DVN (Holdings) Limited
天地數碼（控股）有限公司

Annual Report 2011

Stock Code: 00500

Contents

Corporate Information

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr Chan Kam Kwan, Jason

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Baker & McKenzie
Michael Li & Co.

Principal Bankers

Bank of Communications Co., Limited
Construction Bank of China
Hang Seng Bank Limited
Industrial and Commercial Bank of China

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Rooms 1304-05
China Resources Building
26 Harbour Road
Wan Chai
Hong Kong

Share Registrars and Transfer Office

Principal Registrars

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

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

Investor Relations

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Financial Highlights

	For the year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Revenue		
– Digital broadcasting business	**514,232**	757,396
– Advertising agency business	**22,901**	–
– Financial market information business	**30,591**	30,314
	567,724	787,710
Gross profit	**202,913**	165,847
Profit/(loss) for the year	**(117,845)**	41,736
Basic earnings/(loss) per share	**(10.33) cents**	3.66 cents
Dividends per share	**–**	3.00 cents

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Total assets	**1,562,288**	1,697,506
Shareholders' funds	**1,011,535**	1,102,763
Net asset value per share (excluding non-controlling interests)	**HK$0.89**	HK$0.97
Total cash balance	**413,641**	465,849
Number of staff	**554**	484
Current ratio	**3.06**	2.96
Total liabilities-to-total assets ratio	**0.28**	0.28
Price to book ratio	**0.30**	0.54

Summary of Major Events

January 2011	•	The Group was named as one of the "Top Ten National Transmission Brands" (十大民族傳輸品牌) and Dr Lui Pan ("Dr Lui") was elected as one of the "Ten Most Outstanding Executives" (十大傑出人物) for 2010.
February 2011	•	The Group, Dr Lui and the Group's self-developed time shift viewing system "Any View" (「隨心看」) and the Interactive Conditional Access System (ICAS) were awarded as Outstanding Science & Technology Innovative Enterprise (科技創新優秀企業), Outstanding Science & Technology Innovative Entrepreneur (科技創新優秀企業家), and Science & Technology Innovative Product (科技創新產品) respectively by China Radio & TV Equipment Industrial Association (中國廣播電視設備工業協會).
March 2011	•	The Group and the Group's time shift viewing system "Any View" (「隨心看」) were awarded as Most Influential Digital TV Solution Provider (數字電視最具影響力解決方案供應商) and Most Outstanding Digital TV Solution (數字電視最優解決方案) respectively by China Electronics News (中國電子報).
April 2011	•	The Group acquired 25% equity interest in 上海博游網絡科技有限公司 which is engaged in the development and provision of online game.
May 2011	•	The Group won the bid of 廣東省廣播電視網絡股份有限公司 for the provision of the Group's Interactive Conditional Access System (ICAS).
June 2011	•	The Group completed the acquisition of 100% equity interest in Sinofocus Media (Holdings) Limited which through its subsidiaries provides advertising agency services in the PRC.
August 2011	•	The Group won the bid of Shanghai Oriental Cable Networks Co., Ltd (上海東方有線網絡技術服務有限公司) for the provision of the Group's two-way network products.
	•	The Group won the bid of 遼寧省北方聯合廣播電視網絡股份有限公司 for the provision of the Group's Interactive Conditional Access System (ICAS).
September 2011	•	The Group acquired 20% equity interest in Chinese Online Corporation Limited which through its subsidiary provides online Chinese language learning services.
October 2011	•	The Group completed the application support system and the application development project of Shanghai Digital TV Public Service Platform (上海市數字電視公共服務平台).
December 2011	•	In 2011, the Group newly registered 5 technology patents and 1 appearance patent in relation to its digital broadcasting business in the PRC.

Management Discussion and Analysis

Review of Overall Results

Overall Performance

	Year ended 31 December 2011			Year ended 31 December 2010		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Revenue	**567,724**	**–**	**567,724**	654,953	132,757	787,710
Cost of sales	**(364,811)**	**–**	**(364,811)**	(507,584)	(114,279)	(621,863)
Gross profit	**202,913**	**–**	**202,913**	147,369	18,478	165,847
Other income	**54,859**	**–**	**54,859**	36,729	170,512	207,241
Marketing, selling and distribution costs	**(67,393)**	**–**	**(67,393)**	(51,969)	(16,322)	(68,291)
Administrative expenses	**(152,184)**	**–**	**(152,184)**	(111,341)	(18,841)	(130,182)
Other operating expenses	**(78,385)**	**(60,081)**	**(138,466)**	(19,848)	(76,664)	(96,512)
Operating profit/(loss)	**(40,190)**	**(60,081)**	**(100,271)**	940	77,163	78,103
Finance costs	**(11)**	**–**	**(11)**	–	–	–
Share of loss of jointly controlled entities	**(20,642)**	**–**	**(20,642)**	(862)	–	(862)
Share of loss of associates	**(9,294)**	**–**	**(9,294)**	(636)	–	(636)
Profit/(loss) before income tax	**(70,137)**	**(60,081)**	**(130,218)**	(558)	77,163	76,605
Income tax credit/(expenses)	**(2,647)**	**15,020**	**12,373**	(1,937)	(32,932)	(34,869)
Profit/(loss) for the year	**(72,784)**	**(45,061)**	**(117,845)**	(2,495)	44,231	41,736

