Annual Report 2009

mediachina
CORPORATION LIMITED
華億傳媒有限公司

(incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
(Stock Code 股份代號：419)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Mr. Edward TIAN Suning
(Non-executive Director)

Vice Chairman

Mr. ZHANG Changsheng
(Independent Non-executive Director)

Mr. Hugo SHONG
(Non-executive Director)

Executive Director

Mr. ZHAO Anjian

Independent Non-Executive Directors

Mr. JIANG Jianning
Mr. LI Ruigang
Dr. WONG Yau Kar, David
Mr. YUEN Kin

COMPANY SECRETARY

Mr. HAU Wai Man, Raymond

QUALIFIED ACCOUNTANT

Mr. HAU Wai Man, Raymond

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank
DBS Bank

SOLICITOR

Woo Kwan Lee & Lo

REGISTERED OFFICE

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

PRINCIPAL OFFICE IN HONG KONG

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18 Harbour Road
Wanchai, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

WEBSITE

www.mediachina-corp.com

CHAIRMAN'S STATEMENT

On behalf of Media China Corporation Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

The year 2009 was filled with challenges and opportunities for China's advertising and media sectors. With the coordinated efforts of all staff members, the Group overcame various difficulties, actively created business opportunities and managed to return to profitability. Over the past year, the Group strove hard to explore revenue sources for our television advertising and content production businesses while enhancing efforts in risk management and cost control. We have also completed an open offer and a share placement and the Group's financial position was further strengthened. IDG Capital, an investment fund which has extensive experiences in China's media sector, was introduced as a strategic shareholder. The move laid a solid foundation for the sustainable growth of the Group.

Revenue from the television advertising segment in 2009 soared by 54% year-on-year. The Travel Channel remained the major revenue contributor. At the same time, the Group successfully penetrated into the media resources procurement business through its wholly-owned subsidiary Sinofocus Media, thus creating a more diversified and stable revenue base for the television advertising operation.

The Travel Channel introduced various measures last year to attract advertisers, such as producing a series of exciting TV programs, increasing publicity through sponsors' marketing campaigns and an extension of coverage into second and third-tier cities. These measures generated satisfactory results. Meanwhile, the Group managed to lower the fees for being an exclusive advertising agent for the Travel Channel in 2008 and 2009 by RMB50 million, hence substantially reducing our operating costs.

In order to augment the competitiveness of the Travel Channel, the Group formed a new joint venture with Hainan Television Broadcasting Station ("Hainan TV") to exclusively operate the advertising business of the Travel Channel effective from the beginning of this year. The move further strengthened cooperation between the Group and Hainan TV, as each of us effectively owned approximately 50% of the economic interests in the operation of the Travel Channel. Ms. Wang Ping, former deputy chief editor of Hunan Satellite TV and acclaimed "Queen of Variety Shows" in China, was appointed as the general manager of the Travel Channel. The new management team has set clear target for the Travel Channel — to breakthrough advertising revenue of RMB700 million in five-year's time. More resources have been directed into programme production, brand building and talent recruitment in order to achieve this target. These developments are expected to drive enormous growth for the Travel Channel since this year.

We have made a good start in the media resources procurement operation through Sinofocus Media, which possesses extensive experience and knowledge of China's media industry and has established a wide network of international advertising agencies. Sinofocus Media also successfully developed new business amongst direct customers last year, thereby enlarging and diversifying its customer base. In fact, more than half of China's advertising spending, including those from many large and medium domestic enterprises,

CHAIRMAN'S STATEMENT

were conducted through network other than international advertising agencies. In order to explore this segment, we plan to invest additional working capital of HK$150 million and we firmly believe the revenue contribution from Sinofocus Media will further increase in the future.

The Group made breakthroughs in content production last year. We made a maiden investment in movie production with "Bodyguards and Assassins", which featured superstars from Mainland China, Hong Kong and Taiwan. The blockbuster received 18 nominations from the 2009 Hong Kong Film Awards, making it the most nominated movie ever and reflecting its appreciation by audiences. In 2010, we have budgeted investment of HK$100 million in content production. We have made allied investments with strong industry players such as Shanghai Media Group, and our strategic shareholder IDG Capital. The management believes that as movie and TV program production takes shape, more revenue will be generated from the content production segment and its influences will be increasing.

The Group aims at developing an integrated platform that incorporates both traditional and new media. Early this year, the State Council of the PRC proposed hastening the convergence of telecommunications, broadcasting and Internet networks in China. This policy will create new opportunities for expansion of our integrated media platform. We will keep a close watch on latest developments and enhance efforts in research and development so as to become a beneficiary of the policy.

The Chinese government energetically promotes the development of the cultural and tourism sectors. Earlier this year, the State Council has approved the strategic plan for the development of Hainan province as "Hainan International Tourism Island". The Travel Channel, with its base in Hainan province, will definitely be benefited with new incentives for future growth. Hinged on the Travel Channel and leveraged on our cross-media platform, we foresee enormous business opportunities in these sectors.

Despite the fluctuations in the market environment, the Group still achieved remarkable revenue growth in 2009. I would like to take this opportunity to express my heartfelt gratitude to my fellow directors and staff members for their dedication and effort. Our management team became more energetic and creative with the introduction of new members, and we gained new insights into the media industry. With the relentless support of our shareholders, business partners and other stakeholders, management firmly believes that the Group will achieve sustainable growth this year and create greater value for shareholders.

Edward TIAN Suning
Chairman

Hong Kong, 31 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Results highlights for the year ended 31 December 2009 are summarized below:

	2009 *HK$'000*	2008 *HK$'000*	
From continuing operations:			
Total sales	**276,451**	179,431	+54%
Gross profit/(loss)	**96,979**	(50,713)	N/A
Profit/(loss) before taxation	**66,497**	(443,146)	N/A
Profit/(loss) for the year	**66,084**	(441,055)	N/A
From discontinued operation:			
Loss for the year from discontinued operation	**(64,618)**	—	N/A

The Group returned to profitability and achieved revenues of HK$276,451,000 from continuing operations in 2009, a significant increase of 54% over 2008. Gross profit and profit from continuing operations were HK$96,979,000 and HK$66,084,000, respectively.

The Company completed an open offer and a share placement in December 2009 and raised net proceeds of approximately HK$430 million. IDG Capital Partners, a well-known professional investment fund, was introduced as our strategic shareholder, and our shareholding structure and capital base were further strengthened. IDG Capital Partners possesses in-depth knowledge and extensive experience in China's media, cultural and tourist sectors and has made many successful investments in these areas.

The Group's financial and liquidity position was further improved after the open offer and share placement, providing a solid foundation for its sustainable development. As at 31 December 2009, cash and bank balances reached HK$643,037,000, almost tripled that at the end of 2008. Net current assets amounted to HK$638,498,000 compared to net current liabilities of HK$7,047,000 a year earlier. Total equity amounted to HK$1,311,420,000, an increase of 61% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS *(Continued)*

In light of poor profitability and a weak outlook, management decided to dispose of its interest in Guangzhou ZhanShi Advertising Company Ltd. ("Guangzhou ZhanShi") in the first half of 2009 in order to focus on developing other media businesses with growth potential. Guangzhou ZhanShi was the exclusive advertising agency for the Satellite TV Channel of the Guangdong Television. The relevant loss for the year was reported under discontinued operation and is not expected to recur since 2010.

Market Review

The Chinese economy was adversely impacted by a slowdown in exports in the first half of 2009. Nevertheless, it staged a remarkable rebound in the second half as the Chinese government introduced a series of measures to revive domestic demand and the global economy gradually picked up. China's GDP grew by 8.7% in real terms last year. As market sentiment improved, advertisers were more willing to increase their marketing expenditures. As a result, the domestic advertising market bounced back vigorously in the second half after experiencing a period of doldrums. According to CTR Market Research, 2009 PRC media advertising expenditure soared 13.5% year-on-year to US$74 billion. TV remained the primary medium for domestic advertisers. In 2009, more than RMB395.2 billion was spent on TV advertising, an increase of 15% over 2008 and representing 78% of total advertising expenditure in China. Toiletries, business and services, foodstuffs, beverages and pharmaceuticals were the leading sectors of advertising spending.

China's motion picture industry also experienced astonishing growth last year. The box office revenue from cities nationwide topped RMB6.2 billion, an increase of 43% over 2008. There were 12 domestically produced movies reporting gross revenue of more than RMB100 million. The industry has entered into a new "golden age". Meanwhile, the government has taken various measures to promote the development of the cultural industries and accelerated the restructuring of the motion picture sector. It also encouraged financial institutions to offer greater financial support to the motion picture industry.

Business Review

	Sales revenues		Segment results	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:				
Television advertising	**274,410**	177,818	**66,107**	(100,766)
Content production	**2,041**	1,613	**(3,386)**	(48,627)
Others	**—**	—	**8,388**	(9,437)
Total	**276,451**	179,431	**71,109**	(158,830)

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

The television advertising segment remained the biggest revenue contributor to the Group. Its revenue totaled HK$274,410,000 in 2009, an increase of 54% over the previous year. The growth rate was much higher than the 15% industry growth rate in TV advertising expenditure in China for 2009. Segment profit was HK$66,107,000, which was mainly derived from the provision of media resources procurement services to international advertising agencies and direct customers, and from being the exclusive advertising agency for the Travel Channel. Revenue from the content production segment was HK$2,041,000, an increase of 27% over 2008. The Group has redirected resources into film and TV program production, including the blockbuster "Bodyguards and Assassins" which was released at the end of last year.

Television Advertising Business

The Group provided media resources procurement services through its wholly-owned subsidiary, Guangdong Sinofocus Media Company Limited ("Sinofocus"), which was acquired in the fourth quarter of 2008. Sinofocus has extensive relationships with international advertising agencies. It helps them procure media resources from local TV stations in China and offers them one-stop solutions ranging from planning, broadcasting and monitoring of advertising to payment logistics. While maintaining strategic partnerships with international advertising agencies, Sinofocus has successfully expanded its customer base and developed business relationships with direct customers. In 2009, the media resources procurement business achieved satisfactory growth and contributed 9% of the total revenue of the television advertising segment. This ratio is expected to rise further, thus broadening our income base. With insights into local market, Sinofocus is determined to expand its customer base to medium and large domestic clients in China by providing them with professional advertising agency services of international standards.

Another major contributor to the Group's television advertising segment was the exclusive advertising agency business for the Travel Channel. In 2009, the Travel Channel's advertising revenue increased by 41% and accounted for approximately 91% of total revenue from the television advertising segment. The significant increase was attributable to the following reasons:

- the Group's strategy of broadening advertising revenue sources by organizing nationwide reality shows and competitions, and leveraging on sponsors' promotional programs in other media;

- increased sales revenue from special sponsorship and program title sponsorship;

- extension of broadcast coverage into more second-tier cities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Television Advertising Business (Continued)

Moreover, the Group managed to enter into an agreement to lower exclusive advertising agency fees for the Travel Channel in 2008 and 2009 by RMB50 million. As a result, operating costs of the Group were substantially reduced.

The Group has further strengthened cooperation with the Hainan Television Broadcasting Station ("Hainan TV") in the operation of the Travel Channel. A new joint venture formed by the Group and a wholly-owned subsidiary of Hainan TV became the exclusive advertising agent of the Travel Channel with effect from 1 January 2010. After the restructuring, each of the Group and Hainan TV effectively own approximately 50% of the economic interests in the operation of the Travel Channel. Ms. Wang Ping, the former deputy chief editor of Hunan Satellite TV, was appointed as the general manager of the joint venture and of Hai Nan Haishi Tourist Satellite TV Media Co., Ltd ("Hainan Haishi"), and she is now in charge of both the operation and advertising affairs of the Travel Channel. Ms. Wang was acclaimed "The Queen of Variety Shows" in China and produced a number of popular programs, including "Music Forever", "Super Girl" and "Strictly Come Dancing". "Strictly Come Dancing" was the top-ranked variety show in China and the most widely seen program on Hunan Satellite TV in 2007. Management believes that with a stable and sustainable business structure, the quality of TV programs on the Travel Channel and its advertising sales will further improve under the helm of Ms. Wang and a seasoned management team.

Content Production Business

In 2009, the Group resumed the content production business and made its maiden investment in film production by producing "Bodyguards and Assassins". The blockbuster was released in December 2009 and received enthusiastic response in the market. Its box office revenue from Mainland China approached to RMB300 million and the response in Hong Kong, Singapore and Malaysia were also very promising. Relevant income from the movie are expected to be recorded in the consolidated financial statements for year 2010. "Bodyguards and Assassins" was directed by renowned director Teddy Chan and co-produced by Huang Jiangxin and Peter Chan. It featured an all-star line-up from Mainland China, Hong Kong and Taiwan, including Donnie Yen, Fan Bingbing, Leon Lai, Nicholas Tse and Hu Jun.

Meanwhile, the Group and Shanghai Media Group ("SMG"), a leading domestic media group, will jointly invest in the production of a TV drama called "Grandmaster". The scripts for the domestically produced drama have almost been completed and shooting is expected to commence later in 2010. "Grandmaster" tells inspiring stories about how domestic Go (Wei Qi) players pursue their goal of becoming grandmasters. With exciting plots and unique themes, it is set to stand out in the competitive domestic TV drama market.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Content Production Business *(Continued)*

Besides, the Group and a group company of IDG Capital Partners have jointly invested in the production of a film called "Snow Flower and the Secret Fan". It depicts the intimate relationships between two pairs of girls in two different time periods. Starring famous actresses Li Bingbing and Jun Ji-hyun, the film is directed by Wang Ying, the director of "The Joy Luck Club". Shooting is currently under way.

