the year	**–**	–

As the JCE has been dormant since July 2006, an impairment provision of HK$3,285,000 was recognised in 2007 for the amount by which the carrying value of the interest exceeds its recoverable amount.

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted investment outside Hong Kong, at cost	**14,200**	14,200
Provision for impairment	**(14,200)**	(14,200)
End of the year	**–**	–

It represents the Company's 50% equity interest in a JCE, Jiangsu Hongtian Broad Communication Co., Ltd, an unlisted company incorporated and operated in the PRC, which provides design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software. As the JCE has been dormant since July 2006, an impairment provision of HK$14,200,000 was recognised in 2006 for the whole amount of the investment cost of the JCE.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Cost of investment	**29,648**	2,220
Goodwill	**547**	547
Exchange differences	**451**	157
Impairment of goodwill	**(547)**	(547)
Write-off	**(1,207)**	–
Provision for impairment	**–**	(1,207)
Share of the cumulative post-acquisition results of associates	**3,056**	676
	31,948	1,846

Details of the associates, all of which are unlisted, incorporated and operated in the PRC with limited liability, as at 31 December 2008, were as follows:

Name	Nominal value of registered capital	Interest held	Principal activities
廣西潤眾數字電視傳媒技術有限公司	RMB3,000,000	20%	Integration and sales of digital set top boxes, digital broadcasting systems and related software
常州盛圖網絡資訊有限公司	RMB4,000,000	25%	Integration and sales of digital broadcasting systems and related software
北京華信新媒技術有限公司	RMB20,000,000	40%	Design, development and sales of 2-way networking products
雷科通技術(杭州)有限公司 ("Laketune (HZ)")	USD2,900,000	51%	Integration and sales of digital broadcasting systems and related software

In March 2008, the Group had completed the acquisition of 51% equity interest in Laketune (HZ) for a cash consideration of approximately HK$12,695,000. Pursuant to the terms of the investment agreement, the Group considered it has no control, but only significant influence, over the financing and operating policies of Laketune (HZ).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 INTERESTS IN ASSOCIATES *(Continued)*

Details of net assets acquired are as follows:

	HK$'000
Purchase consideration – cash paid	12,695
Fair value of net identifiable assets acquired	(16,551)
Negative goodwill	(3,856)

The negative goodwill of HK$3,856,000 was included in share of profits of associates in the consolidated income statement.

20 INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**9,203**	14,364
Work-in-progress	**25,061**	38,261
Finished goods	**61,254**	88,929
	95,518	141,554

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**781,130**	698,852
Less: Non-current portion	**(327,551)**	(173,013)
	453,579	525,839
Less: Provision for impairment	**(10,234)**	(5,306)
Current portion	**443,345**	520,533
Prepayments, deposits and other receivables, net	**70,553**	52,761
	513,898	573,294

The fair values of trade receivables, prepayments, deposits and other receivables, net approximate their carrying values.

The effective interest rates on trade receivables ranged from 6.5% to 7.8% (2007: 6.5% to 7.8%) per annum.

The Group's trading terms with its customers are payment in advance or on credit. The credit period to direct sales customers is generally for a period of three months, extending up to nine months for certain major customers. The Group also has instalment sales to certain customers with repayments over a period of several years. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers. The Group believes that no significant credit risk exists as credit losses, when realised, have been within the range of management's expectation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 6 months	**202,414**	433,079
7 – 12 months	**139,888**	87,347
Over 12 months	**111,277**	5,413
	453,579	525,839
Less: Provision	**(10,234)**	(5,306)
	443,345	520,533

Trade receivables that are less than six months past due are not considered impaired. At 31 December 2008, trade receivables of HK$60,664,000 (2007: HK$87,454,000) were past due six months or more. After considering their creditworthiness, past collection history and settlement after the balance sheet date, these overdue trade receivables are not considered impaired. The aging analysis of these trade receivables without provision made is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
7 – 12 months	**20,833**	87,347
Over 12 months	**39,831**	107
	60,664	87,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The carrying amounts of the Group's current trade receivables are denominated in the following currencies:

	Group	
	2008	2007
	HK$'000	HK$'000
RMB	**432,203**	503,119
United States dollars	**11,142**	17,414
	443,345	520,533

The maximum exposure to credit risk at the reporting date is the fair value of trade receivables mentioned above. The Group does not hold any collateral as security.