Revenue

	2011 HK$'000	2010 HK$'000
Digital broadcasting business	**514,232**	757,396
Advertising agency business	**22,901**	–
Financial market information business	**30,591**	30,314
	567,724	787,710

Management Discussion and Analysis *(Continued)*

The Group recorded a consolidated revenue of HK$567,724,000 in 2011, representing a decrease of 28% when compared to last year (2010: HK$787,710,000). The decrease was attributable mainly to the decrease in the revenue of digital broadcasting business as a result of the disposal of the Group's set top box ("STB") business in May 2010 and the gradual completion of the backlog shipment of STB subsequent to the disposal, even though the revenue of sales of smart cards recorded a growth of 20% in 2011.

The revenue of advertising agency business represents the revenue of the new advertising agency business since the acquisition of Sinofocus Media (Holdings) Limited ("Sinofocus") in June 2011.

Gross Profit and Gross Profit Margin

The Group recorded gross profit of HK$202,913,000 in 2011, representing an increase of 22% when compared to last year (2010: HK$165,847,000). Overall gross profit margin increased from 21% in 2010 to 36% in 2011 as more sales of higher margin products, such as sales of smart cards and software, and advertising agency services, were recorded in 2011.

Other Income

The substantial decrease in other income in 2011 when compared to last year was attributable mainly to the non-recurring gain on disposal of STB business of HK$171,469,000 in 2010.

The acquisition of Sinofocus in June 2011 led to a gain on bargain purchase of HK$12,967,000 which was reflected as other income for the current year.

Marketing, Selling and Distribution Costs/Administrative Expenses

The Group recorded an increase of 11% in the marketing, selling and distribution costs and administrative expenses for the current year when compared to last year. Although the disposal of the STB business led to a drop in operating costs, the decrease was offset by the operating costs of the new businesses (such as the advertising agency business) acquired in the current year and the effect of the appreciation of Renminbi ("RMB") against Hong Kong dollars ("HKD") and inflation.

Other Operating Expenses

	2011	2010
	HK$'000	HK$'000
Change in value of available-for-sale financial assets	**60,081**	–
Provision for impairment of trade receivables and other receivables	**57,587**	35,136
Write-off of trade receivables	**–**	33,017
Provision for inventories	**858**	10,706
Amortisation of deferred development costs	**14,253**	16,435
Write-off of deferred development costs	**2,428**	809
Net loss on disposal of associates	**2,080**	–
Others	**1,179**	409
	138,466	96,512

As disclosed in the Company's circular dated 27 November 2009 for the disposal of the STB business, the Group is entitled to the receipt of the periodic adjustment payments which are calculated at RMB12.2895 (equivalent to approximately HK$15.16) for each STB sold directly or indirectly in the PRC by the acquirer during the 36 month period following the completion of the disposal on 5 May 2010 up to a maximum of 5 million units of STB per each 12 month period. Last year, the fair value of the expected periodic adjustment payments of HK$140,318,000, which was determined by using discounted cash flow analysis and the sales quantity of STB estimated by the management, was booked as part of the gain on disposal of STB business. At 31 December 2011, the expected sales quantity of STB applied in the discounted cash flow analysis had been adjusted downwards by the management in view of the latest actual sales quantity of STB available to the management and the estimated sales trend of STB in the coming years, thus resulted in a change in value of available-for-sale financial assets of HK$60,081,000 for the current year.

Provision for impairment of trade receivables and other receivables amounting to HK$57,587,000 was made for the current year, out of which HK$40,064,000 was related to the receivables of the discontinued STB business.

Share of Loss of Jointly Controlled Entities

The substantial increase in the share of loss of jointly controlled entities in 2011 when compared to 2010 was attributable mainly to the provision for impairment of intangible assets made by a jointly controlled entity during the current year.

Share of Loss of Associates

The substantial increase in the share of loss of associates in 2011 when compared to 2010 was attributable mainly to the provision for impairment of intangible assets made by an associate and the losses incurred by the new associates acquired during the current year.

Management Discussion and Analysis *(Continued)*

Income Tax Credit/(Expenses)

The income tax credit in 2011 was attributable mainly to the adjustment of deferred income tax of HK$15,020,000 in relation to the change in value of available-for-sale financial assets.