Other segment

Revenue from other segment was HK$8,388,000 in 2009, mainly derived from the disposal of investment securities.

Outlook

After completion of the open offer and share placement, the Group had more than HK$600 million cash on hand as at 31 December 2009. Approximately HK$150 million will be used to enhance the development of media resources procurement business. It will be used for working capital, research and development on and acquisition of new media and Internet advertising businesses. In addition, we will focus our effort in the development of medium and large local clients in China. In fact, more than half of China's advertising spending, including those from the large and medium domestic enterprises, were conducted through network other than international advertising agencies. The related businesses are expected to become one of the Group's core revenue sources in the future.

The common interests in the Travel Channel have tied the Group and Hainan TV Group closer. The operation and advertising business are organized by a unified management team under Ms. Wang Ping. We expect that advertising revenue of the Travel Channel this year will exceed that of last year. Based on unaudited management information, advertising sales revenue from the Travel Channel in January and February 2010 grew 30% over the same period of last year. Moreover, a total of approximately RMB160 million worth of advertising contracts were already concluded for this year. While striving to generate more revenue by organizing major events and seeking special sponsorship and program title sponsorship income, the Travel Channel will actively strengthen cooperation with local governments and tourism administrations on the production of travel-related promotional programs. For instance, it entered into an agreement with Guangdong Provincial Tourism Administration to jointly produce a program called "Guangdong in the Eyes of Asians". In addition, the Travel Channel will increase the budget on brand building, talent recruitment, program production and procurement of TV programs and dramas in 2010. It also plans to gradually extend coverage into second and third-tier cities in China and targets to reach 600 million audiences eventually. In the medium and long run, the new management team has set clear target for the Travel Channel — to breakthrough advertising revenue of RMB700 million in five-year's time.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Outlook *(Continued)*

The Group will cooperate with its strategic shareholder to expand cultural and tourism businesses through equity investment or acquisitions. The cultural and tourist sectors are regarded by the China government as strategically important for boosting economic development. With thriving domestic demand, the two sectors have tremendous room for growth. Hinged on the Travel Channel, the Group will make use of its powerful cross-media platform to market and promote cultural and tourism businesses, enhance their influence and enrich the contents of its media operation. The Company entered into a Memorandum of Understanding ("MOU") with the Shaanxi Provincial Tourism Administration to invest in key tourism projects and leading tourism enterprises in Shaanxi Province. The provincial government contemplates to restructure key tourism projects and leading tourism enterprises in the province for future public listing, and we can enjoy pre-emptive rights of relevant investments at favourable terms. It is expected that the total investment will be no more than RMB100 million.

We have set an investment budget of HK$100 million for the content production business for 2010. The Group will continue to seek partners for joint investment in the production of premier films and TV programs under effective risk control.

The Group is determined to become an integrated platform that incorporates traditional and new media. It will expand into the cultural and tourism businesses in tandem with the existing media operation. We believe that the implementation of the policy of promoting the convergence of telecommunications, broadcasting and Internet networks in China will create new opportunities for us. The Group will strive hard to realize fully the synergies of its various businesses, creating greater value for shareholders.

FINANCIAL REVIEW

Continuing Operations

Sales revenue for the year ended 31 December 2009 amounted to HK$276,451,000, being a 54% increase comparing to the prior year. The significant growth was mainly driven by the increase in sales from television advertising segment of HK$96,592,000 or 54% during the year. Due to our strategy for the extension of advertising revenue sources to organization of large-scale activities and reality shows through which we could make use of media resources in addition to the Travel Channel air time, and also the significant growth of revenue from special sponsorship and program title sponsorship, the Travel Channel's advertising revenue grew by 41% during the year. In addition, Sinofocus operation also contributed net sales revenue of HK$25 million through the media resources procurement services.

Cost of sales mainly represented the average agency fees payable for the exclusive advertising agency right, net of a one-off reduction of agency fees payable of RMB50 million in the current year. Accordingly, cost of sales during the year dropped by 22% despite the increase of sales revenue during the year, leading to a gross profit of HK$96,979,000 in current year comparing to a gross loss of HK$50,713,000 in the prior year.

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

Other gains, net mainly comprised gain on disposal of exclusive advertising agency right, interest income from loans to a jointly controlled entity, bank interest income and fair value gain on financial assets at fair value through profit or loss. The significant increase in other gains, net is mainly due to the recording of a one-off gain on disposal of exclusive advertising agency right of HK$66,290,000 (please refer to note 16 to the consolidated financial statements for details).

Marketing and selling expenses mainly attributed to the television advertising segment. Although sales revenue from the television advertising segment for the year increased by 54% comparing to prior year, marketing and selling expenses for the year slightly dropped to HK$24,006,000 (2008: HK$25,862,000) or by 7% comparing to the prior year due to the effective cost control especially through regular revisit of commission policy.

Total administrative expenses for the year amounted to HK$51,251,000 (2008: HK$177,681,000), being a 71% decrease comparing to the prior year. This was mainly due to the following reasons: i) Exchange gain mainly resulting from the appreciation of RMB against HK$ dropped significantly to HK$806,000 during the year from HK$22,891,000 in the prior year; ii) non-cash share-based payments dropped to HK$13,762,000 during the year from HK$77,135,000 in the prior year; and iii) there was a provision for impairment of trade and other receivables of HK$75,903,000 included in the administrative expenses in the prior year, while in current year there was a write back of such provision of HK$3,359,000. If all the above factors are excluded, the remaining administrative expenses for the year in fact decreased to HK$41,654,000 (2008: HK$47,534,000) or by 12% comparing to the prior year due to our continued effort in cost control.

Share of (losses)/profits of jointly controlled entities mainly represented the share of results of Asian Union Film and Media ("AUFM") whose major asset is the 49% interests in Hainan Haishi (the operating entity of the Travel Channel). The loss in the current year was mainly caused by the one-off reduction of Travel Chanel's advertising agency fees receivable of RMB50 million during the year.

Finance costs for the year, which mainly represented notional non-cash interest accretion on convertible notes and pre-agreed periodic payments on exclusive advertising agency right, reduced to HK$31,291,000 (2008: HK$40,963,000) or by 24% comparing to the prior year. The amounts were recorded in accordance to the relevant financial reporting standards but there were in fact no cash interest payments. No similar finance costs are expected to recur since 2010.

Discontinued Operation

The loss for the year from discontinued operation of HK$64,618,000 was related to the disposal of the exclusive advertising agency business for the Satellite TV Channel of Guangdong Television conducted through Guangzhou Zhanshi Advertising Company Limited ("Guangzhou Zhanshi"). Such loss is not expected to recur since 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management objectives aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. In December 2009, the Group has completed an open offer and share placement, from which net proceeds of HK$421,994,000 have been raised. Such proceeds have not been utilized as of year end. As at 31 December 2009, the Group held cash and cash equivalents of approximately HK$643,037,000, increased by 2 times comparing to the balance as at 31 December 2008.

The Group was at net current asset position of HK$638,498,000 while it was at net current liability position of HK$7,047,000 as at 31 December 2008. As at 31 December 2008, the agency fee payables for the Travel Channel for the future twelve months were included as current liabilities in accordance to the relevant financial reporting standards, although they are not yet due and the relevant advertising sales (and thus the relevant cash inflows and receivables) were not yet incurred. This leads to higher than normal current liability amount and thus leads to the net current liability position. Excluding such undue agency fee payables for the Travel Channel, the Group is at net current asset position of HK$217,471,000 as at 31 December 2008. The increase of net current asset during the year was mainly due to the net proceeds raised through the completion of open offer and share placement in December 2009. The adjusted current ratio, representing the total current assets to the total current liabilities excluding the undue agency fees payable for the Travel Channel, significantly increased from 1.31 as at 31 December 2008 to 3.54 as at 31 December 2009.

The debt to equity ratio, representing the sum of borrowings and convertible notes to total equity, decreased from 0.05 as at 31 December 2008 to 0.04 as at 31 December 2009, and is still remained at a very low level. Except for the convertible notes, the Group had no outstanding borrowing as at 31 December 2009 and 31 December 2008.

Foreign Currency Exchange Exposure

The Group mainly operates in China and is only exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Accordingly, the exchange rate risk of the Group is considered to be relatively low.

Capital Structure

The Group has mainly relied on its equity and internally generated cash flow to finance its operations. As at 31 December 2009, the Group had no outstanding borrowing except for the convertible notes.

During the year, the Company has issued 9,031,616,992 new ordinary shares upon completion of the open offer of three offer shares for every eight shares and a share placement at a price of HK$0.048 per share. Details of the open offer and the share placement are disclosed in the Company's circular dated 25 November 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, none of our assets was pledged and we did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 31 December 2009, the Group employed a total of 93 full-time employees in Hong Kong and the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed in achieving high standards of corporate governance. The Board has reviewed the Group's corporate governance practices and is satisfied that the Company has applied the principles in and complied with the code provisions on the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The Board comprises eight directors of the Company ("Directors"). The Board members as at the date of this annual report were:

Mr. Edward TIAN Suning	*(Chairman and Non-executive Director)*
Mr. ZHANG Changsheng	*(Vice Chairman and Independent Non-executive Director)*
Mr. Hugo SHONG	*(Vice Chairman and Non-executive Director)*
Mr. ZHAO Anjian	*(Executive Director)*
Mr. JIANG Jianning	*(Independent Non-executive Director)*
Mr. LI Ruigang	*(Independent Non-executive Director)*
Dr. WONG Yau Kar, David	*(Independent Non-executive Director)*
Mr. YUEN Kin	*(Independent Non-executive Director)*

The Board is responsible for establishing the Group's corporate policy and strategic direction; setting business objectives and development plans; monitoring financial performance, internal controls and the performance of the senior management and ensuring that the Company complies with all applicable laws and regulations. The Board delegates day-to-day operations of the Group to the management. The management is responsible for implementing these strategies and plans.

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

BOARD OF DIRECTORS *(Continued)*

During the year, a total of seven Board meetings were held. Details of Directors' attendance record of such Board meetings during the year are as follows:

Directors	Attendance
Mr. Edward TIAN Suning	7/7
Mr. ZHANG Changsheng	7/7
Mr. ZHAO Anjian	6/7
Mr. JIANG Jianning	6/7
Mr. LI Ruigang	5/7
Dr. WONG Yau Kar, David	6/7
Mr. YUEN Kin	7/7

Each of the Director's biographical information is given on pages 23 to 27 of this Annual Report.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and responsibilities of the Chairman and the chief executive officer (the "CEO") of the Company are segregated and performed by Mr. Edward TIAN Suning and Mr. WANG Hong respectively.

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

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

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

The Company has two Non-executive Directors and five Independent Non-executive Directors who are not involved in the day-to-day operation and management of the Group's business.

Each of the Non-executive Directors and Independent Non-executive Directors has entered into service contract with the Company pursuant to which each of them is appointed for service with the Company for a term of three years. Their terms of appointment shall be subject to the rotational retirement provision of the Company's Articles of Association.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Code of Conduct applies to all the relevant persons as defined in the CG Code, including Directors of the Company, any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2009.

COMPANY SECRETARY

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

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

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

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

BOARD COMMITTEES

The Board has established a total of three board committees, details of which are set out below:

Strategy Committee

On 11 January 2008, the Board has established a Strategy Committee to formulate the business strategy for the Group. The Strategy Committee comprises Mr. JIANG Jianning (Chairman), Mr. Edward TIAN Suning, Mr. ZHANG Changsheng, Mr. ZHAO Anjian and Mr. LI Ruigang.

Remuneration Committee

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

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

During the year, one meeting was held. Details of attendance record of members in the meeting of Remuneration Committee during the year are as follows:

Members	Attendance
Mr. Edward TIAN Suning *(Chairman of Remuneration Committee)*	1/1
Mr. JIANG Jianning	0/1
Dr. WONG Yau Kar, David	1/1
Mr. YUEN Kin	1/1

BOARD COMMITTEES *(Continued)*

Audit Committee

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

Amongst other things, the Audit Committee is primarily responsible for the following:

1. Making recommendation to the Board on the appointment, reappointment and removal of the external auditor;

2. Reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

3. Monitoring the integrity of financial statements of the Company and the Company's annual report and accounts, interim report and, to review significant financial reporting judgments contained in them;

4. Reviewing the scope, extent and effectiveness of the Group's internal control system.

Financial Statements

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

External Auditors

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

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

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

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

External Auditors *(Continued)*

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

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

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

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

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

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

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

During the year, two meetings were held. Details of attendance record of members in the meetings of Audit Committee during the year are as follows:

Members	Attendance
Mr. YUEN Kin *(Chairman of Audit Committee)*	2/2
Mr. LI Ruigang	2/2
Dr. WONG Yau Kar, David	2/2

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

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

Nature of the services	2009 HK'000	2008 HK'000
Audit and review services	2,080	1,680
Non-audit services	460	500
Due diligence related services	—	800
	2,540	2,980

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibilities of the Directors in relation to the consolidated financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's report on page 38 which acknowledges the reporting responsibilities of the Group's Auditors.