Movements In the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**5,306**	3,809
Provision for impairment	**4,928**	1,441
Exchange differences	**–**	56
At 31 December	**10,234**	5,306

Such provision was determined after taking into account the aging of the individual trade receivable balances, the creditworthiness and the past collection history of the customers.

At 31 December 2008, the Group factored trade receivables of HK$39,873,000 (2007: Nil) with maturity dates ranged from 33 to 513 days to a bank on a recourse basis for cash. The Group continued to recognise the factored trade receivables in the consolidated balance sheet as the Group continued to retain the risks and rewards of ownership associated with those trade receivables. Accordingly, the bank advances from the factoring of the trade receivables have been accounted for as liabilities in the consolidated balance sheet (Note 25).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 PLEDGED BANK DEPOSIT

At 31 December 2008, the Group had a bank deposit of HK$6 million pledged to a bank to secure the banking facilities granted to the Group. The carrying amount of the pledged bank deposit approximates its fair value.

23 CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**234,986**	83,583	**1,575**	2,357
Short-term bank deposits, with original maturities of three months or less	**97,646**	314,412	**85,108**	38,983
	332,632	397,995	**86,683**	41,340

At 31 December 2008, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$214,069,000 (2007: HK$38,283,000). RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 6 months	**95,910**	198,448
7 – 12 months	**20,353**	16,147
Over 12 months	**10,548**	8,320
	126,811	222,915

25 BANK LOANS

	Group	
	2008	2007
	HK$'000	HK$'000
Bank loans – secured		
Wholly repayable within five years	**33,780**	–
Current portion	**(21,723)**	–
Non-current portion	**12,057**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25 BANK LOANS *(Continued)*

At 31 December 2008, the Group's bank loans were repayable as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**21,723**	–
Between one and two years	**12,057**	–
	33,780	–

At 31 December 2008, the bank loans were denominated in RMB and bore variable fixed interest rates with maturity dates in 2009 and 2010. The bank loans were related to the factoring of certain trade receivables of a subsidiary of the Company totalling RMB35,411,000 (equivalent to approximately HK$39,873,000) and were secured by a corporate guarantee granted by another subsidiary of the Company.

At 31 December 2008, the effective interest rates of the bank loans ranged from 4.5% to 7.5% per annum.

At 31 December 2008, the fair values of the bank loans equal their carrying amounts as the impact of discounting is not significant. The fair values of the bank loans were HK$33,208,000 and the fair values are based on cash flows discounted using the borrowing rates ranged from 4.5% to 7.5% per annum.

26 OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2008	2007
	HK$'000	HK$'000
Wholly repayable within five years	**–**	8
Current portion	**–**	(8)
Non-current portion	**–**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

At 31 December 2008, the Group's finance lease liabilities were repayable as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	–	10
Future finance charges on finance leases	–	(2)
Present value of finance lease liabilities	–	8

The present value of finance lease liabilities is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	–	8
	–	8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27 ORDINARY SHARES

	Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
Authorised		
At 31 December 2008 and 2007	3,000,000,000	300,000
Issued and fully paid		
At 1 January 2007	1,081,671,432	108,167
Issue of shares on 5 March 2007 (Note (i))	50,000,000	5,000
Exercise of share options during the year ended 31 December 2007	6,410,000	641
At 31 December 2007 and 2008	1,138,081,432	113,808

Note:

(i) Pursuant to a share subscription agreement entered into between Mr Ko Chun Shun, Johnson ("Mr Ko") and the Company on 14 December 2006, the Company issued to Mr Ko 50,000,000 new ordinary shares at HK$2.85 per share at a total consideration of approximately HK$142.5 million. Such shares were subscribed by Mr Ko on 5 March 2007 following the placing of the same amount of shares at the same price in a "top-up placement" fund raising exercise of the Company on 27 December 2006.

The proceeds of the above issue of shares was utilised as additional working capital of the Group.