Review of Operating Segments

Digital Broadcasting Business

In 2011, digitisation activities in China's cable TV market turned very robust after taking a brief pause in 2010. A significant portion of the market activities constituted of digitisation at small cable operators from counties and fourth tier cities. In light of this market backdrop, the Group's non-STB digital broadcasting business shipment reported a growth for the year ended 31 December 2011. Notably, smart card shipment in terms of quantity increased by 37% in 2011 if compared to 2010. The Group's internal rationalisation efforts of its sales operation also played a key role in delivering this growth. Since 2009, the Group has begun to devote more marketing resources to the smaller cable operator market and to adjust its sales organisation setup to suit for this more fragmented market segment. Sales volume of smart cards to small cable operators in counties and fourth tier cities grew from almost non-existent in 2009 to more than 50% of the total smart card shipment in 2011.

With STB backlog orders winding down since the disposal of the STB business unit in May 2010, the Group's STB shipment for the year ended 31 December 2011 was only fraction of the volume for 2010. In addition, decline in the average selling price for digital broadcasting products in the market also exerted downward pressure on the Group's revenue.

Management has implemented an accelerated trade receivables collection program in 2011, and by year end the Group has managed to collect over HK$600 million in cash and reduce year to year trade receivables related to the digital broadcasting business by more than HK$100 million. In the process, the Group has also reduced its after sales service burden of STB related contracts which will allow the Group to move forward with a lighter fixed operating cost structure.

Advertising Agency Business

The Group commenced a new operating segment in advertising agency in June 2011 after completing the acquisition of Sinofocus – a new member and wholly-owned subsidiary of the Group. Sinofocus, through its subsidiaries, is an advertising agency working predominantly with leading international 4A (American Association of Advertising Agencies) firms to source TV advertising time on regional TV channels in China.

In 2011, Sinofocus helped to place TV advertisements for many well-known international and Chinese brands including Yum! Brands, Microsoft, Citizen, GlaxoSmithKline, Yili, Supor, and Shanghai Auto and was successful in securing a higher volume of TV advertising air time in key consumption markets such as the North Eastern provinces and Shaanxi Province through closer cooperation with local TV stations. At the same time, there was a modest increase in the unit TV advertising list price among regional TV stations in 2011 as general improvements in the content on regional TV channels have resulted in better viewer retention. During the year, Sinofocus also showed encouraging results in its effort to boost revenue yield on existing client base through diversification into non-TV advertising channels such as outdoor media displays in public areas such as airports, golf courses, and elevators.

Financial Market Information Business

In light of depressed financial market environment in the second half of 2011, the Group's segmental revenue from its financial market information business for 2011 stayed almost flat from that of 2010. At the same time, the 2011 segmental operating profit dropped to HK$1,014,000 from HK$4,053,000 in 2010 due to the increase in operating expenses.

Investment Activities

During the year, the Group continued in its effort to increase the composition of recurring revenue type businesses and has made two investments respectively in TV advertising agency services and media content. The acquisition of Sinofocus represents an opportunity for the Group to venture into TV advertising business. Over 80% of TV broadcasting industry's total revenue today is contributed by advertising. Education products and services occupy a very unique position in the media content business, and the investment in Chinese Online Corporation Limited allows the Group to gain exposure in this business.

Prospects

Digital Broadcasting Business

Management is of the view that market condition for cable TV digitisation products and services in China will continue into 2012 and the persistent demand from cable TV operators will likely support a similar level of shipment for the Group in 2012. On top of this, management also anticipates Henan Provincial Cable TV Corp. will eventually start its digitisation plan in 2012 which may be a key growth factor for the Group's digital broadcasting business. A key component of the Group's supply arrangement with Henan Provincial Cable TV Corp. is the provision of all reception terminal software, which in turn represents a meaningful platform for the Group in the deployment of some of its advance application products/systems. Moving forward, the Group intends to work closely with its substantial shareholder, CITIC Group Corporation ("CITIC"), in order to tap into its substantial market resources in the development of new application products designed to assist cable TV operators to meet competition and challenges from new media.

Management Discussion and Analysis *(Continued)*

Advertising Agency Business

The State Administration for Radio, Films and Television has recently issued two restrictive directives which became effective on 1 January 2012. The TV commercial restrictive directive, which bans TV stations from airing commercials during TV dramas, will likely lead to higher cost for commercial time slots. The TV show restrictive directive places a cap on the number of "entertainment shows" TV stations would be allowed to air during the prime time period from 7:30 pm to 10:00 pm, covering programs such as matchmaking shows, talent contest shows, talk shows, reality TV shows, etc. This will be very disruptive as substantial amount of the commercials already placed might need to be either cancelled or replaced. Management also foresees that traditional TV, while continuing to be the dominant advertising media in China, might see its market share fall in 2012 due to the rapid growth and developments of the various types of new media.

In view of these market developments, Sinofocus has begun to formulate the development of a new business model with the following four key components that will combine both traditional and new media spaces to maximise the extensive media business experience and contacts of the management team:

Brand development
Sinofocus has recently formed a new joint venture, Midas Media Limited, in China with leading international 4A firm GroupM, and hopes to build the new joint venture into a strong full service advertising agency by leveraging GroupM's tremendous advertising placement capability in China.