Annual Report and Financial Statements

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

Accounting Policies

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

Accounting Records

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

Safeguarding Assets

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

Going Concern

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

CORPORATE GOVERNANCE REPORT

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL

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

INTERNAL CONTROL AND GROUP RISK MANAGEMENT

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

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

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The Chairman and Directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. All resolutions at the annual general meeting are decided on a poll. The poll is conducted by the Share Registrars. Feedback and comments from shareholders are always encouraged.

By Order of the Board

Edward TIAN Suning
Chairman

Hong Kong, 31 March 2010

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Edward TIAN Suning

Mr. Edward TIAN Suning, aged 47, was appointed as the Chairman and Non-executive Director in January 2008. Mr. TIAN is also the Chairman of China Broadband Capital Partners L.P. and a director of CBC China Media Limited, CBC Ultimate Partners Ltd. and Info Expert Services Limited, substantial shareholders of the Company pursuant to Part XV of the Securities and Futures Ordinance. He also holds positions in various organizations, including Independent Director of MasterCard International; Senior Advisor of Kohlberg Kravis Roberts; Independent Non-executive Director of Lenovo Group Limited, a company listed on The Stock Exchange of Hong Kong Limited; Independent Non-executive Director of Taikang Life Insurance Company Limited; Member of Advisory Board of Harvard Business School. From 2002 to 2006, Mr. TIAN was the CEO and Vice Chairman of the Board of China Netcom Group, a company listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange. In 1999, Mr. TIAN was invited to be in charge of the establishment of China Netcom Corporation ("CNC") and was the CEO and President of CNC. Before that Mr. TIAN co-founded AsiaInfo Holdings Inc., which became the first Chinese high tech company listed on NASDAQ.

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

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

VICE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. ZHANG Changsheng

Mr. ZHANG Changsheng, aged 62, was appointed as the Vice Chairman and Independent Non-executive Director in January 2008. Mr. ZHANG has also served as the Deputy General Manager of China Netcom Communications Group Corporation since 2003. Mr. ZHANG has also served as Senior Vice President since 2004, and General Counsel since 2005, of China Netcom Communications (Group) Limited Company. From 1995 to 2003, Mr. ZHANG Changsheng held the positions of Assistant Governor and Secretary General of the People's Government of Jiangsu Province. Prior to that, he served as deputy division chief, division chief, deputy director and director of the Ministry of Personnel of the People's Republic of China (the "PRC"), and director for Relocating and Arranging New Jobs for Retired Soldiers under the State Council of the PRC, respectively. In 1999, Mr. ZHANG took graduate course in Finance at Nanjing Institute. In 1981, he was graduated from the Department of Comprehensive Studies of the Military Academy of the PRC Liberation Army.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

VICE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Hugo SHONG

Mr. Hugo SHONG, aged 53, was appointed as the Vice Chairman and Non-executive Director in December 2009 and has been the Founding General Partner of IDG Capital Partners since 1993, also of IDG-Accel China Growth Fund and IDG-Accel Capital Fund since 2005 and 2008 respectively.

In 1993, Mr. SHONG assisted IDG's Founder and Chairman Patrick J. McGovern to establish China's first technology venture fund with US$20 million. IDG Capital Partners now has a total of US$2.5 billion under its management in China.

Mr. SHONG completed the Harvard Business School's Advanced Management Program in the fall of 1996. He conducted graduate studies at the Fletcher School of Law and Diplomacy during 1987-88 and earned his MS degree from Boston University's College of Communication in 1987. He graduated from the Graduate School of the Chinese Academy of Social Sciences in 1986 with a Journalism degree and he received a B.A. degree from Hunan University in 1982.

He has been a member of the Board of Trustees of Boston University since 2005.

Mr. SHONG is a chairman of China Finance Online Co., Limited, a company listed on NASDAQ and a non-executive director of Mei Ah Entertainment Group Limited, a company listed on The Stock Exchange of Hong Kong Limited.

Mr. SHONG had been appointed as a non-executive director of Kingdee International Software Group Company Limited, a company listed on The Stock Exchange of Hong Kong Limited, and resigned in March 2008.

EXECUTIVE DIRECTOR

Mr. ZHAO Anjian

Mr. ZHAO Anjian, aged 56, was appointed as the Executive Director in January 2008 and being appointed as directors of several subsidiaries of the Company. Mr. ZHAO is the General Manager of CBC Operation Service. From August 2006 to October 2007, Mr. ZHAO was the Vice Secretary of Direct Party Committee of CNC Group. From August 2005 to May 2006, Mr. ZHAO was the General Manager of Department of Surveillance Management of CNC Group. From August 2004 to July 2005, Mr. ZHAO was the General Manager of CNC Group International. From November 2003 to July 2004, Mr. ZHAO was the Assistant to CEO, CNC International. From June 1999 to October 2003, Mr. ZHAO was the Assistant to CEO, China Netcom Corporation Limited. Before that Mr. ZHAO had held the Vice General Manager for Intel and Contec. Mr. ZHAO has more than seven years experience in the management in IT industry and more than eight years management experience in the telecom industry. Mr. ZHAO was awarded an EMBA degree from GuangHua Business School of Beijing University in 2005, and a Bachelor degree from Chengdu Industry College in 1977.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. JIANG Jianning

Mr. JIANG Jianning, aged 47, was appointed as the Independent Non-executive Director in January 2008. Mr. JIANG is the Chief Advisor of the Board of China CYTS Tours Holdings Limited, a company listed on the Shanghai Stock Exchange. He also holds the position in various institutions, including the Member of Standing Committee of All China Youth Federation. From April 1998, Mr. JIANG became the President and CEO of China Youth Travel (Holding) Limited. Before that Mr. JIANG was the chief secretary of Beijing Normal University, had held the management positions for Beijing Normal University, Beijing GuoAn Electronic Company, People's Insurance Company of China and Beijing ChuangGE Technology Group.

Mr. JIANG was honored one of the "Ten Outstanding Youth" by the Department directly under the Central Committee of the Communist Party of China in 1999; In January 2001, he was selected to be one of the "a hundred people that might affect China in the 21 century" by the Magazine of China Youth. Mr. JIANG was selected in 2002 as the No.1 Professional Manager in the Tourism Business by the Beijing Entertainment Information; Other awards include, New Person of the Year in Economic Year of 2003; Most Honest Award in 2004; Top 10 Influential People in China Travel Industry in Year 2005 and President Award by Korean Government and Best in Tourism Industry in 2006. In 2007, he was awarded as The Best Individual of the 12th Capital Tourism Cup. In November 2008, he was awarded as the Man of the Year of Travel Services for the China Travel Industry Award by Travel Weekly China. Mr. JIANG graduated from Beijing Normal University in 1984 with a bachelor degree in Economy. He is a Senior Economist.

Mr. LI Ruigang

Mr. LI Ruigang, aged 41, was appointed as the Independent Non-executive Director in January 2008. Mr. LI is the president of Shanghai Media Group ("SMG"). SMG is the second largest media conglomerate in China, second only to China Central Television ("CCTV"). The business of SMG includes television, radio, print media, new media, artist management, sports industry, home shopping and etc.. Mr. LI was appointed as the chairman of China Media Capital in February 2009. CMC is the first and only sovereign private equity fund dedicated to the media sector both within China and abroad. Formed by SMG, China Development Bank and China Broadband Capital, CMC is also a commercialized media fund with the full support of the central government. From 1998 to 2001, Mr. LI was the Deputy Director of the Programming Department of Shanghai Municipal Government. Mr. LI has more than 10 years' experience in the industrialization of the media sector, particularly in resource integration, brand operation, industrial linking and organizational restructuring. He is highly esteemed in the Chinese media sector, and has won many honours, including being selected as Showman of The Year by Variety China in 2005 and granted as Young Global Leader by World Economic Forum in 2009. Before that, Mr. LI was the visiting scholar of Media Management at Columbia University in the U.S. from 2001 to 2002. In 1994, Mr. LI was awarded a Master of Arts Degree in Journalism by Fudan University. Mr. LI has been the director of Shanghai Oriental Pearl (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2002. From March 2004 to October 2005, Mr. LI was the director of Shanda Corporation (Nasdaq: SNDA).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Dr. WONG Yau Kar, David

Dr. WONG Yau Kar, David, aged 52, was appointed as the Independent Non-executive Director since 2000. Dr. WONG holds a doctor's degree in economics from University of Chicago. Dr. WONG has extensive experience in direct investments and corporate finance. Currently, Dr. WONG is the managing director of United Overseas Investments Limited, independent non-executive director of China Wind Power Group Limited and non-executive director of CIAM Group Limited, both of them are listed on The Stock Exchange of Hong Kong Limited. Dr. WONG has also been actively participated in public services and to name a few, he has been a council member of the Hong Kong Institute of Directors since 1999 and the president of the Chinese Manufacturers' Association of Hong Kong.

Mr. YUEN Kin

Mr. YUEN Kin, aged 55, was appointed as the Independent Non-executive Director of the Company since 2004. Mr. YUEN holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

He is currently an Executive Director and Chief Financial Officer of Varitronix International Limited, a company listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. WANG Hong

Mr. WANG Hong, aged 45, was appointed as the Chief Executive Officer in January 2008. Mr. WANG holds a Bachelor degree in International Business from University of International Business and Economics. Mr. WANG has also been the president of Hai Nan Haishi Travel Satellite TV Madia Co., Ltd. from 2003 until 2008 and the deputy general manager of Poly U.S.A., Inc. from 1991 until 2003 and was responsible for export and trading businesses.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Mr. HAU Wai Man, Raymond

Mr. HAU Wai Man, Raymond, aged 35, is the Chief Financial Officer, Qualified Accountant, Company Secretary and directors of several subsidiaries of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. He held a MBA degree from The Hong Kong University of Science and Technology, and has over 10 years of experience in international accounting firms and corporates in Hong Kong and China before joining the Company in 2006.

Mr. HUANG Mingguo, Martin

Mr. HUANG Mingguo, Martin, aged 39, is the Senior Vice President of the Company and is responsible for the strategy planning of the advertising business of the Company. He is also the general manager of Guangdong Sinofocus Media Limited, the wholly-owned subsidiary of Blower Investments Limited acquired by the Company in 2008. He holds a Bachelor degree in Chemistry from Peking University and has over 15 years of experience in advertising, media, project management and investment.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to submit its report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries as at 31 December 2009 are set out in note 32 to the consolidated financial statements.

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

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 40 of this Annual Report.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2009.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 120 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND CONVERTIBLE NOTES

On 4 November 2009, the Company announced its proposal to raise, not less than approximately HK$336.56 million and not more than approximately HK$357.55 million before expenses by way of an open offer on the basis of an assured allotment of three new Shares (each an "Offer Share") for every eight existing Share held by shareholders other than overseas shareholders at the subscription price of HK$0.048 per Offer Share (the "Open Offer"). Upon completion of the Open Offer, the Company issued and allotted 7,011,616,992 Shares on 17 December 2009 raising gross proceeds of approximately HK$336,557,615 before expense. The details of the Open Offer are set out in the Company's circular dated 25 November 2009.

SHARE CAPITAL AND CONVERTIBLE NOTES *(Continued)*

On 3 November 2009, the Company entered into a placing agreement with Oriental Patron Asia Limited, an independent third party for placing up to a maximum of 2,020,000,000 Shares at a price of HK$0.048 (the "Placing"). On 17 December 2009, the Company issued and allotted 1,867,288,000 Shares and 152,712,000 Shares to IDG-Accel Growth Fund II L.P. and IDG-Accel China Investors II L.P. respectively raising gross proceeds of approximately HK$96,960,000 before expense. The details of the placing are set out in the Company circular dated 25 November 2009.

The Board intends to apply the net proceeds from the Open Offer and the Placing in the amount of HK$421,994,000 as additional working capital to strengthen the Group's capital base and to enhance the business operations of the Group including future investments and acquisitions when opportunities arise.

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

DIRECTORS

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

Mr. Edward TIAN Suning *(Chairman)*[2]
Mr. ZHANG Changsheng *(Vice Chairman)*[3]
Mr. Hugo SHONG *(Vice Chairman)*[2] (appointed on 21 December 2009)
Mr. ZHAO Anjian[1]
Mr. JIANG Jianning[3]
Mr. LI Ruigang[3]
Dr. WONG Yau Kar, David[3]
Mr. YUEN Kin[3]

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

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Hugo SHONG, being the newly appointed director, shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Zhang Changsheng and Mr. Zhao Anjian shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offers themselves for re-election.

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

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and Senior Management as at the date of this report are set out on pages 23 to 27 of this Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST-PAID EMPLOYEES

Particulars of the emoluments of the Directors and the five highest-paid employees of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE OPTIONS

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

Pursuant to this 10-year term Option Scheme, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of the options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue.

As at the date of this report, the total number of shares available for issue under the Option Scheme is 2,734,793,281 shares (including options for 1,830,418,755 shares that have been granted but not yet lapsed or exercised), which represent 9.86% of the issued share capital of the Company.