28 SHARE OPTION SCHEME

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

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

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

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

Pursuant to a board resolution passed on 29 January 2008, the following share options with exercise price of HK$1.880 per option were cancelled with incremental fair value of HK$0.1510 and HK$0.1596 per option respectively using the Black-Scholes option pricing model (the "Black-Scholes model") with the following input variables:

Date of cancellation of share options	Number of options	Exercise price per option HK$	Exercise period of share options	Date of appraisal	Risk-free interest rate	Expected dividend yield per share	Expected volatility	Closing price of shares before the date of cancellation of share options HK$	Expected life
29/1/2008	29,101,000	1.880	26/5/2008 to 25/5/2010	29/1/2008	1.38%	0%	59.00%	0.70	25/5/2007 to 25/5/2010
29/1/2008	29,101,000	1.880	26/5/2009 to 25/5/2010	29/1/2008	1.50%	0%	59.00%	0.70	25/5/2007 to 25/5/2010

These share options were subsequently replaced by a new grant of share options with exercise price of HK$0.700 per option and their fair value at the date of modification was estimated to be HK$0.1790 and HK$0.2076 per option respectively using the Black-Scholes model with the following input variables:

Date of grant of share options	Number of options	Exercise price per option HK$	Exercise period of share options	Date of appraisal	Risk-free interest rate	Expected dividend yield per share	Expected volatility	Closing price of shares before the date of grant of share options HK$	Expected life
29/1/2008	34,204,000	0.700	26/5/2008 to 25/5/2010	29/1/2008	1.38%	0%	59.00%	0.70	29/1/2008 to 25/5/2010
29/1/2008	34,204,000	0.700	26/5/2009 to 25/5/2010	29/1/2008	1.50%	0%	59.00%	0.70	29/1/2008 to 25/5/2010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

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

	2008		2007	
	Weighted average exercise price per share HK$	**Number of options**	Weighted average exercise price per share HK$	Number of options
At 1 January	**1.73**	**88,003,001**	1.40	35,211,001
Granted and accepted	**0.70**	**68,408,000**	1.88	59,202,000
Exercised	**–**	**–**	1.34	(6,410,000)
Lapsed	**1.42**	**(28,801,001)**	–	–
Cancelled	**1.88**	**(58,202,000)**	–	–
At 31 December	**0.72**	**69,408,000**	1.73	88,003,001

Out of the 69,408,000 outstanding options at 31 December 2008 (2007: 88,003,001), 35,204,000 options (2007: 29,301,001) were exercisable. No option was exercised during the year ended 31 December 2008. Options exercised during the year ended 31 December 2007 resulted in 6,410,000 shares issued with weighted average exercise price of HK$1.34 each. The related weighted average share price at the time of exercise during the year ended 31 December 2007 was HK$1.83.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

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

Expiry date	Exercise price per share	Number of options	
	HK$	**2008**	2007
30 June 2008	1.500	**–**	19,070,000
23 July 2008	1.470	**–**	6,548,000
31 December 2008	0.824	**–**	3,183,001
25 May 2010 (Note (i))	1.880	**–**	58,202,000
25 May 2010	0.700	**68,408,000**	–
11 February 2017	1.990	**1,000,000**	1,000,000
		69,408,000	88,003,001

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

Date of share options granted	27 January 2006
Exercise price	HK$1.500
Exercise period	1 January 2007 – 30 June 2008

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by employees								
In aggregate	19,070,000	–	–	(19,070,000)	–	–	–	–

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

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	3,000,000	–	–	(3,000,000)	–	–	–	–
Dr Lui Pan	1,500,000	–	–	(1,500,000)	–	–	–	–
Held by employees								
In aggregate	2,048,000	–	–	(2,048,000)	–	–	–	–
	6,548,000	–	–	(6,548,000)	–	–	–	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

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

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	450,000	–	–	(450,000)	–	–	–	–
Mr Jerry Sze	183,334	–	–	(183,334)	–	–	–	–
Held by employees								
In aggregate	2,549,667	–	–	(2,549,667)	–	–	–	–
	3,183,001	–	–	(3,183,001)	–	–		

Date of share options granted	25 May 2007
Exercise price	HK$1.880
Exercise period	26 May 2008 – 25 May 2010