Cross media advertising placement platform
Sinofocus intends to progressively build up an in-house cross media advertising placement platform through acquisitions.

Value enhancing technology and services for advertising businesses
Using interactive digital TV based subscriber viewing pattern tracking and statistical behavioural analysis technologies, and with reliance on CITIC's nationwide cable network footprint, Sinofocus hopes to initially develop target advertising capabilities for TV and then later expand to other media platforms.

Content based advertising platform
Sinofocus plans to develop revenue from product placement promotions through investment in blog videos and micro-films.

Employees

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

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. No share options were granted to any eligible directors or employees by the Company during the year ended 31 December 2011 (2010: Nil).

The total number of employees of the Group as at 31 December 2011 was 554 (2010: 484). The increase in the total number of employees was mainly resulted from the acquisition of new group companies, such as Sinofocus and 雷科通技術（杭州）有限公司 ("Laketune (HZ)"), during the current year.

Financial Review

Liquidity and Financial Resources

At 31 December 2011, the Group recorded total assets of HK$1,562,288,000 (2010: HK$1,697,506,000) which were financed by liabilities of HK$432,812,000 (2010: HK$476,985,000), non-controlling interests of HK$117,941,000 (2010: HK$117,758,000) and shareholders' equity of HK$1,011,535,000 (2010: HK$1,102,763,000). The Group's net asset value per share (excluding non-controlling interests) as at 31 December 2011 amounted to HK$0.89 (2010: HK$0.97).

The Group had a total cash and bank balance of HK$413,641,000 (2010: HK$465,849,000) without any bank borrowings (2010: Nil) as at 31 December 2011. The decline in the cash and bank balance was resulted mainly from the acquisition of the new advertising agency and other businesses and the settlement of trade payables during the current year.

As the Group only had a residual level of backlog shipment of STB in 2011, less STB was purchased during the current year and it resulted in the significant decrease in the balance of trade payables as at 31 December 2011 as compared to that as at 31 December 2010.

Treasury Policies

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Management Discussion and Analysis *(Continued)*

Material Acquisitions and Disposals of Subsidiaries and Associates

In April 2011, the Group invested RMB9,000,000 (equivalent to approximately HK$10,717,000) for a 25% equity interest in an associate, 上海博游網絡科技有限公司 and a maximum contingent consideration of RMB13,430,000 (equivalent to approximately HK$16,566,000) for the ultimate shareholding of up to 35%.

On 17 June 2011, the Group completed the acquisition of 100% equity interest in Sinofocus and the assignment of the related shareholder's loan at a consideration of HK$82,000,000. Details of the acquisition are set out in the announcement of the Company dated 19 May 2011.

On 28 September 2011, the Group invested US$6,000,000 (equivalent to approximately HK$46,593,000) for a 20% equity interest in Chinese Online Corporation Limited ("COL"), which wholly owns 天地華文(北京)科技有限公司 ("天地華文"). After the investment, both COL and 天地華文 become associates of the Group. Details of the investment are set out in the announcement of the Company dated 6 September 2011.

On 29 September 2011, the Group completed the acquisition of an additional 49% equity interest in a 51% owned subsidiary, Laketune (BVI), Inc. ("Laketune (BVI)"), which wholly owns Laketune (HZ), at a total consideration of RMB10,455,000 (equivalent to approximately HK$12,822,000). After the acquisition, both Laketune (BVI) and Laketune (HZ) become wholly-owned subsidiaries of the Group.

Save as mentioned above, the Group did not have any material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2011.

Charges on Assets

The Group did not have any assets pledged to third parties as at 31 December 2011.

Future Plans for Material Investments or Capital Assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2011.

Capital Expenditure Commitments

The Group did not have any material capital expenditure commitments as at 31 December 2011.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2011.

Corporate Governance Report

Introduction

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability, transparency and protection of shareholders' interest in general. The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own corporate governance code, subject to amendments from time to time.

Compliance with the Code

In the opinion of the directors, the Company has complied with the Code throughout the year ended 31 December 2011.

Board of Directors

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

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

Corporate Governance Report *(Continued)*

The Board held 6 board meetings during the year ended 31 December 2011. The attendance of the directors at the board meetings is as follows:

Director	Attended/Eligible to attend
Mr Ko Chun Shun, Johnson	6/6
Dr Lui Pan	6/6
Mr Luo Ning	6/6
Mr Jin Wei	6/6
Mr Xu Qiang	6/6
Mr Hu Qinggang	6/6
Mr Chu Hon Pong	6/6
Mr Liu Tsun Kie	6/6
Mr Yap Fat Suan, Henry	6/6

Board minutes are kept by the Company Secretary of the Company and are sent to the directors for endorsement.

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

Each of the independent non-executive directors is appointed for a specific term and is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws and the Listing Rules.