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

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

SHARE OPTIONS *(Continued)*

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

Name or Category of Grantees	Date of grant	Exercise price per share (HK$)	Adjusted exercise price per share (HK$) (Note 7)	No. of share options: Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	(Adjusted) Outstanding as at 31 December 2009 (Note 7)	% of total issued share capital of the Company	Note
Directors										
Edward TIAN Suning	5.5.2008	0.134	0.130	20,000,000	—	—	—	20,625,000	0.07	(3)
	4.11.2008	0.044	0.043	40,000,000	—	—	—	41,250,000	0.15	(3)
ZHANG Changsheng	5.5.2008	0.134	0.130	10,000,000	—	—	—	10,312,500	0.04	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
ZHAO Anjian	5.5.2008	0.134	0.130	60,000,000	—	—	—	61,875,000	0.22	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
JIANG Jianning	5.5.2008	0.134	0.130	10,000,000	—	—	—	10,312,500	0.04	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
LI Ruigang	5.5.2008	0.134	0.130	10,000,000	—	—	—	10,312,500	0.04	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
WONG Yau Kar, David	5.5.2008	0.134	0.130	10,000,000	—	—	—	10,312,500	0.04	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
YUEN Kin	5.5.2008	0.134	0.130	10,000,000	—	—	—	10,312,500	0.04	(3)
	4.11.2008	0.044	0.043	20,000,000	—	—	—	20,625,000	0.07	(3)
Continuous contract employee in aggregate	7.3.2008	0.154	0.149	155,000,000	—	—	(30,000,000)	128,906,250	0.46	(1)
	4.11.2008	0.044	0.043	250,000,000	—	—	—	257,812,500	0.93	(4)
Others	7.3.2008	0.154	0.149	643,000,000	—	—	(3,000,000)	660,000,000	2.38	(2)
	4.11.2008	0.044	0.043	470,000,000	—	—	—	484,687,500	1.75	(5)
Total for all categories				1,808,000,000	—	—	(33,000,000)	1,830,468,750		

Notes:

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTIONS *(Continued)*

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

6. During the year, no share options were cancelled.

7. The exercise price and number of share options had been adjusted due to the completion of the open offer on 17 December 2009.

CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, details of the following connected transaction of the Company is required to be disclosed in the annual report of the Company:

Guangdong Sinofocus Media Limited 廣東中觀傳媒有限公司 ("Sinofocus"), an indirect wholly-owned subsidiary of the Company, entered into a termination and settlement agreement with 羅勝 and 陳學誠 (together the "Transferors"), 庄卓彪 and 廣州湛視廣告有限公司 ("Guangzhou ZhanShi") in relation to the settlement of the inter-company debts between Guangzhou ZhanShi and Sinofocus and the termination of the Equity Transfer Agreement (the "Termination and Settlement Agreement") on 25 June 2009.

Under the Termination and Settlement Agreement, Guangzhou ZhanShi has to repay Sinofocus the RMB28 million (equivalent to approximately HK$31.82 million) inter-company debts. After the full repayment of such inter-company debts, the Equity Transfer Agreement entered into between Sinofocus, the Transferors and Huang Ming Guo (as guarantor) on 13 August 2008 in relation to the sale and purchase of the entire equity interests in Guangzhou ZhanShi would be terminated and the Group would be discharged from the liability of paying the Transferors the consideration of RMB500,000 (equivalent to approximately HK$568,000) under the Equity Transfer Agreement and Guangzhou ZhanShi will cease to be a subsidiary of the Company as a result (the "Disposal").

As the profitability and prospects of Guangzhou ZhanShi will remain difficult in the near term and the additional working capital funding may be required, the Disposal allows the Group to focus on the development of its other businesses (including other television advertising business and content production business).

庄卓彪, a director of Guangzhou ZhanShi, a wholly-owned subsidiary of the Company, and is therefore a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction for the Company under the Listing Rules.

REPORT OF THE DIRECTORS

RESERVES

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

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2009, calculated under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK$760,682,000 (2008: HK$457,416,000), representing the share premium of HK$1,247,716,000 (2008: HK$916,039,000) less the accumulated losses of HK$487,034,000 (2008: HK$458,623,000). The Company may make distributions to its members out of the share premium in certain circumstances subject to the Articles of Association of the Company.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

For the year ended 31 December 2009, the Group's purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases, and the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

RETIREMENT BENEFIT SCHEME

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2009, the interests and short positions of the Director and Chief Executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

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

Name of Director	Capacity	Nature of interests	Number of shares held	% of total issue share capital of the Company
Edward TIAN Suning *(Note)*	Interest of controlled corporation	Corporate interest	4,886,337,500	17.62

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

Name of Director	Capacity	Nature of interests	Amount of the convertible notes	Number of the total underlying shares	% of total issued share capital of the Company
Edward TIAN Suning *(Note)*	Interest of controlled corporation	Corporate interest	HK$49,000,000	1,065,217,391	3.84

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

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

Note: Mr. Edward TIAN Suning is the Chairman and Non-executive Director of the Company and the director of CBC China Media Limited. Mr. Tian is deemed to be interested in CBC China Media Limited. As at 31 December 2009, through CBC China Media Limited, Mr. Tian held (i) 4,886,337,500 shares and (ii) convertible notes of the Company with a principal amount of HK$49,000,000 (the "Convertible Notes"). As a result of the completion of the placing of 2,020,000,000 new shares and the Open Offer, the conversion price of the Convertible Notes was adjusted from HK$0.049 to HK$0.046 per Share pursuant to the terms of the Convertible Notes with effect from 17 December 2009. The Convertible Notes will then become convertible into 1,065,217,391 Shares based on the adjusted conversion price.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

Save as disclosed above, as at 31 December 2009, none of the Directors, Chief Executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, the interests and short positions of the following persons (other than Directors or Chief Executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

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

Name of Shareholders	Capacity	Nature of interests	Note	Number of shares held	% of total issue share capital of the Company
CBC China Media Limited	Beneficial owner	Beneficial interest	1	4,886,337,500	17.62
IDG-Accel China Growth Fund II L.P.	Beneficial owner	Beneficial interest	2	1,867,288,000	6.73
IDG-Accel China Growth Fund II Associates L.P.	Interest of controlled corporation	Corporate interest	2	1,867,288,000	6.73
IDG-Accel China Growth Fund GP II Associated Ltd.	Interest of controlled corporation	Corporate interest	2	2,020,000,000	7.28
Patrick J McGovern	Interest of controlled corporation	Corporate interest	2	2,020,000,000	7.28
Zhou Quan	Interest of controlled corporation	Corporate interest	2	2,020,000,000	7.28

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

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

Names of the holder of the convertible notes	Note	Amount of the Convertible Notes	Number of the total underlying shares	% of total issue share capital of the Company
CBC China Media Limited	1	HK$49,000,000	1,065,217,391	3.84

Notes:

1. As at 31 December 2009, CBC China Media Limited held (i) 4,886,337,500 shares; and (ii) convertible notes of the Company with a principal amount of HK$49,000,000 (the "Convertible Notes"). As a result of the completion of the placing of 2,020,000,000 new shares and the Open Offer, the conversion price of the Convertible Notes was adjusted from HK$0.049 to HK$0.046 per Share pursuant to the terms of the Convertible Notes with effect from 17 December 2009. The Convertible Notes will then become convertible into 1,065,217,391 Shares based on the adjusted conversion price.

2. IDG-Accel China Growth Fund II L.P., and IDG-Accel China Investors II L.P. respectively held 1,867,288,000 Shares and 152,712,000 Shares. Patrick J McGovern and Zhou Quan through certain companies, namely IDG-Accel China Growth Fund II Associates Ltd. and IDG-Accel China Growth Fund II Associates L.P., held more than one-third of the issued share capital of IDG-Accel China Growth Fund II L.P., and IDG-Accel China Investors II L.P..

Save as disclosed above, as at 31 December 2009, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the transactions carried out with related parties are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 14 to 22 of this Annual Report.

AUDITOR

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

OTHER CHANGES IN DIRECTORS' INFORMATION

Other changes in Directors' information since the date of the 2008 Annual Report are set out below.

1. Mr. LI Ruigang appointed as chairman of China Media Capital on 18 February 2009.

2. Mr. YUEN Kin appointed as an executive director and chief financial officer of Varitronix International Limited, a company listed on the Stock Exchange, on 1 July 2009.

3. Dr. WONG Yau Kar, David appointed as a non-executive director of CIAM Group Limited, a company listed on the Stock Exchange, on 15 July 2009.

4. The annual remuneration of Mr. ZHAO Anjian was revised from HK$1,400,000 to HK$1,470,000 with effect from 1 January 2010.

5. Mr. JIANG Jianning ceased to be a Chief Executive Officer, and became a Chief Advisor of the Board of China CYTS Tours Holdings Limited, a company listed on the Shanghai Stock Exchange, on 21 December 2009.

Save as the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

On behalf of the Board

Edward TIAN Suning
Chairman

Hong Kong, 31 March 2010

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF MEDIA CHINA CORPORATION LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Media China Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 119, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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, 31 March 2010

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Continuing operations			
Sales	5	**276,451**	179,431
Cost of sales		**(179,472)**	(230,144)
Gross profit/(loss)		**96,979**	(50,713)
Other gains, net	5	**84,408**	12,588
Marketing and selling expenses		**(24,006)**	(25,862)
Administrative expenses		**(51,251)**	(177,681)
Provision for impairment of intangible assets	16	**—**	(173,843)
		106,130	(415,511)
Share of (losses)/profits of jointly controlled entities		**(8,342)**	13,328
Finance costs	7	**(31,291)**	(40,963)
Profit/(Loss) before taxation	8	**66,497**	(443,146)
Taxation	9	**(413)**	2,091
Profit/(Loss) for the year from continuing operations		**66,084**	(441,055)
Discontinued operation			
Loss for the year from discontinued operation	10	**(64,618)**	—
Profit/(Loss) for the year		**1,466**	(441,055)
Attributable to:			
Equity holders of the Company		**1,383**	(441,117)
Minority interests		**83**	62
		1,466	(441,055)

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year		**HK Cents**	*HK Cents*
Basic earnings/(loss) per share			
— From continuing operations	12	**0.35**	(2.49)
— From discontinued operation	12	**(0.34)**	—
		0.01	(2.49)
Diluted earnings/(loss) per share		**N/A**	N/A
Dividend	13	**—**	—

The notes on pages 48 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 ***HK$'000***	2008 *HK$'000*
Profit/(Loss) for the year	**1,466**	(441,055)
Other comprehensive income/(loss):		
Currency translation differences	**58,819**	(10,279)
Other comprehensive income/(loss) for the year, net of tax	**58,819**	(10,279)
Total comprehensive income/(loss) for the year	**60,285**	(451,334)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**60,202**	(451,396)
Minority interests	**83**	62
	60,285	(451,334)

The notes on pages 48 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**3,131**	7,489
Intangible assets	16	**434,938**	978,060
Interests in jointly controlled entities	18	**264,260**	267,639
Deferred tax assets	9	**18,468**	35,794
		720,797	1,288,982
CURRENT ASSETS			
Exclusive advertising agency right	16	**—**	401,911
Trade receivables	20	**129,054**	55,248
Amounts due from a jointly controlled entity and its subsidiaries	18	**91,300**	106,798
Financial assets at fair value through profit or loss	21	**—**	11,130
Prepayments, deposits and other receivables	22	**26,680**	121,196
Cash and cash equivalents	23	**643,037**	216,511
		890,071	912,794
CURRENT LIABILITIES			
Agency fee payables — current	16	**167,117**	785,367
Trade payables	24	**34,811**	24,880
Receipt in advance, other payables and accrued liabilities	24	**36,222**	79,532
Current income tax liabilities		**13,423**	30,062
		251,573	919,841
NET CURRENT ASSETS/(LIABILITIES)		**638,498**	(7,047)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,359,295**	1,281,935

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT LIABILITIES			
Agency fee payables — non-current	16	—	418,209
Convertible notes	25	**47,875**	44,271
Deferred tax liabilities	9	—	4,076
		47,875	466,556
NET ASSETS		**1,311,420**	815,379
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	26	**277,293**	186,976
Reserves	27	**1,033,403**	627,762
		1,310,696	814,738
Minority interests	27	**724**	641
TOTAL EQUITY		**1,311,420**	815,379

Edward TIAN Suning
Director

ZHAO Anjian
Director

The notes on pages 48 to 119 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSET			
Investments in subsidiaries	17	**156,152**	163,294
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**—**	1,188
Amounts due from subsidiaries	17	**656,553**	627,391
Cash and cash equivalents	23	**425,059**	35,254
		1,081,612	663,833
CURRENT LIABILITIES			
Receipt in advance, other payables and accrued liabilities	24	**3,288**	3,600
NET CURRENT ASSETS		**1,078,324**	660,233
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,234,476**	823,527
NON-CURRENT LIABILITY			
Convertible notes	25	**47,875**	44,271
NET ASSETS		**1,186,601**	779,256
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	26	**277,293**	186,976
Reserves	27	**909,308**	592,280
TOTAL EQUITY		**1,186,601**	779,256

Edward TIAN Suning
Director

ZHAO Anjian
Director

The notes on pages 48 to 119 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Cash used in operations	*28(a)*	**(1,808)**	(67,410)
Interest paid		**—**	(1,492)
Tax paid		**(957)**	(160)
Net cash used in operating activities		**(2,765)**	(69,062)
Cash flows from investing activities			
Interest received		**969**	2,031
Purchases of property, plant and equipment		**(239)**	(1,628)
Acquisition of subsidiaries – net of cash acquired	*28(b)*	**—**	(1,581)
Disposal of a subsidiary – net of cash received	*28(c)*	**8,588**	—
Purchases of intangible assets		**(341)**	(30,449)
Disposals of property, plant and equipment		**2,658**	726
Additional investment in jointly controlled entities		**(4,657)**	—
Net cash generated from/(used in) investing activities		**6,978**	(30,901)
Cash flows from financing activities			
Proceeds from issuance of shares on open offer and placements - net of expenses		**421,994**	—
Decrease in pledged bank deposits		**—**	33,983
Proceeds from issuance of shares on exercise of warrants		**—**	188,290
Repurchases of shares		**—**	(4,609)
Repayments of short-term loans		**—**	(33,000)
Net cash generated from financing activities		**421,994**	184,664
Net increase in cash and cash equivalents		**426,207**	84,701
Decrease in cash and cash equivalents from discontinued operation	*10(b)*	**(428)**	—
Cash and cash equivalents at 1 January		**216,511**	131,305
Exchange gains on cash and cash equivalents		**747**	505
Cash and cash equivalents at 31 December		**643,037**	216,511