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	1,400,000	–	–	–	(1,400,000)	–	–	–
Dr Lui Pan	3,750,000	–	–	–	(3,750,000)	–	–	–
Dr Lui Pan (Note (ii))	1,750,000	–	–	–	(1,750,000)	–	–	–
Mr Hu Qinggang	4,650,000	–	–	–	(4,650,000)	–	–	–
Mr Shaw Sun Kan, Gordon (Note (iii))	300,000	–	–	–	(300,000)	–	–	–
Mr Jerry Sze (Note (iv))	300,000	–	–	–	(300,000)	–	–	–
Mr Chu Hon Pong	300,000	–	–	–	(300,000)	–	–	–
Mr Liu Tsun Kie	300,000	–	–	–	(300,000)	–	–	–
Mr Yap Fat Suan, Henry	300,000	–	–	–	(300,000)	–	–	–
Held by employees								
In aggregate	16,051,000	–	–	–	(16,051,000)	–	–	–
	29,101,000	–	–	–	(29,101,000)	–	–	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

Date of share options granted	25 May 2007
Exercise price	HK$1.880
Exercise period	26 May 2009 – 25 May 2010

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	1,400,000	–	–	–	(1,400,000)	–	–	–
Dr Lui Pan	3,750,000	–	–	–	(3,750,000)	–	–	–
Dr Lui Pan (Note (ii))	1,750,000	–	–	–	(1,750,000)	–	–	–
Mr Hu Qinggang	4,650,000	–	–	–	(4,650,000)	–	–	–
Mr Shaw Sun Kan, Gordon (Note (iii))	300,000	–	–	–	(300,000)	–	–	–
Mr Jerry Sze (Note (iv))	300,000	–	–	–	(300,000)	–	–	–
Mr Chu Hon Pong	300,000	–	–	–	(300,000)	–	–	–
Mr Liu Tsun Kie	300,000	–	–	–	(300,000)	–	–	–
Mr Yap Fat Suan, Henry	300,000	–	–	–	(300,000)	–	–	–
Held by employees								
In aggregate	16,051,000	–	–	–	(16,051,000)	–	–	–
	29,101,000	–	–	–	(29,101,000)	–	–	

Date of share options granted	29 January 2008
Exercise price	HK$0.700
Exercise period	26 May 2008 – 25 May 2010

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	–	1,600,000	–	–	–	–	1,600,000	–
Dr Lui Pan	–	1,940,000	–	–	–	–	1,940,000	–
Dr Lui Pan (Note (ii))	–	3,940,000	–	–	–	–	3,940,000	–
Mr Jin Wei	–	4,560,000	–	–	–	–	4,560,000	–
Mr Wang Daoyi	–	4,560,000	–	–	–	–	4,560,000	–
Mr Hu Qinggang	–	1,040,000	–	–	–	–	1,040,000	–
Mr Shaw Sun Kan, Gordon (Note (iii))	–	350,000	–	–	–	(350,000)	–	–
Mr Jerry Sze (Note (iv))	–	350,000	–	–	–	(350,000)	–	–
Mr Chu Hon Pong	–	350,000	–	–	–	–	350,000	–
Mr Liu Tsun Kie	–	350,000	–	–	–	–	350,000	–
Mr Yap Fat Suan, Henry	–	350,000	–	–	–	–	350,000	–
Held by employees								
In aggregate	–	14,814,000	–	–	–	–	14,814,000	–
Held by service providers								
In aggregate	–	–	–	–	–	700,000	700,000	–
	–	34,204,000	–	–	–	–	34,204,000	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

Date of share options granted	29 January 2008
Exercise price	HK$0.700
Exercise period	26 May 2009 – 25 May 2010

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by directors								
Mr Ko Chun Shun, Johnson	–	1,600,000	–	–	–	–	1,600,000	–
Dr Lui Pan	–	1,940,000	–	–	–	–	1,940,000	–
Dr Lui Pan (Note (ii))	–	3,940,000	–	–	–	–	3,940,000	–
Mr Jin Wei	–	4,560,000	–	–	–	–	4,560,000	–
Mr Wang Daoyi	–	4,560,000	–	–	–	–	4,560,000	–
Mr Hu Qinggang	–	1,040,000	–	–	–	–	1,040,000	–
Mr Shaw Sun Kan, Gordon (Note (iii))	–	350,000	–	–	–	(350,000)	–	–
Mr Jerry Sze (Note (iv))	–	350,000	–	–	–	(350,000)	–	–
Mr Chu Hon Pong	–	350,000	–	–	–	–	350,000	–
Mr Liu Tsun Kie	–	350,000	–	–	–	–	350,000	–
Mr Yap Fat Suan, Henry	–	350,000	–	–	–	–	350,000	–
Held by employees								
In aggregate	–	14,814,000	–	–	–	–	14,814,000	–
Held by service providers								
In aggregate	–	–	–	–	–	700,000	700,000	–
	–	34,204,000	–	–	–	–	34,204,000	