Remuneration Committee

At 31 December 2011, the Remuneration Committee comprised three independent non-executive directors, namely Mr Liu Tsun Kie (Chairman), Mr Chu Hon Pong and Mr Yap Fat Suan, Henry. The primary responsibilities of the Remuneration Committee include, among other things, determining the remuneration packages of all executive directors of the Company and ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2011, the Remuneration Committee held 1 meeting to discuss the remuneration packages of the executive directors of the Company. The attendance of the members of the Remuneration Committee at the meeting is as follows:

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

On 16 March 2012, Mr Liu Tsun Kie resigned as the chairman of the Remuneration Committee but remains as a member of the Remuneration Committee. On the same date, Mr Chu Hon Pong, a member of the Remuneration Committee, was appointed as the chairman of the Remuneration Committee and Mr Ko Chun Shun, Johnson was appointed as a member of the Remuneration Committee.

Audit Committee

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

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

The Audit Committee held 2 meetings during the year ended 31 December 2011. At these meetings, the Audit Committee, among other matters, reviewed reports from the independent auditor regarding the review on interim results, audit on annual consolidated financial statements and review on non-exempt continuing connected transactions, discussed the internal control of the Group, and met with the independent auditor. The attendance of each member of the Audit Committee at the meetings is as follows:

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

Nomination Committee

The Company did not have a Nomination Committee during the year ended 31 December 2011. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders of the Company to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws. No meeting was held by the Board for the nomination of director during the year ended 31 December 2011.

Corporate Governance Report *(Continued)*

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

Subsequent to the year ended 31 December 2011, the Nomination Committee of the Company was established on 16 March 2012 comprising 4 members. The Nomination Committee is chaired by Mr Ko Chun Shun, Johnson with Mr Liu Tsun Kie, Mr Chu Hon Pong and Mr Yap Fat Suan, Henry being the other members. The Nomination Committee shall meet for, inter alia, making recommendations to the Board on the appointment or re-appointment of directors of the Company. The terms of reference of the Nomination Committee are in line with the Code.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") to regulate the directors' securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions throughout the year ended 31 December 2011.

Auditor's Remuneration

The Company engaged PricewaterhouseCoopers as its statutory auditors for the year ended 31 December 2011. The remuneration in respect of services provided by PricewaterhouseCoopers to the Group in 2011 is summarised as follows:

	HK$'000
Auditing services	2,550
Non-auditing services	950
	3,500

Internal Controls

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

The Board also reviews at least annually the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

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

Investor Relations and Shareholders' Right

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

Shareholders are encouraged to attend the annual general meeting for which notice of at least 20 clear business days is given. The Chairman and other directors are available to answer questions on the Group's business at the meeting. Subject to the Bye-laws of the Company, all shareholders have statutory rights to call for general meetings and put forward agenda items for consideration at the general meetings.

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

Biographical Details of Directors and Senior Management

Executive Directors

Mr Ko Chun Shun, Johnson, aged 60, has been the Chairman of the Group since 1998. He is also the chairman of Varitronix International Limited and ReOrient Group Limited (formerly known as Asia TeleMedia Limited) and the vice-chairman of China WindPower Group Limited, which are listed on the Main Board of The Hong Kong Stock Exchange Limited (the "Stock Exchange"). He has extensive experience in direct investment, merger and acquisition, TMT (Telecommunications, Media and Technology), advertising, electronic manufacturing service, financial service and property investment.

Dr Lui Pan, aged 57, joined the Group in 1999. He is the Chief Executive Officer of the Company and is a director of various subsidiaries of the Company. He is one of the founders of the digital broadcasting business of the Group. He is also an independent non-executive director, an audit committee member and a remuneration committee member of China Fiber Optic Network System Group Limited, which is listed on the Main Board of the Stock Exchange. Dr Lui has spent near 30 years working in high technology sector and the information technology industry. He is very experienced in developing new technologies and formulating business and market strategies. Dr Lui is well recognised and over the years has been named "Top Executive", "Innovative Individual", "Most Influential Figure" and "Most Powerful Executive" in China broadcasting industry. He has also received numerous technology awards including the Best Design of Consumer Product Award from the Hong Kong government in 1998 and technology innovation award from the Chinese government in 2007. He is a member of the Sub-Committee of the China Digital Television Standards Committee and plays a key role in the development of China's digital television standard. Dr Lui holds a master degree in Electrical and Electronics Engineering from the Zhejiang University in the People's Republic of China ("PRC"), a master degree in Business Administration from the Chinese University of Hong Kong, and a Degree of Doctor of Philosophy from the Hong Kong Polytechnic University.