The notes on pages 48 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to equity holders of the Company				
	Share capital	Other reserves	Accumulated losses	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008	162,182	1,643,605	(829,869)	—	975,918
Comprehensive income:					
— Loss for the year	—	—	(441,117)	62	(441,055)
Other comprehensive income:					
— Currency translation differences	—	(10,279)	—	—	(10,279)
Issuance of shares upon exercise of warrants	19,000	169,290	—	—	188,290
Issuance of shares upon completion of an acquisition	7,000	22,400	—	—	29,400
Repurchase of shares	(1,206)	(2,197)	(1,206)	—	(4,609)
Acquisition of a subsidiary	—	—	—	579	579
Share-based payments	—	77,135	—	—	77,135
Transfer to statutory reserve	—	47	(47)	—	—
Balance at 31 December 2008	186,976	1,900,001	(1,272,239)	641	815,379
Balance at 1 January 2009	186,976	1,900,001	(1,272,239)	641	815,379
Comprehensive income:					
— Profit for the year	—	—	1,383	83	1,466
Other comprehensive income:					
— Currency translation differences	—	58,819	—	—	58,819
Issuance of shares on open offer and placement, net of expenses	90,317	331,677	—	—	421,994
Share-based payments	—	13,762	—	—	13,762
Transfer to statutory reserve	—	438	(438)	—	—
Balance at 31 December 2009	277,293	2,304,697	(1,271,294)	724	1,311,420

The notes on pages 48 to 119 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Media China Corporation Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in television advertising business and content production business. The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands.

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

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

These financial statements are presented in thousand Hong Kong dollars (HK$'000), unless otherwise stated.

2 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Changes in accounting policy and disclosures:

(i) New and amended standards adopted by the Group

The group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7 'Financial Instruments — Disclosures' (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 1 (revised). 'Presentation of financial statements' — effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKAS 23, 'Borrowing costs'. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The Group and the Company have no borrowing costs for the financial year ended 31 December 2009. The standard does not have a material impact on the Group's or Company's financial statements.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(i) New and amended standards adopted by the Group *(Continued)*

- HKFRS 2 (amendment), 'Share-based payment' — effective 1 January 2009 deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company have adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKFRS 8, 'Operating segments' — effective 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This does not change the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. This has not resulted in any reallocation of goodwill or any material impairment to the goodwill balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) Standards, amendments and interpretations that have been issued but are not yet effective for 2009 and have not been early adopted by the Group:

HKFRS 1 (Revised)	'First-time adoption of HKFRS', effective for annual periods beginning on or after 1 July 2009
HKFRS 3 (Revised)	'Business combinations', effective for annual periods beginning on or after 1 July 2009
HKFRS 9	'Financial Instruments', effective for annual periods beginning on or after 1 January 2013
HKAS 24 (Revised)	'Related Party Disclosures', effective for annual periods beginning on or after 1 January 2011
HKAS 27 (Revised)	'Consolidated and separate financial statements', effective for annual periods beginning on or after 1 July 2009
Amendment to HKAS 32	'Classification of Rights Issues', effective for annual periods beginning on or after 1 February 2010
Amendment to HKAS 39	'Financial instruments: Recognition and measurement' on eligible hedged items, effective for annual periods beginning on or after 1 July 2009
Amendment to HK(IFRIC) 14	'Prepayment of Minimum Funding Requirements', effective for annual periods beginning on or after 1 January 2011
HK(IFRIC) 17	'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009
HK(IFRIC) 18	'Transfers of assets from customers', effective for annual periods beginning on or after 1 July 2009
HK(IFRIC) 19	'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010
Amendment to HKFRS 1	'Additional Exemptions for First-time Adopters', effective for annual periods beginning on or after 1 January 2010
Amendment to HKFRS 2	'Group Cash-settled Share-based Payment Transactions', effective for annual periods beginning on or after 1 January 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(a) **Basis of preparation** *(Continued)*

(ii) Standards, amendments and interpretations that have been issued but are not yet effective for 2009 and have not been early adopted by the Group: *(Continued)*

Certain HKICPA's improvements to HKFRS published in May 2009.

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

(b) **Group accounting**

(i) Consolidation

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

(ii) Subsidiaries

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

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

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

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

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(b) Group accounting *(Continued)*

(ii) Subsidiaries *(Continued)*

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. Expenses relating to share options granted by the Company to (i) certain employees working for; and (ii) parties providing services to, subsidiaries of the Group is recognised as deemed investments in subsidiaries. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) Transactions with minority interests

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

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

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in associated companies and JCE are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investments in associated companies and JCE include goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

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

Plant, equipment and other assets	3 to 10 years

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

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

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

(d) Operating leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets

(i) Goodwill

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

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

(ii) Exclusive advertising agency rights

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

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

(iii) Programmes and film rights

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets *(Continued)*

(iii) Programmes and film rights (Continued)

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

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

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

(iv) Programmes and films production in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

Recognition and measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

Recognition and measurement *(Continued)*

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

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

Recognition and measurement *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement — is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing on loans and receivable are described in note 2(h).

(g) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Renminbi, the currency of the primary economic environment in which the entity operates ("the functional currency"). As the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, the directors considers that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's presentation currency. Accordingly, the consolidated financial statements are presented in Hong Kong dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Foreign currency translation *(Continued)*

(iii) Group companies

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

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

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

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

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

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

(h) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default of delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the consolidated income statement.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

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

(j) Provisions

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

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

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

(k) Current and deferred income tax

The tax expense for the year comprises current and deferred tax.

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

(l) Revenue recognition

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefit costs

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits *(Continued)*

(iii) Termination benefits

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

(iv) Profit-sharing and bonus plans

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

(n) Share-based payments

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Share-based payments *(Continued)*

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(o) Borrowings

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

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

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

(p) Segment reporting

Operating segments are reported in a manner consistant with the internal reporting provided to the chief operating decision-maker. The chief operating decision-marker, who is responsible for allocating resources and assessing performance of the operating segments, has been indentified as the steering committee that makes strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

(r) Share capital

Ordinary shares and preference shares are classified as equity.

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

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Costs directly attributable to the repurchase of issued ordinary shares are shown in equity as a deduction and the nominal value of the shares repurchased is transferred from the retained earnings to the capital redemption reserve.

(s) Dividend distribution

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

(t) Borrowing Costs

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

(u) Trade payables

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

3 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

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

(a) Cash flow and fair value interest rate risk

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

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

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

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

Based on the simulations performed, if the interest rate increased/decreased by 60 basis-point with all other variables held constant, profit/(loss) attributable to the equity holders of the Company for the year ended 31 December 2009 would have been approximately HK$1,723,000 (2008: HK$1,543,000) lower/higher, respectively.

(b) Credit risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(b) Credit risk (Continued)

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

(c) Foreign exchange risk

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

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

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

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

(d) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

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

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*
Group			
At 31 December 2009			
Agency fee payables	167,117	—	—
Trade payables, receipt in advance, other payables and accrued liabilities	71,033	—	—
At 31 December 2008			
Agency fee payables	785,367	234,723	234,723
Trade payables, receipt in advance, other payables and accrued liabilities	104,412	—	—
Company			
At 31 December 2009			
Receipt in advance, other payables and accrued liabilities	3,288	—	—
At 31 December 2008			
Receipt in advance, other payables and accrued liabilities	3,600	—	—

(e) Price risk

Management considers that the Group is not subject to any significant price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Capital risk management

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

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

The Group monitors its capital structure on the basis of a total bank borrowings-to-total equity ratio. During 2008, the Group's strategy was to maintain the total bank borrowings-to-total equity ratio below 10%. The total bank borrowings-to-total equity ratio at 31 December 2009 was 0% (2008: 0%).

(iii) Fair value estimation

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

The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(i) Estimated impairment of goodwill

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

(ii) Impairment of exclusive advertising agency rights

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

(iii) Amortization and impairment of programmes and film rights

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

(iv) Recoverability of material trade receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(v) Income taxes

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

(vi) Recoverability of investments in film production

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

(vii) Purchase price allocation

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

5 SALES AND OTHER GAINS, NET

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Sales		
Television advertising	**274,410**	177,818
Licensing and sub-licensing of film and TV programs	**2,041**	1,613
	276,451	179,431
Other gains, net		
Gain on disposal of exclusive advertising agency right *(note 16)*	**66,290**	—
Dividend income on financial assets at fair value through profit or loss	**277**	246
Interest income	**9,216**	21,411
Fair value gain/(loss) on financial assets at fair value through profit or loss	**8,176**	(9,408)
Miscellaneous	**449**	339
	84,408	12,588
Total	**360,859**	192,019

The non-cash revenue arising from exchange of goods or services during the year included in sales from television advertising amounted to approximately HK$8,191,000 (2008: HK$6,755,000).

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the chief executive officer and the chief financial officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organized into two main operating segments: (i) television advertising business; and (ii) content production business. Other group operations mainly comprise the trading of investment securities which does not constitute a separately reportable segment for the year. The management committee measures the performance of the segments based on their respective segment results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION *(Continued)*

There are no sales between the operating segments.

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

	2009					
	Television advertising *HK$'000*	Content production *HK$'000*	Others *HK$'000*	Total continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*
Sales	274,410	2,041	—	276,451	206,240	482,691
Segment results	66,107	(3,386)	8,388	71,109	(34,242)	36,867
Interest income on loan to a jointly controlled entity				8,249	—	8,249
Exchange gain				806	—	806
Share-based payments				(13,762)	—	(13,762)
Provision for impairment of intangible assets				—	(21,173)	(21,173)
Loss on disposal of a subsidiary, net of provision for consideration receivable				—	(13,159)	(13,159)
Gain on disposal of exclusive advertising agency right				66,290	—	66,290
Unallocated costs, net				(26,562)	—	(26,562)
				106,130	(68,574)	37,556
Share of losses of jointly controlled entities				(8,342)	—	(8,342)
Finance costs				(31,291)	—	(31,291)
Profit/(Loss) before taxation				66,497	(68,574)	(2,077)
Taxation				(413)	3,956	3,543
Profit/(Loss) for the year				66,084	(64,618)	1,466
Minority interests				(83)	—	(83)
Profit/(Loss) attributable to equity holders of the Company				66,001	(64,618)	1,383
Segment assets	225,388	69,381	—	294,769	—	294,769
Goodwill	427,681	—	—	427,681	—	427,681
Interests in jointly controlled entities						
— current				91,300	—	91,300
— non-current				264,260	—	264,260
Unallocated assets				532,858	—	532,858
Total assets				1,610,868	—	1,610,868
Segment liabilities	229,925	4,666	—	234,591	—	234,591
Unallocated liabilities				64,857	—	64,857
Total liabilities				299,448	—	299,448
Capital expenditures						
— Allocated	117	463	—	580	5	585
— Unallocated				—	—	—
Depreciation						
— Allocated	620	207	—	827	48	875
— Unallocated				1,179	—	1,179
Amortization	190,446	3,964	—	194,410	239,121	433,531

6 SEGMENT INFORMATION *(Continued)*

			2008			
	Television advertising *HK$'000*	Content production *HK$'000*	Others *HK$'000*	Total continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*
Sales	177,818	1,613	—	179,431	—	179,431
Segment results	(100,766)	(48,627)	(9,437)	(158,830)	—	(158,830)
Interest income on loan to a jointly controlled entity				19,381	—	19,381
Exchange gain				22,891	—	22,891
Share-based payments				(77,135)	—	(77,135)
Provision for impairment of intangible assets	—	(173,843)	—	(173,843)	—	(173,843)
Unallocated costs, net				(47,975)	—	(47,975)
				(415,511)	—	(415,511)
Share of profits of jointly controlled entities				13,328	—	13,328
Finance costs				(40,963)	—	(40,963)
Loss before taxation				(443,146)	—	(443,146)
Taxation				2,091	—	2,091
Loss for the year				(441,055)	—	(441,055)
Minority interests				(62)	—	(62)
Loss attributable to equity holders of the Company				(441,117)	—	(441,117)
Segment assets	666,468	90,580	11,196	768,244	448,503	1,216,747
Goodwill	367,516	—	—	367,516	29,917	397,433
Interests in jointly controlled entities						
— current				106,798	—	106,798
— non-current				267,639	—	267,639
Unallocated assets				213,108	51	213,159
Total assets				1,723,305	478,471	2,201,776
Segment liabilities	895,766	4,649	—	900,415	403,739	1,304,154
Unallocated liabilities				78,226	4,017	82,243
Total liabilities				978,641	407,756	1,386,397
Capital expenditure						
— Allocated	20,125	2,293	—	22,418	373,563	395,981
— Unallocated				579	—	579
Depreciation						
— Allocated	599	339	—	938	—	938
— Unallocated				1,418	—	1,418
Amortization	185,071	1,164	—	186,235	—	186,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION *(Continued)*

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

Segment liabilities comprise operating liabilities including payable and accrued liabilities. They exclude items such as convertible notes, current income tax liabilities and deferred tax liabilities.