Date of share options granted	12 February 2007
Exercise price	HK$1.990
Exercise period	12 August 2007 – 11 February 2017

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by service providers								
In aggregate	500,000	–	–	–	–	–	500,000	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 SHARE OPTION SCHEME *(Continued)*

Date of share options granted	12 February 2007
Exercise price	HK$1.990
Exercise period	12 February 2008 – 11 February 2017

	Outstanding options at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options reclassified during the year	Outstanding options at 31 December 2008	Weighted average closing price before dates of exercise HK$
Held by service providers								
In aggregate	500,000	–	–	–	–	–	500,000	–

Notes:

(i) Pursuant to a board resolution passed on 29 January 2008, the share options with exercise price at HK$1.88 per option were cancelled.

(ii) Options were held by the spouse of Dr Lui Pan, who is also an employee of the Group.

(iii) Mr Shaw Sun Kan, Gordon, retired as a non-executive director and did not offer for re-election on 12 June 2008, was appointed as a consultant for the Company.

(iv) Mr Jerry Sze resigned as a non-executive director on 15 December 2008 and was appointed as a consultant for the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29 RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000 (Note (i))	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2007	1,380,992	222,122	7,187	(1,127,255)	15,808	498,854
Exchange differences	–	–	34,778	–	–	34,778
Profit for the year	–	–	–	115,183	–	115,183
Total recognised income and expenses for the year ended 31 December 2007	–	–	34,778	115,183	–	149,961
Share option scheme:						
– share-based compensation	–	–	–	–	15,895	15,895
– proceeds from shares issued	7,946	–	–	–	–	7,946
– transfer upon options exercised	4,055	–	–	–	(4,055)	–
Issue of ordinary shares, net of issuing expenses	130,394	–	–	–	–	130,394
	142,395	–	–	–	11,840	154,235
Capital reorganisation (Note (ii))	(1,523,387)	406,113	–	1,117,274	–	–
Balance at 31 December 2007	–	628,235	41,965	105,202	27,648	803,050
Representing:						
Proposed dividend	–	–	–	22,762	–	22,762
Others	–	628,235	41,965	82,440	27,648	780,288
	–	628,235	41,965	105,202	27,648	803,050
Balance at 1 January 2008	–	628,235	41,965	105,202	27,648	803,050
Exchange differences	–	–	38,511	–	–	38,511
Dividends	–	–	–	(22,762)	–	(22,762)
Profit for the year	–	–	–	92,888	–	92,888
Total recognised income and expenses for the year ended 31 December 2008	–	–	38,511	70,126	–	108,637
Share option scheme:						
– share-based compensation	–	–	–	–	22,988	22,988
– transfer upon options lapsed	–	–	–	12,377	(12,377)	–
	–	–	–	12,377	10,611	22,988
Balance at 31 December 2008	–	628,235	80,476	187,705	38,259	934,675
Representing:						
Proposed dividend	–	–	–	22,762	–	22,762
Others	–	628,235	80,476	164,943	38,259	911,913
	–	628,235	80,476	187,705	38,259	934,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29 RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note (i))	Retained earnings/ (accumulated losses) HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2007	1,380,992	152,786	(1,113,761)	15,808	435,825
Share option scheme:					
– share-based compensation	–	–	–	15,895	15,895
– proceeds from shares issued	7,946	–	–	–	7,946
– transfer upon options exercised	4,055	–	–	(4,055)	–
Issue of ordinary shares, net of issuing expenses	130,394	–	–	–	130,394
Profit for the year	–	–	158,807	–	158,807
Capital reorganisation (Note (ii))	(1,523,387)	406,113	1,117,274	–	–
Balance at 31 December 2007	–	558,899	162,320	27,648	748,867
Representing:					
Proposed dividend	–	–	22,762	–	22,762
Others	–	558,899	139,558	27,648	726,105
	–	558,899	162,320	27,648	748,867
Balance at 1 January 2008	–	558,899	162,320	27,648	748,867
Share option scheme:					
– share-based compensation	–	–	–	22,988	22,988
– transfer upon options lapsed	–	–	12,377	(12,377)	–
Dividends	–	–	(22,762)	–	(22,762)
Profit for the year	–	–	180,368	–	180,368
Balance at 31 December 2008	–	558,899	332,303	38,259	929,461
Representing:					
Proposed dividend	–	–	22,762	–	22,762
Others	–	558,899	309,541	38,259	906,699
	–	558,899	332,303	38,259	929,461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29 RESERVES *(Continued)*