Mr Luo Ning, aged 53, has been an executive director of the Company since October 2006. He is currently a director of CITIC Group Corporation, which is a substantial shareholder of the Company, a vice-chairman of CITIC Guoan Group and the chairman of CITIC Networks Co., Ltd. He is also a director of CITIC Guoan Information Industry Company Limited, a public company listed on the Shenzhen Stock Exchange in the PRC. He is also an executive director of CITIC 21CN Company Limited and a non-executive director of Asia Satellite Telecommunications Holdings Limited, which are listed on the Main Board of the Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group Corporation. Mr Luo has extensive experience in telecommunication business and holds a bachelor degree in Communication Speciality from The Wuhan People's Liberation Army Institute of Communication Command in the PRC.

Mr Jin Wei, aged 50, has been an executive director of the Company since October 2006. He has extensive experience in the communication field. He is currently an assistant to the general manager of CITIC Networks Co., Ltd., a group company of CITIC Group Corporation which is a substantial shareholder of the Company. Mr Jin holds a bachelor degree in Communication from the Beijing Institute of Posts and Telecommunications and a master degree in Automation from the Beijing University of Science and Technology in the PRC.

Mr Xu Qiang, aged 49, has been the Chief Operating Officer of the Company since October 2006 and an executive director of the Company since 2009. He is also a director of certain subsidiaries of the Company. He has extensive experience in the telecommunication field. He is an assistant to the general manager of CITIC Networks Co., Ltd. He also worked in the Qingdao branch of China Unicom Limited and Qingdao Posts and Telecommunications Bureau. Mr Xu holds a bachelor degree in Engineering from the Beijing Institute of Posts and Telecommunications in the PRC.

Mr Hu Qinggang, aged 37, has been the Chief Financial Officer of the Company since October 2006 and is also a director of various subsidiaries of the Company. He has extensive experience in the finance field and has worked in the Finance Department of CITIC Group Corporation, a substantial shareholder of the Company, as the Deputy Director of the Finance and Planning Division. Mr Hu holds a bachelor degree in Economics from the Beijing University of Technology and a master degree in Economics from the University of International Business and Economics in the PRC.

Independent Non-executive Directors

Mr Chu Hon Pong, aged 62, has been an independent non-executive director of the Company since 2000. He is also a committee member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee of the Company. He holds a master degree in Business Administration from Stevens Institute of Technology in New Jersey, the United States of America. He has extensive experience in direct investment, international trade, manufacturing, business and industrial management in the PRC, Vietnam and the United States of America. He is also the chairman of ZMAY Holdings Limited, which is listed on the Growth Enterprise Market Board of the Stock Exchange.

Mr Liu Tsun Kie, aged 61, has been an independent non-executive director of the Company since 2000. He is also the chairman of the Audit Committee, and a committee member of the Remuneration Committee and the Nomination Committee of the Company. He holds a master degree in Business Administration in International Finance from the Graduate School of Keio University, Tokyo in Japan. He has extensive experience in electronic engineering, telecommunication, corporate finance and general administration. He was appointed to sit on the Singapore Broadcasting Authority Board by the Minister of Information and Arts of Singapore in 2000.

Mr Yap Fat Suan, Henry, aged 66, has been an independent non-executive director of the Company since 2004. He is also a committee member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. He holds a master degree in Business Administration from the University of Strathclyde, Glasgow, in the United Kingdom. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in finance and accounting. He retired as the managing director of Johnson Matthey Hong Kong Limited in June 2007 and prior to that appointment he was the general manager of Sun Hung Kai China Development Limited. He is also an independent non-executive director of China WindPower Group Limited, which is listed on the Main Board of the Stock Exchange.

Biographical Details of Directors and Senior Management *(Continued)*

Senior Management

Mr Huang Mingguo, aged 40, is the Chief Executive Officer of the Group's advertising agency business and also a director of certain subsidiaries of the Company. He holds a bachelor degree in Chemistry from the Peking University in the PRC. Mr Huang worked as a project manager of the marketing research department of Procter & Gamble, China from 1995 to 1996. He founded and operated various companies engaged in advertising and media, market research, capital management and investment in the PRC. Prior to joining the Group in June 2011, he was a Senior Vice-President of Media China Corporation Limited, which is listed on the Main Board of the Stock Exchange.

Report of the Directors

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Group were changed to include the provision of advertising agency services during the year. Details of the principal activities of the principal subsidiaries are set out in Note 18 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 30.

The Board does not recommend any final dividend (2010: HK$0.02 per ordinary share) for the year.

Five Year Financial Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 116 of the Annual Report. This summary does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the consolidated financial statements.

Share Capital

Details of the movement in the share capital of the Company during the year are set out in Note 30 to the consolidated financial statements.

Share Options

Details of the movements in the share options of the Company during the year are set out in Note 31 to the consolidated financial statements.

Report of the Directors *(Continued)*

Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 32 to the consolidated financial statements.

Distributable Reserves

The Company's distributable reserves, consisting of contributed surplus and retained earnings, as at 31 December 2011 amounted to approximately HK$819,383,000 (2010: HK$854,964,000).