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

7 FINANCE COSTS

	Group	
	2009	2008
	HK$'000	*HK$'000*
Interest expenses on bank loan wholly repayable within 5 years	**—**	1,492
Notional non-cash interest accretion on:		
— Convertible notes	**3,604**	3,340
— Pre-agreed periodic payments on exclusive advertising agency right	**27,687**	36,131
	31,291	39,471
	31,291	40,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 PROFIT/(LOSS) BEFORE TAXATION

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Other gains		
Exchange gain	**806**	22,891
Gain on disposal of property, plant and equipment	**346**	—
Write back of provision for impairment of trade and other receivables	**3,359**	—
Expenses by nature		
Depreciation of property, plant and equipment	**2,006**	2,356
Amortization of intangible assets	**194,410**	186,235
Auditor's remuneration	**2,215**	2,321
Provision for impairment of trade and other receivables	**—**	75,903
Provision for impairment of intangible assets	**—**	173,843
Loss on disposal of property, plant and equipment	**—**	82
Operating lease rentals — land and buildings	**6,457**	5,156
Share-based payments (excluding those disclosed in staff costs below)	**—**	57,748
Staff costs:		
Directors' fees	**720**	720
Wages and salaries	**16,021**	17,330
Share-based payments	**13,762**	19,387
Contributions to defined contribution pension schemes	**2,598**	731
	33,101	38,168

9 TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

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

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**—**	—
— PRC Corporate Income Tax	**(15,692)**	924
Deferred income tax	**16,105**	(3,015)
Income tax expense/(credit)	**413**	(2,091)

9 TAXATION *(Continued)*

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Profit/(Loss) before taxation	**66,497**	(443,146)
Tax calculated at domestic tax rates applicable to the profit or loss in the respective countries	**11,911**	(82,750)
Income not subject to tax	**(14,514)**	(1,904)
Expenses not deductible for tax purposes	**3,262**	33,215
Utilization of previously unrecognized tax losses	**(8,772)**	—
Unrecognized tax losses	**8,526**	49,348
Income tax expense/(credit)	**413**	(2,091)

The weighted average applicable tax rate was 17.9% (2008: 18.7%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Deferred tax assets to be recovered after more than 12 months	**18,468**	35,794
Deferred tax liabilities to be recovered after more than 12 months	**—**	(4,076)
Deferred tax assets, net	**18,468**	31,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 TAXATION *(Continued)*

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

Deferred tax assets:

	Group			
	Decelerated tax amortization in the PRC	**Impairment losses**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	17,998	5,938	14,482	38,418
Credited/(charged) to the consolidated income statement	6,955	8,470	(7,318)	8,107
Exchange difference	1,215	591	1,781	3,587
At 31 December 2008	26,168	14,999	8,945	50,112
Charged to the consolidated income statement	(19,194)	(7,420)	(5,086)	(31,700)
Exchange difference	27	18	11	56
At 31 December 2009	7,001	7,597	3,870	18,468

9 TAXATION *(Continued)*

Deferred tax liabilities:

	Group		
	Intangible assets	**Exchange difference**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	—	(8,372)	(8,372)
Acquisition of subsidiaries	(4,301)	—	(4,301)
Credited/(charged) to the consolidated income statement	225	(5,317)	(5,092)
Exchange difference	—	(629)	(629)
At 31 December 2008	(4,076)	(14,318)	(18,394)
Credited to the consolidated income statement	4,076	14,330	18,406
Exchange difference	—	(12)	(12)
At 31 December 2009	—	—	—

Deferred tax assets are recognized for tax losses carry-forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2009, the Group had unrecognized tax losses of approximately HK$290,937,499 (2008: HK$357,866,000) to carry forward against future taxable income, subject to agreement by the Inland Revenue Department of Hong Kong and local tax bureau of the PRC. The tax losses of the PRC subsidiaries have an expiry period of five years, while the tax losses of Hong Kong subsidiaries have no expiry date.

Deferred income tax liabilities of HK$350,000 (2008: HK$2,987,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled HK$3,496,000 as at 31 December 2009 (2008: HK$29,873,000).

10 DISCONTINUED OPERATION — GROUP

On 25 June 2009, the Group has entered into an agreement to dispose of its 100% equity interests in Guangzhou Zhanshi Advertising Company Limited ("Guangzhou Zhanshi") to independent third parties. Guangzhou Zhanshi is principally engaged in advertising agency and has been appointed as the exclusive advertising agency for Guangdong Provincial Satellite Television for the period from 1 January 2009 to 31 December 2011. For details, please refer to the announcement issued by the Company on 25 June 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 DISCONTINUED OPERATION — GROUP *(Continued)*

As the operation of Guangzhou Zhanshi is considered as a separate major line of business during the year, it is accounted for as a discontinued operation. The comparative financial information for the year ended 31 December 2008 has been reclassified to conform with current year presentation in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". The disposal was completed during the year.

(a) An analysis of the results of the operation of Guangzhou Zhanshi during the year is as follows:

	2009 **HK$'000**	2008 HK$'000
Sales	**206,240**	—
Cost of sales *(note 16)*	**(239,121)**	—
Gross loss	**(32,881)**	—
Other revenues	**2**	—
Marketing and selling expenses	**(652)**	—
Administrative expenses	**(711)**	—
Provision for impairment of intangible assets *(note 16)*	**(21,173)**	—
Loss on disposal of a subsidiary, net of provision for consideration receivable	**(13,159)**	—
Loss before taxation	**(68,574)**	—
Taxation	**3,956**	—
Loss from discontinued operation	**(64,618)**	—
Loss attributable to the equity holders of the Company	**(64,618)**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 DISCONTINUED OPERATION — GROUP *(Continued)*

(b) An analysis of the cash flows of the discontinued operation is as follows:

	2009 HK$'000	2008 HK$'000
Net cash outflow from operating activities	**(423)**	—
Net cash outflow from investing activities	**(5)**	—
Decrease in cash and cash equivalents	**(428)**	—

11 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$28,411,000 (2008: loss of HK$495,499,000).

12 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

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

	2009	2008
Weighted average number of ordinary shares in issue (thousands)	**19,068,808**	17,708,924
Profit/(loss) from continuing operations attributable to equity holders of the Company (HK$'000)	**66,001**	(441,117)
Basic earnings/(loss) per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**0.35**	(2.49)
Loss from discontinued operation attributable to equity holders of the Company (HK$'000)	**(64,618)**	—
Basic loss per share from discontinued operation attributable to equity holders of the Company (HK cents per share)	**(0.34)**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 EARNINGS/(LOSS) PER SHARE *(Continued)*

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2009, the Company has two categories of potential ordinary shares: share options and convertible notes (2008: same). The convertible notes are assumed to have been converted into ordinary shares, and the net profit/(loss) is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted loss per share has not been disclosed since the conversion of all potential ordinary shares arising from convertible notes and share options would have an anti-dilutive effect on the basic earnings/(loss) per share for the year ended 31 December 2009 (2008: same).

13 DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2009 (2008: Nil).

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2009	2008
	HK$'000	*HK$'000*
Fees	**720**	720
Salaries, bonuses, allowances and benefits in kind	**1,604**	1,682
Contributions to defined contribution pension schemes	**12**	—
Sub-total	**2,336**	2,402
Share-based payments (a)	**4,912**	8,531
Total	**7,248**	10,933

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of each director for the year ended 31 December 2009 is set out below:

Name of director	Fees *HK$'000*	Salaries, bonuses, allowances and benefits in kind *HK$'000*	Contributions to defined contribution pension schemes *HK$'000*	Sub-total *HK$'000*	Share-based payments (a) *HK$'000*	Total *HK$'000*
Mr. Edward TIAN Suning	—	—	—	—	975	975
Mr. Hugo SHONG (b)	—	—	—	—	—	—
Mr. ZHAO Anjian	—	1,604	12	1,616	1,502	3,118
Mr. ZHANG Changsheng	144	—	—	144	487	631
Mr. JIANG Jianning	144	—	—	144	487	631
Mr. LI Ruigang	144	—	—	144	487	631
Dr. WONG Yau Kar David	144	—	—	144	487	631
Mr. YUEN Kin	144	—	—	144	487	631

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

(b) Appointed in December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to defined contribution pension schemes	Sub-total	Share-based payments (a)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Edward TIAN Suning	—	—	—	—	1,453	1,453
Mr. ZHAO Anjian	—	1,682	—	1,682	3,443	5,125
Mr. ZHANG Changsheng	144	—	—	144	727	871
Mr. JIANG Jianning	144	—	—	144	727	871
Mr. LI Ruigang	144	—	—	144	727	871
Dr. WONG Yau Kar David	144	—	—	144	727	871
Mr. YUEN Kin	144	—	—	144	727	871

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

Other than as presented above, for 2008 and 2009 there were:

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

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

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2008: two) director(s) whose emoluments are reflected in the analysis presented above. The emoluments payable to the four (2008: three) individuals during the year are as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Salaries, bonuses, allowances and benefits in kind	**4,847**	4,030
Share-based payments	**5,211**	6,217
Contributions to defined contribution pension schemes	**80**	12
	10,138	10,259

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
HK$1,500,001 — HK$2,000,000	**1**	—
HK$2,000,001 — HK$2,500,000	**—**	1
HK$2,500,001 — HK$3,000,000	**3**	—
HK$3,500,001 — HK$4,000,000	**—**	1
HK$4,000,001 — HK$4,500,000	**—**	1
	4	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT — GROUP

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

15 PROPERTY, PLANT AND EQUIPMENT — GROUP *(Continued)*

	Property, plant and equipment *HK$'000*
Cost	
At 1 January 2009	**11,805**
Additions — continuing operations	**239**
Additions — discontinued operation	**5**
Disposals — continuing operations	**(4,781)**
Disposal of a subsidiary — discontinued operation *(note 28(c))*	**(300)**
Exchange difference	**11**
At 31 December 2009	**6,979**
Accumulated depreciation	
At 1 January 2009	**4,316**
Disposals — continuing operations	**(2,469)**
Disposal of a subsidiary — discontinued operation *(note 28(c))*	**(54)**
Depreciation for the year — continuing operations	**2,006**
Depreciation for the year — discontinued operation	**48**
Exchange difference	**1**
At 31 December 2009	**3,848**
Net book value:	
At 31 December 2009	**3,131**

Depreciation expense of HK$2,006,000 (2008: HK$2,356,000) has been charged in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS — GROUP

	Non-current assets						Current assets
	Goodwill	Exclusive advertising agency right	Programme and film rights	Programme and film production in progress	Others	Total	Exclusive advertising agency right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008							
Cost	496,379	1,078,894	75,211	31,024	—	1,681,508	—
Accumulated amortization	—	(359,631)	(25,555)	—	—	(385,186)	—
Net book amount	496,379	719,263	49,656	31,024	—	1,296,322	—
Year ended 31 December 2008							
Opening net book amount	496,379	719,263	49,656	31,024	—	1,296,322	—
Acquisition of subsidiaries *(note 28(b))*	17,984	—	—	—	1,284	19,268	373,563
Additions — continuing operations	—	—	2,101	—	—	2,101	28,348
Provision for impairment — continuing operations	(117,166)	—	(43,499)	(13,178)	—	(173,843)	—
Disposals — continuing operations	—	—	(1,134)	(14,849)	—	(15,983)	—
Amortization expense — continuing operations	—	(184,120)	(1,164)	—	(951)	(186,235)	—
Exchange difference	236	34,284	1,052	858	—	36,430	—
Closing net book amount	397,433	569,427	7,012	3,855	333	978,060	401,911
At 31 December 2008							
Cost	397,433	1,138,853	82,832	17,440	1,284	1,637,842	401,911
Accumulated amortization and impairment	—	(569,426)	(75,820)	(13,585)	(951)	(659,782)	—
Net book amount	397,433	569,427	7,012	3,855	333	978,060	401,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS — GROUP *(Continued)*

	Non-current assets						Current assets
	Goodwill	Exclusive advertising agency right	Programme and film rights	Programme and film production in progress	Others	Total	Exclusive advertising agency right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2009							
Opening net book amount	397,433	569,427	7,012	3,855	333	978,060	401,911
Reclassification	—	—	3,294	(3,294)	—	—	—
Additions — continuing operations	—	—	—	341	—	341	—
Provision for impairment — discontinued operation	(5,104)	—	—	—	—	(5,104)	(16,069)
Disposals — continuing operations	—	(380,225)	—	—	—	(380,225)	—
Disposal of a subsidiary — discontinued operation *(note 28(c))*	(24,813)	—	—	—	—	(24,813)	(147,606)
Amortization expense — continuing operations	—	(190,113)	(3,964)	—	(333)	(194,410)	—
Amortization expense — discontinued operation	—	—	—	—	—	—	(239,121)
Exchange difference	60,165	911	6	7	—	61,089	885
Closing net book amount	427,681	—	6,348	909	—	434,938	—
At 31 December 2009							
Cost	427,681	—	86,235	909	—	514,825	—
Accumulated amortization and impairment	—	—	(79,887)	—	—	(79,887)	—
Net book amount	427,681	—	6,348	909	—	434,938	—

Amortization of HK$194,410,000 (2008: HK$186,235,000) is included in the cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INTANGIBLE ASSETS — GROUP *(Continued)*

During the year ended 31 December 2006, Beijing Hua Yi Qian Si Advertising Company Limited ("Qiansi"), a wholly-owned subsidiary of the Group, has entered into an exclusive advertising agency agreement ("Agreement") with Hai Nan Haishi Tourist Satellite TV Media Co., Ltd. ("Hainan Haishi"), an associated company of a jointly controlled entity of the Group. Under the Agreement, Qiansi has been granted an exclusive right to sell all of the advertising resources of Hainan Haishi for a period of up to six years with effect from 1 January 2006. In return, Qiansi has agreed to make pre-agreed monthly payments to Hainan Haishi during the same period. In December 2009, Qiansi and Hainan Haishi have entered into a supplemental agreement, whereby the expiration date of the above-mentioned exclusive right was changed to 31 December 2009. Accordingly, the relevant intangible asset of HK$380,225,000 is treated as being disposed of and the relevant agency fee payables of HK$446,515,000 in relation to the periods after 31 December 2009 are derecognized. The difference of HK$66,290,000 is recorded as a gain on disposal of exclusive advertising agency right included in "other gains, net" (note 5).