Notes:

(i) The contributed surplus of the Company and of the Group arose from a scheme of arrangement on 31 October 1989 and capital reorganisations on 2 November 2001 and 18 December 2007. Pursuant to the Bermuda Companies Act 1981 (as amended) (the "Act"), a company incorporated in Bermuda is not permitted to pay dividends or make a distribution out of the contributed surplus if there are reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) Pursuant to a resolution passed in the special general meeting of the Company on 17 December 2007, the capital reorganisation became effective on 18 December 2007 that the entire credit balance in the share premium account of the Company at HK$1,523,387,000 be transferred to the contributed surplus account of the Company and then applied to eliminate the entire balance in the accumulated losses account of the Company at 30 June 2007 on a dollar for dollar basis.

30 DEFERRED TAXATION

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

	Group	
	2008	2007
	HK$'000	HK$'000
		Note 35
Deferred tax assets to be recovered within 12 months	**9,638**	5,261
Deferred tax liabilities to be recovered within 12 months	**(3,852)**	–
	5,786	5,261

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30 DEFERRED TAXATION *(Continued)*

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

Deferred tax assets

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**9,814**	25,805
Credited/(charged) to consolidated income statement	**3,591**	(15,991)
At 31 December	**13,405**	9,814

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group had unrecognised tax losses of HK$214,893,000 at 31 December 2008 (2007: HK$194,757,000) carried forward to offset against future taxable income and these tax losses will not expire.

Deferred tax liabilities

	Group					
	Accelerated tax depreciation		Deferred development costs and others		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**101**	2,825	**4,452**	16,860	**4,553**	19,685
Charged/(credited) to consolidated income statement	**(18)**	(2,724)	**3,084**	(12,408)	**3,066**	(15,132)
At 31 December	**83**	101	**7,536**	4,452	**7,619**	4,553

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 MINORITY INTERESTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

32 CASH GENERATED FROM/(USED IN) OPERATIONS

The reconciliation of profit for the year to cash generated from operations is as follows:

	2008	2007
	HK$'000	HK$'000
Profit for the year	**92,888**	115,183
Adjustments for:		
Income tax (credits)/expenses	**(660)**	8,910
Depreciation	**4,139**	6,857
Amortisation of intangibles	**19,570**	15,702
Net loss on disposal of property, plant and equipment	**139**	400
Write-off of deferred development costs	**969**	4,513
Provision for impairment of a JCE	**–**	3,285
Provision for impairment of associates	**–**	1,207
Provision for impairment of goodwill in interests in associates	**–**	547
Share-based compensation	**22,988**	15,895
Interest income	**(8,220)**	(19,391)
Finance costs	**1,866**	8
Share of profits of associates	**(4,358)**	(71)
Dividends on preference shares	**–**	1,453
Gain on disposal of financial assets through profit or loss	**–**	(5,065)
Changes in working capital:		
Inventories	**45,371**	(72,024)
Trade receivables, prepayments, deposits and other receivables	**(95,142)**	(427,005)
Amounts due from related companies	**–**	475
Trade payables, other payables and accruals	**(108,770)**	79,526
Exchange differences	**34,186**	30,581
Cash generated from/(used in) operations	**4,966**	(239,014)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 31 December 2008, the Group had capital commitments as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for		
In respect of the acquisition of an associate	**–**	14,815

(b) Operating lease commitments

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

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

	2008	2007
	HK$'000	HK$'000
Land and buildings		
Not later than one year	**7,769**	7,275
Later than one year but not later than five years	**9,057**	11,703
	16,826	18,978
Motor vehicle		
Not later than one year	**235**	–
Later than one year but not later than five years	**235**	–
	470	–
Total		
Not later than one year	**8,004**	7,275
Later than one year but not later than five years	**9,292**	11,703
	17,296	18,978

The Company did not have any commitments under operating lease at 31 December 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(c) Financial commitments

At 31 December 2008, the Group had financial commitments in respect of registered capital contributions to a subsidiary and an associate as described below:

	Group	
	2008	2007
	HK$'000	HK$'000
Subsidiary (Note (i))	**10,490**	9,996
Associate	**–**	1,207
	10,490	11,203

Note:

(i) Included in the financial commitments in respect of registered capital contribution to a subsidiary is an amount of RMB5,316,000 (equivalent to approximately HK$5,986,000) (2007: RMB5,316,000 equivalent to approximately HK$5,704,000) that was paid in 1999 but the capital verification process has not been completed. The remaining balance has been overdue for capital injection (2007: same).