Donations

During the year, there was no charitable donation made by the Group (2010: HK$100,000).

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Directors

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

Executive Directors

Mr Ko Chun Shun, Johnson
Dr Lui Pan
Mr Luo Ning
Mr Jin Wei
Mr Xu Qiang
Mr Hu Qinggang

Independent Non-Executive Directors

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

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

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Biographical Details of Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 20 of the Annual Report.

Report of the Directors *(Continued)*

Directors' Interests and Short Positions in Shares and Underlying Shares of the Company or any Associated Corporations

At 31 December 2011, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Ordinary shares of HK$0.10 each in the Company

		Number of ordinary shares held				
Name of director	Note	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**% of the issued share capital of the Company**
Mr Ko Chun Shun, Johnson ("Mr Ko")	(i)	–	2,040,816	223,776,719	225,817,535	19.82%
Dr Lui Pan ("Dr Lui")	(ii)	2,698,000	3,200,000	–	5,898,000	0.52%
Mr Chu Hon Pong		450,000	–	–	450,000	0.04%

Notes:

(i) Mr Ko was deemed to be interested in the 48,276,719 ordinary shares and 175,500,000 ordinary shares of the Company held by First Gain International Limited and Rich Hill Capital Limited respectively under the SFO by virtue of his interests in these two companies. 2,040,816 ordinary shares of the Company are held by the spouse of Mr Ko.

(ii) 3,200,000 ordinary shares of the Company are held by the spouse of Dr Lui.

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

None of the directors had any interests in the share options of the Company as at 31 December 2011.

Save as mentioned above, at 31 December 2011, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares

At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

At 31 December 2011, other than the interests and short positions of the directors or chief executive of the Company as disclosed in the section titled "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares of the Company

		Number of ordinary shares held					
Name	Note	**Direct beneficially owned**	**Through family interests**	**Through controlled corporations**	**Security interests**	**Total**	**% of the issued share capital of the Company**
Easy Flow Investments Limited		237,592,607	–	–	–	237,592,607	20.85%
CITIC Investment (HK) Limited	(i)	–	–	237,592,607	–	237,592,607	20.85%
中國中信股份有限公司	(ii)	–	–	237,592,607	–	237,592,607	20.85%
CITIC Group Corporation	(iii)	–	–	237,592,607	–	237,592,607	20.85%
Rich Hill Capital Limited	(iv)	175,500,000	–	–	–	175,500,000	15.40%
UBS AG		–	–	–	57,770,000	57,770,000	5.07%

Notes:

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

(ii) 中國中信股份有限公司 was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in CITIC Investment (HK) Limited.

(iii) CITIC Group Corporation was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in 中國中信股份有限公司. Mr Luo Ning, an executive director of the Company, is a director of CITIC Group Corporation. Mr Hu Qinggang, an executive director of the Company, is an employee of CITIC Group Corporation.

(iv) Mr Ko was deemed to be interested in the 175,500,000 ordinary shares of the Company held by Rich Hill Capital Limited under the SFO by virtue of his interests in this company. Such shares form a part of the 225,817,535 shares interested by Mr Ko as described in Note (i) of the section titled "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above.

Save as disclosed above, at 31 December 2011, no other person (other than the directors or chief executive of the Company) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors *(Continued)*

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 48% (2010: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 32% (2010: 41%). Purchases from the Group's five largest suppliers accounted for approximately 80% (2010: 85%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 51% (2010: 61%).

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

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

Connected Transactions

Certain related party transactions as disclosed in Note 36 to the consolidated financial statements also constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules as below.

During the year, the Group sold set top boxes and related software and products, and provided systems integration and ancillary related services amounting to approximately HK$40,127,000 to certain customers in which CITIC Group Corporation or its associates (as defined under the Listing Rules) have direct or indirect interests. The independent non-executive directors of the Company have reviewed these continuing connected transactions and have confirmed that:

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

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

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

d) The annual aggregate amount of the sales has not exceeded the cap of HK$910 million for the year ended 31 December 2011 as approved by the independent shareholders of the Company at a special general meeting held on 22 January 2009.

The Board of Directors engaged the independent auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has reported their factual findings on the selected samples based on the agreed-upon procedures to the Board of Directors.