In year 2008, the Group has acquired an exclusive advertising agency right through acquisition of Blower Investments Limited and its subsidiaries. As detailed in note 10, the Group has disposed of 100% equity interests in Guangzhou Zhanshi (the entity owning the exclusive advertising agency right) during the year. Accordingly, the relevant intangible asset is treated as being disposed of.

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

Impairment tests for goodwill

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

	2009 ***HK$'000***	2008 *HK$'000*
TV advertising business	**427,681**	397,433
Content production business	**—**	—

16 INTANGIBLE ASSETS — GROUP *(Continued)*

Impairment tests for goodwill *(Continued)*

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

Key assumptions used for fair value less cost to sell calculations:

	Television advertising business	
	2009	**2008**
— Compound annual growth rate of revenue in six-year period	23%	13%
— Annual growth rate beyond the six-year period	3%	0%
— Discount rate	15%	14%

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

The cash flow projections of television advertising were adjusted to reflect the effect of current economic environment. Impairment tests taking into account of these latest developments resulted in no impairment loss of goodwill (2008: impairment loss of goodwill associated with content production CGU of HK$117,166,000).

If the compound annual growth rate of revenue in the first six-year period applied had been 1% lower or the discount rate applied had been 1% higher than management's estimates as at 31 December 2009 with all other variables held constant, no impairment provision would be required for the goodwill associated with the television advertising business CGU as at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INVESTMENTS IN SUBSIDIARIES — COMPANY

	Company	
	2009	2008
	HK$'000	*HK$'000*
Unlisted shares at cost *(note a)*	**790,979**	782,130
Provision for impairment loss	**(634,827)**	(618,836)
	156,152	163,294

All the balances with subsidiaries were unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are set out in note 32 to the consolidated financial statements.

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

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES — GROUP

	Group	
	2009	2008
	HK$'000	*HK$'000*
Share of net assets	**13,723**	17,503
Loan to a jointly controlled entity	**250,537**	250,136
	264,260	267,639

As at 31 December 2009 and 2008, loan to a jointly controlled entity were unsecured, interest-bearing at prevailing market rates and not repayable in the coming twelve months.

The current portion of the amounts due from a jointly controlled entity and its subsidiaries are unsecured, interest-bearing at prevailing market rates and repayment on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES — GROUP *(Continued)*

The principal jointly controlled entities and its subsidiaries as at 31 December 2009 are as follows:

Name	Place of incorporation and kind of legal entity	Registered capital	Interest held indirectly 2009	Interest held indirectly 2008	Principal activities and place of operation
AUFM GROUP					
Asia Union Film and Media (*) (#)	The PRC, limited liability company	RMB120,000,000	**50%**	50%	Investment in television drama, film production and advertising production in the PRC
Hai Nan Haishi Travel Satellite TV Media Co., Ltd ("Hainan Haishi") (*)	The PRC, limited liability company	RMB115,963,100	**24.50%**	24.50%	Production of television programmes (other than news) for the Travel Channel in the PRC
Beijing Ying Shi Film & Television Art Limited Liability Company (*)	The PRC, limited liability company	RMB500,000	**30%**	30%	Television drama production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	The PRC, limited liability company	RMB1,020,000	**25.50%**	25.50%	Advertisement production in the PRC

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES — GROUP *(Continued)*

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

On 10 May 2009, the shareholders of AUFM have passed a resolution, pursuant to which PCACL has agreed to transfer to the Group its right to share the remaining 25% of the dividends and other distribution of AUFM out of the retained distributable profits of AUFM for the future three years in return for an annual receipt of a fixed consideration of RMB3,000,000. Accordingly, AUFM will continue to be a jointly controlled entity of the Group but the profit sharing ratio of the Group in AUFM will be 100% during the three-year period. The additional 25% share of results of AUFM net of the consideration has been included in "share of (losses)/profits of jointly controlled entities" in the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY AND ITS SUBSIDIARIES — GROUP *(Continued)*

The consolidated results and financial position of AUFM at 31 December 2009 are as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Assets:		
Non-current assets	**359,209**	414,775
Current assets	**21,471**	25,518
	380,680	440,293
Liabilities:		
Current liabilities	**(371,589)**	(426,301)
Long-term liabilities	**(80,830)**	(80,818)
	(452,419)	(507,119)
Net Liabilities	**(71,739)**	(66,826)

	2009	2008
	HK$'000	*HK$'000*
Income	**5,591**	9,546
Share of profit of an associated company	**4,447**	49,932
Expenses	**(14,840)**	(41,706)
(Loss)/Profit for the year	**(4,802)**	17,772

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

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

Group

Assets as per consolidated balance sheet

	Loans and receivables *HK$'000*	Financial assets at fair value through profit or loss *HK$'000*	Total *HK$'000*
As at 31 December 2009			
Trade receivables	129,054	—	129,054
Amounts due from a jointly controlled entity and its subsidiaries	91,300	—	91,300
Prepayments, deposits and other receivables	26,680	—	26,680
Cash and cash equivalents	643,037	—	643,037
Total	890,071	—	890,071
As at 31 December 2008			
Trade receivables	55,248	—	55,248
Amounts due from a jointly controlled entity and its subsidiaries	106,798	—	106,798
Financial assets at fair value through profit or loss	—	11,130	11,130
Prepayments, deposits and other receivables	121,196	—	121,196
Cash and cash equivalents	216,511	—	216,511
Total	499,753	11,130	510,883

19 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY *(Continued)*

Group

Liabilities as per consolidated balance sheet

	Other financial liabilities *HK$'000*
As at 31 December 2009	
Agency fee payables	167,117
Trade payables	34,811
Receipt in advance, other payables and accrued liabilities	36,222
Convertible notes	47,875
Total	286,025
As at 31 December 2008	
Agency fee payables	1,203,576
Trade payables	24,880
Receipt in advance, other payables and accrued liabilities	79,532
Convertible notes	44,271
Total	1,352,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY *(Continued)*

Company

Assets as per balance sheet

	Loans and receivables *HK$'000*
As at 31 December 2009	
Amounts due from subsidiaries	656,553
Cash and cash equivalents	425,059
Total	1,081,612
As at 31 December 2008	
Prepayments, deposits and other receivables	1,188
Amounts due from subsidiaries	627,391
Cash and cash equivalents	35,254
Total	663,833

Company

Liabilities as per balance sheet

	Other financial liabilities *HK$'000*
As at 31 December 2009	
Receipt in advance, other payables and accrued liabilities	3,288
Convertible notes	47,875
Total	51,163
As at 31 December 2008	
Receipt in advance, other payables and accrued liabilities	3,600
Convertible notes	44,271
Total	47,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 TRADE RECEIVABLES — GROUP

At 31 December 2009, the aging analysis of the trade receivables is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
0 — 3 months	**121,688**	47,943
4 — 6 months	**6,148**	6,326
Over 6 months	**1,218**	30,638
	129,054	84,907
Provision for doubtful debts (all made against trade receivables aged over 6 months)	**—**	(29,659)
	129,054	55,248

The net carrying amounts of the trade receivable of the Group are denominated in Renminbi.

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

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. As at 31 December 2009, none of the trade receivables was considered impaired. As at 31 December 2008, trade receivables of HK$29,659,000 were considered impaired and thus the same amount of provision for doubtful debts was made against those trade receivables balance (all aged over 6 months).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 TRADE RECEIVABLES — GROUP *(Continued)*

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
4 — 6 months	**6,148**	6,326
Over 6 months	**1,218**	979
	7,366	7,305

Management does not expect any material losses from non-performance by these counterparties, as these relate to a number of independent customers for whom there is no recent history of default.

Movements on the Group's provision for doubtful debts are as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
At 1 January	**29,659**	27,652
Provision for doubtful debts	**—**	49,971
Write back of over-provision	**(3,359)**	—
Write-off against trade receivables	**(26,300)**	(49,284)
Exchange differences	**—**	1,320
At 31 December	**—**	29,659

The creation and release of provision for doubtful debts have been included in administrative expenses in the consolidated income statement (note 8). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

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

The maximum exposure to credit risk at the balance sheet date is the carrying value of trade receivables disclosed above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP

	Group	
	2009	2008
	HK$'000	*HK$'000*
Equity security:		
Listed in Hong Kong	—	11,130
Market value of listed security	—	11,130

Financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the cash flow statement (note 28(a)).

Changes in fair value of financial assets at fair value through profit or loss are recorded in "other gains, net" in the consolidated income statement (note 5).

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

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments, deposits and other receivables	**49,515**	120,310	—	1,188
Amounts due from related companies	—	886	—	—
	49,515	121,196	—	1,188
Provision for doubtful receivables	**(22,835)**	—	—	—
	26,680	121,196	—	1,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY *(Continued)*

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**19,032**	60,876	**—**	1,188
RMB	**7,648**	60,320	**—**	—
	26,680	121,196	**—**	1,188

The carrying amounts of prepayments, deposits and other receivables and amounts due from related companies approximate their fair values.

The maximum exposure to credit risk at the balance sheet date is the carrying value of prepayments, deposits and other receivables, and amounts due from related companies disclosed above.

23 CASH AND CASH EQUIVALENTS — GROUP AND COMPANY

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	HK$'000
Cash and bank balances	**643,037**	216,511	**425,059**	35,254
	643,037	216,511	**425,059**	35,254
Denominated in :				
HK$	**580,250**	161,330	**425,057**	35,254
RMB	**53,183**	45,456	**—**	—
United States Dollar (USD)	**9,604**	9,725	**2**	—
	643,037	216,511	**425,059**	35,254
Maximum exposure to credit risk	**642,961**	216,511	**425,059**	35,254

24 TRADE PAYABLES, RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES — GROUP AND COMPANY

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**34,811**	24,880	**—**	—
Receipt in advance	**5,711**	43,282	**—**	—
Other payables and accrued liabilities	**30,511**	36,250	**3,288**	3,600
Total	**71,033**	104,412	**3,288**	3,600

At 31 December 2009, the aging analysis of the trade payables is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
0 — 3 months	**20,392**	20,170
4 — 6 months	**6,743**	4,710
Over 6 months	**7,676**	—
	34,811	24,880

The carrying amounts of trade payables, receipt in advance, other payables and accrued liabilities approximate their fair values.

25 CONVERTIBLE NOTES — GROUP AND COMPANY

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

During the year, no part of the Second Tranche Convertible Note has been converted into ordinary shares. Upon the completion of the open offer and placing of shares in December 2009 (see note 26 for details), the conversion price was adjusted to HK$0.046 per share. The remaining part of the outstanding convertible notes as at 31 December 2009 is convertible into 1,065,217,391 ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 CONVERTIBLE NOTES — GROUP AND COMPANY *(Continued)*

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

	Group and Company	
	2009	2008
	HK$'000	*HK$'000*
Equity portion		
Beginning of the year	**56,523**	56,523
Conversion	**—**	—
End of the year	**56,523**	56,523
Liability portion		
Beginning of the year	**44,271**	40,931
Conversion	**—**	—
Interest accretion	**3,604**	3,340
End of the year	**47,875**	44,271
Total fair value		
Beginning of the year	**100,794**	97,454
End of the year	**104,398**	100,794

The carrying amount of the liability portion of Second Tranche Convertible Note at 31 December 2009 approximates its fair values which was calculated using cash flows discounted at a rate of 7.85% per annum, based on the yield of bonds issued in US dollar with a rating of B, whose maturity is 3 to 4 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 SHARE CAPITAL

	Authorized				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		*No. of shares*		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1 January 2008, 31 December 2008 and 31 December 2009	240,760	2,408	30,000,000	300,000	302,408

	Issued and fully paid				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		*No. of shares*		
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
At 1 January 2008	—	—	16,218,246	162,182	162,182
Issuance of shares upon exercise of warrants (i)	—	—	1,900,000	19,000	19,000
Issuance of shares upon completion of an acquisition (ii)	—	—	700,000	7,000	7,000
Shares repurchased and cancelled (iii)	—	—	(120,600)	(1,206)	(1,206)
At 31 December 2008	—	—	18,697,646	186,976	186,976
At 1 January 2009	—	—	18,697,646	186,976	186,976
Issuance of shares upon open offer and placement (1)	—	—	9,031,617	90,317	90,317
At 31 December 2009	—	—	27,729,263	277,293	277,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 SHARE CAPITAL *(Continued)*

Ordinary shares

During the year ended 31 December 2009, the Company has issued its ordinary shares as follows:

(1) In December 2009, 7,011,616,992 new ordinary shares and 2,020,000,000 new ordinary shares were issued upon completion of the open offer of three offer shares for every eight shares and a share placement, respectively at a price of HK$0.048 per share. Details of the open offer and the placement were disclosed in the Company's circular dated 25 November 2009.