The Company did not have any financial commitments at 31 December 2008 and 2007.

(d) Contingent liabilities

During the years ended 31 December 2008 and 2007, the Company had given corporate guarantees to banks in respect of banking facilities granted by the banks to a wholly-owned subsidiary. At 31 December 2008, such facilities were drawn down by the wholly-owned subsidiary to the extent of HK$39,581,000 (2007: HK$17,829,000) and the maximum liability of the Company under the guarantees was HK$39,581,000 (2007: HK$17,829,000).

At 31 December 2007, the Company had a pending court case regarding infringement of certain European patents in the Netherlands. The pending court case was subsequently withdrawn by the claimant on 15 July 2008.

Apart from above mentioned, the Company and the Group did not have any significant contingent liabilities at 31 December 2008 (2007: Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS

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

(a) Sales or purchases of goods and services

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Sales of goods and services		
– Related companies of a shareholder	**243,659**	238,368
Purchases of goods		
– A group company of a shareholder	**–**	87,837
Dividends on preference shares		
– A related company of a shareholder	**–**	1,453

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

(b) Details of key management compensation of the Group

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	**17,597**	18,398
Post-employment benefits	**72**	52
Share-based compensation	**14,973**	9,160
	32,642	27,610

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS *(Continued)*

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

	2008 **HK$'000**	2007 HK$'000
Trade receivables		
– Related companies of a shareholder	**442,908**	245,526
– A group company of a shareholder	**122**	–
Trade payables		
– Related companies of a shareholder	**1,950**	–
– A group company of a shareholder	**417**	63,264
– JCE	**4,840**	4,612
– An associate	**1,407**	1,341

(d) Other year-end balances

	2008 **HK$'000**	2007 HK$'000
Prepayments, deposits and other receivables		
– Related companies of a shareholder	**837**	–
– A group company of a shareholder	**3**	–
– JCE	**353**	135
– An associate	**5,396**	–
Other payables and accruals		
– Related companies of a shareholder	**7,211**	–
– A group company of a shareholder	**45**	–

35 COMPARATIVE AMOUNTS

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

FIVE YEAR FINANCIAL SUMMARY

The consolidated results, and assets and liabilities of the Group for the last five financial years, restated and reclassified as appropriate, are summarised below. The results for the year ended 31 December 2004 and the assets and liabilities as at the respective balance sheet date have been restated as a result of the adoption of the new/revised standards and interpretations of Hong Kong Financial Reporting Standards.

	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(Restated)
Results					
Revenue	**759,833**	991,293	972,540	304,618	169,236
Profit/(loss) before income tax	**92,228**	125,546	(624,572)	(33,922)	(55,757)
Income tax credits/(expenses)	**660**	(8,910)	(1,544)	–	–
Minority interests	**–**	–	3	–	502
Dividends on preference shares	**–**	(1,453)	(5,812)	(5,812)	(5,812)
Profit/(loss) attributable to the equity holders of the Company	**92,888**	115,183	(631,925)	(39,734)	(61,067)
Assets and liabilities					
Property, plant and equipment	**15,105**	11,872	10,284	20,404	36,343
Intangible assets	**68,710**	50,324	42,082	30,880	28,075
Investments	**31,948**	1,846	5,576	13,092	6,685
Other non-current assets	**337,189**	178,274	6,120	956	956
Net current assets	**729,198**	792,300	660,725	108,255	74,672
	1,182,150	1,034,616	724,787	173,587	146,731
Non-current liabilities	**(15,909)**	–	(8)	(44)	(80)
Net assets	**1,166,241**	1,034,616	724,779	173,543	146,651
Shareholders' equity	**1,048,483**	916,858	607,021	55,782	28,890
Minority interests	**117,758**	117,758	117,758	117,761	117,761
	1,166,241	1,034,616	724,779	173,543	146,651