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

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

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

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

Share options

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30 July 2002, the Company can grant options to Qualified Persons (as defined in the Option Scheme) for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 10 June 2008, the Company can grant up to 1,811,824,531 share options to the Qualified Persons. Subsequent to that, 880,000,000 share options has been granted to the Qualified Persons.

26 SHARE CAPITAL *(Continued)*

Share options *(Continued)*

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. During the year, share-based payment expense of approximately HK$13,762,000 is charged to the consolidated income statement (2008: HK$77,135,000).

Movement of share options during the current year and the prior year is as follows:

Tranche	Date of share options granted	Number of share options: Outstanding as at 1 January 2009	Granted during the year	Cancelled/ lapsed during the year	Adjustment during the year	Outstanding as at 31 December 2009	Exercisable as at 31 December 2009	Exercise price (adjusted)	Vesting date	Expiry date
								HK$		
1	7 March 2008	798,000,000	–	(33,000,000)	23,906,250	788,906,250	315,562,500	0.149	From 1 April 2008 to 1 March 2011	31 December 2012
2	5 May 2008	130,000,000	–	–	4,062,500	134,062,500	134,062,500	0.130	From 1 April 2009	31 December 2015
3	4 November 2008	880,000,000	–	–	27,500,000	907,500,000	752,812,500	0.043	From 8 March 2009 to 8 March 2011	31 December 2015
		1,808,000,000	–	(33,000,000)	55,468,750	1,830,468,750	1,202,437,500			

Tranche	Date of share options granted	Number of share options: Outstanding as at 1 January 2008	Granted during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2008	Exercisable as at 31 December 2008	Exercise price	Vesting date	Expiry date
							HK$		
1	7 March 2008	–	800,000,000	(2,000,000)	798,000,000	3,000,000	0.154	From 1 April 2008 to 1 March 2011	31 December 2012
2	5 May 2008	–	130,000,000	–	130,000,000	–	0.134	From 1 April 2009	31 December 2015
3	4 November 2008	–	880,000,000	–	880,000,000	–	0.044	From 8 March 2009 to 8 March 2011	31 December 2015
		–	1,810,000,000	(2,000,000)	1,808,000,000	3,000,000			

There are no performance conditions or market conditions required for these tranches of issued options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES

Group

	Share premium	Merger reserve	Equity component of convertible notes	Statutory reserve	Share option reserve	Capital redemption reserve	Currency translation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note ii)	*(note i)*		*(note iii)*		*(note iv)*					
Balance at 1 January 2008	727,752	860,640	56,523	—	—	—	(1,310)	(829,869)	813,736	—	813,736
Loss for the year	—	—	—	—	—	—	—	(441,117)	(441,117)	62	(441,055)
Grant of share options	—	—	—	—	77,135	—	—	—	77,135	—	77,135
Issuance of shares upon exercise of warrants	169,290	—	—	—	—	—	—	—	169,290	—	169,290
Issuance of shares upon completion of an acquisition	22,400	—	—	—	—	—	—	—	22,400	—	22,400
Share repurchases	(3,403)	—	—	—	—	1,206	—	(1,206)	(3,403)	—	(3,403)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	579	579
Currency translation differences	—	—	—	—	—	—	(10,279)	—	(10,279)	—	(10,279)
Transfer to statutory reserve	—	—	—	47	—	—	—	(47)	—	—	—
Balance at 31 December 2008	916,039	860,640	56,523	47	77,135	1,206	(11,589)	(1,272,239)	627,762	641	628,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES *(Continued)*

Group *(Continued)*

	Share premium HK$'000 (note ii)	Merger reserve HK$'000 (note i)	Equity component of convertible notes HK$'000	Statutory reserve HK$'000 (note iii)	Share option reserve HK$'000	Capital redemption reserve HK$'000 (note iv)	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2009	916,039	860,640	56,523	47	77,135	1,206	(11,589)	(1,272,239)	627,762	641	628,403
Profit for the year	—	—	—	—	—	—	—	1,383	1,383	83	1,466
Share-based payment expense	—	—	—	—	13,762	—	—	—	13,762	—	13,762
Issuance of shares upon open offer and share placement	331,677	—	—	—	—	—	—	—	331,677	—	331,677
Currency translation differences	—	—	—	—	—	—	58,819	—	58,819	—	58,819
Transfer to statutory reserve	—	—	—	438	—	—	—	(438)	—	—	—
Balance at 31 December 2009	1,247,716	860,640	56,523	485	90,897	1,206	47,230	(1,271,294)	1,033,403	724	1,034,127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES *(Continued)*

Company

	Share premium	Equity component of convertible note	Share option reserve	Capital redemption reserve	Retained earnings/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note ii)			*(note iv)*		
At 1 January 2008	727,752	56,523	—	—	38,082	822,357
Grant of share options	—	—	77,135	—	—	77,135
Issuance of shares upon exercise of warrants	169,290	—	—	—	—	169,290
Issuance of shares upon completion of an acquisition	22,400	—	—	—	—	22,400
Share repurchases	(3,403)	—	—	1,206	(1,206)	(3,403)
Loss for the year	—	—	—	—	(495,499)	(495,499)
At 31 December 2008	916,039	56,523	77,135	1,206	(458,623)	592,280
At 1 January 2009	916,039	56,523	77,135	1,206	(458,623)	592,280
Share-based payment expense	—	—	13,762	—	—	13,762
Issuance of shares upon open offer and share placement	331,677	—	—	—	—	331,677
Loss for the year	—	—	—	—	(28,411)	(28,411)
At 31 December 2009	1,247,716	56,523	90,897	1,206	(487,034)	909,308

27 RESERVES *(Continued)*

Company *(Continued)*

Notes:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2009 HK$'000	2008 HK$'000
Profit/(Loss) before taxation	**66,497**	(443,146)
Adjustments for:		
— Share of losses/(profits) of jointly controlled entities	**8,342**	(13,328)
— Interest income	**(9,216)**	(21,411)
— Depreciation	**2,006**	2,356
— (Gain)/Loss on disposal of property, plant and equipment	**(346)**	82
— Provision for impairment of intangible assets	**—**	173,843
— Amortization of intangible assets	**194,410**	186,235
— Share-based payments	**13,762**	77,135
— Fair value (gain)/loss on financial assets at fair value through profit or loss	**(8,176)**	9,408
— Finance costs	**31,291**	40,963
Operating profit before working capital changes	**298,570**	12,137
Changes in working capital:		
— Decrease in amounts due from a jointly controlled entity and its subsidiaries	**23,747**	8,125
— Decrease/(Increase) in trade receivables, prepayments, deposits and other receivables	**1,552**	(20,772)
— Decrease in agency fee payables, trade payables, receipt in advance, other payables and accrued liabilities	**(344,983)**	(82,883)
— Decrease in short-term investments	**19,306**	—
— Decrease in programme and film rights	**—**	1,134
— Decrease in programme and film production in progress	**—**	14,849
Cash used in operations	**(1,808)**	(67,410)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries

Details of acquisition of subsidiaries are as follows:

	2009	2008
	HK$'000	*HK$'000*
Net assets acquired:		
Intangible assets	—	374,847
Prepayments, deposits and receivables	—	30,938
Cash and cash equivalents	—	3,786
Payables and accrued liabilities	—	(387,908)
Deferred tax liabilities	—	(4,301)
Minority interests	—	(579)
	—	16,783
Goodwill	—	17,984
	—	34,767
Satisfied by:		
Issuance of new ordinary shares	—	29,400
Cash paid	—	536
Transaction costs	—	4,831
	—	34,767
Cash outflow on acquisition:		
Transaction costs	—	(4,831)
Cash paid	—	(536)
Cash and cash equivalents in subsidiaries acquired	—	3,786
	—	(1,581)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of a subsidiary

Details of disposal of a subsidiary are as follows:

	2009	2008
	HK$'000	*HK$'000*
Net assets disposed of:		
Intangible asset — goodwill	**24,813**	—
Exclusive advertising agency right	**147,606**	—
Property, plant and equipment	**246**	—
Trade receivables	**13,489**	—
Prepayments, deposits and other receivable	**5,669**	—
Cash and cash equivalents	**353**	—
Agency fee payables	**(119,240)**	—
Payables and accrued liabilities	**(50,836)**	—
	22,100	—
Loss on disposal of a subsidiary, net of provision for consideration receivable	**(13,159)**	—
Cash received upon disposal of a subsidiary	**8,941**	—
Cash and cash equivalents in a subsidiary disposed	**(353)**	—
Cash inflow on disposal of a subsidiary	**8,588**	—

(d) Significant non-cash transaction

As detailed in note 16, Qiansi and Hainan Haishi have entered into a supplemental agreement during the year, whereby the expiration date of the exclusive advertising agency right was changed to 31 December 2009. The relevant intangible asset is treated as being disposed of and the relevant agency fee payables are derecognized. Accordingly, the net book value of the relevant intangible asset of HK$380,225,000 is offset against the agency fees payables of HK$446,515,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 COMMITMENTS

At 31 December 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2009	2008
	HK$'000	*HK$'000*
Not later than one year	**6,199**	5,119
Later than one year and not later than five years	**6,636**	2,133
	12,835	7,252

30 RELATED PARTY TRANSACTIONS

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

	2009	2008
	HK$'000	*HK$'000*
Interest income on loan to a jointly controlled entity	**8,249**	19,381
Reduction of agency fee payable to Hainan Haishi	**56,787**	—
Consulting fee and advertising production fee charged by a jointly controlled entity	**(2,019)**	—
Consulting fee payable to Hainan Haishi	**—**	(28,600)

All the transactions with related parties were entered into in accordance with terms agreed by related parties.

Year-end balances due to related companies are shown in note 22.

(ii) Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's directors, is disclosed in note 14 (a) and certain of the highest paid employees is disclosed in note 14 (b).

31 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 31 March 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Anglo Alliance Co., Ltd (1)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (2)	PRC, co-operative joint venture	RMB120,000,000	100%	Investment holding and licensing of films and TV drama in the PRC
Beijing Hua Yi Qian Si Advertising Company Limited (2)	PRC, co-operative liability company	RMB5,000,000	100%	Advertising agency in the PRC
Blower Investments Limited (1)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
KAF Outdoor Media Limited	Hong Kong limited company	HK$10,000 ordinary	100%	Advertising agency in Hong Kong
Guangdong Sinofocus Media Limited	PRC, wholly-owned foreign enterprise	RMB10,000,000	100%	Advertising agency in the PRC
Asian Union New Media (Hong Kong) Limited (1)	Hong Kong, limited company	HK$2 ordinary	100%	Group treasury and administrative services in Hong Kong
Universal Appliances Limited (1)	Hong Kong, limited company	HK$499,373,000 ordinary HK$43,337,000 preference	100%	Investment holding and licensing of films in Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(1) Shares held directly by the Company.

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

Except for KAF Outdoor Media Limited, Asian Union New Media (Hong Kong) Limited and Universal Appliances Limited, the statutory financial statements of all other subsidiaries for year ended 31 December 2009 are not audited by PricewaterhouseCoopers.

FINANCIAL SUMMARY

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

	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales — continuing operations	**276,451**	179,431	187,082	304,902	34,072
Profit/(Loss) before taxation — continuing operations	**66,497**	(443,146)	(97,660)	276,522	(21,857)
Taxation — continuing operations	**(413)**	2,091	16,380	(12,065)	(330)
Minority interests — continuing operations	**(83)**	(62)	—	147	—
Profit/(Loss) from continuing operations attributable to shareholders	**66,001**	(441,117)	(81,280)	264,604	(22,187)
Loss from discontinued operation attributable to shareholders	**(64,618)**	—	—	—	—
Profit/(Loss) attributable to shareholders	**1,383**	(441,117)	(81,280)	264,604	(22,187)
Property, plant and equipment	**3,131**	7,489	8,759	7,057	622
Intangible assets	**434,938**	978,060	1,296,322	1,414,069	247,957
Interests in jointly controlled entities and its subsidiaries	**264,260**	267,639	240,532	70,259	56,130
Interests in associated companies	**—**	—	—	—	19,663
Preference dividend receivable non-current portion	**—**	—	—	—	14,896
Available-for-sale financial assets	**—**	—	—	360	360
Investment in preference shares-non-current	**—**	—	—	—	63,578
Other non-current assets	**18,468**	35,794	34,629	12,171	—
Current assets	**890,071**	912,794	421,732	339,633	129,812
Total assets	**1,610,868**	2,201,776	2,001,974	1,843,549	533,018
Current liabilities	**251,573**	919,841	406,939	290,830	29,100
Long-term liabilities	**47,875**	466,556	619,117	812,774	77,070
Total liabilities	**299,448**	1,386,397	1,026,056	1,103,604	106,170
Net assets	**1,311,420**	815,379	975,918	739,945	426,848