Sufficiency of Public Float

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

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ko Chun Shun, Johnson
Chairman

Hong Kong, 16 March 2012

Independent Auditor's Report

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF DVN (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of DVN (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
Revenue	6	**567,724**	654,953
Cost of sales		**(364,811)**	(507,584)
Gross profit		**202,913**	147,369
Other income		**54,859**	36,729
Marketing, selling and distribution costs		**(67,393)**	(51,969)
Administrative expenses		**(152,184)**	(111,341)
Other operating expenses		**(78,385)**	(19,848)
Operating profit/(loss)		**(40,190)**	940
Finance costs	7	**(11)**	–
Share of loss of jointly controlled entities		**(20,642)**	(862)
Share of loss of associates		**(9,294)**	(636)
Loss before income tax		**(70,137)**	(558)
Income tax expenses	8	**(2,647)**	(1,937)
Loss for the year from continuing operations		**(72,784)**	(2,495)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	9(b)	**(45,061)**	44,231
PROFIT/(LOSS) FOR THE YEAR	10	**(117,845)**	41,736
Attributable to:			
Equity holders of the Company			
– continuing operations		**(72,660)**	(2,495)
– discontinued operations		**(45,061)**	44,231
	32	**(117,721)**	41,736
Non-controlling interests			
– continuing operations		**(124)**	–
– discontinued operations		**–**	–
		(124)	–
		(117,845)	41,736
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	13		
– continuing operations		**(6.38) cents**	(0.22) cents
– discontinued operations		**(3.95) cents**	3.88 cents
		(10.33) cents	3.66 cents
DIVIDENDS	14	**–**	34,186

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(117,845)**	41,736
Other comprehensive income		
– Currency translation differences	**49,293**	43,148
Other comprehensive income for the year, net of tax	**49,293**	43,148
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(68,552)**	84,884
Attributable to:		
Equity holders of the Company	**(68,437)**	84,884
Non-controlling interests	**(115)**	–
	(68,552)	84,884

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**19,120**	18,182
Intangible assets	17	**32,852**	37,233
Interests in jointly controlled entities	19	**23,963**	34,535
Interests in associates	20	**73,423**	25,848
Deferred income tax assets	21	**8,193**	7,892
Available-for-sale financial assets	23	**51,694**	139,429
Trade receivables	24	**102,777**	129,691
Restricted cash	25	**–**	3,542
Total non-current assets		**312,022**	396,352
CURRENT ASSETS			
Inventories	26	**63,242**	53,562
Available-for-sale financial assets	23	**10,103**	5,677
Trade receivables	24	**615,214**	678,338
Prepayments, deposits and other receivables	27	**142,939**	96,400
Tax receivables		**5,127**	4,870
Restricted cash	25	**–**	946
Short-term bank deposits	25	**–**	5,059
Cash and cash equivalents	25	**413,641**	456,302
Total current assets		**1,250,266**	1,301,154
CURRENT LIABILITIES			
Trade payables	28	**196,496**	289,155
Other payables and accruals	29	**205,405**	147,890
Tax payables		**6,721**	2,815
Total current liabilities		**408,622**	439,860
Net current assets		**841,644**	861,294
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,153,666**	1,257,646
NON-CURRENT LIABILITIES			
Deferred income tax liabilities	21	**24,190**	37,125
Net assets		**1,129,476**	1,220,521

	Note	**2011 HK$'000**	2010 HK$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	**113,953**	113,953
Reserves	32	**897,582**	988,810
		1,011,535	1,102,763
Non-controlling interests	33	**117,941**	117,758
Total equity		**1,129,476**	1,220,521

Signed on behalf of the Board on 16 March 2012 by

Ko Chun Shun, Johnson
Director

Lui Pan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to equity holders of the Company Share capital HK$'000	 Reserves HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		113,808	937,242	117,758	1,168,808
Profit for the year		–	41,736	–	41,736
Other comprehensive income					
– Currency translation differences	32	–	43,148	–	43,148
Dividends					
– 2009 special final dividend paid	14	–	(22,791)	–	(22,791)
– 2010 special interim dividend paid	14	–	(11,395)	–	(11,395)
Share option scheme					
– Proceeds from shares issued	30 & 32	145	870	–	1,015
At 31 December 2010		113,953	988,810	117,758	1,220,521
At 1 January 2011		**113,953**	**988,810**	**117,758**	**1,220,521**
Loss for the year		**–**	**(117,721)**	**(124)**	**(117,845)**
Acquisition of subsidiaries	15	**–**	**–**	**298**	**298**
Other comprehensive income					
– Currency translation differences	32	**–**	**49,284**	**9**	**49,293**
Dividends					
– 2010 final dividend paid	14	**–**	**(22,791)**	**–**	**(22,791)**
At 31 December 2011		**113,953**	**897,582**	**117,941**	**1,129,476**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	**845**	145,887
Interest paid		**(11)**	–
Tax paid		**(136)**	(5,162)
Net cash generated from operating activities		**698**	140,725
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment ("PPE")	16	**(3,361)**	(7,315)
Proceeds from disposal of PPE	34	**83**	742
Acquisition of subsidiaries		**(53,691)**	–
Acquisition of a jointly controlled entity	19	**(8,684)**	(34,888)
Acquisition of an associate		**(10,717)**	(578)
Net proceeds from disposal of an associate		**–**	9,091
Payment for deferred development costs	17	**(11,647)**	(17,669)
Decrease in short-term bank deposits		**5,059**	18,456
Net proceeds from disposal of STB Business	9(c)	**42,066**	70,003
Interest received		**4,546**	3,228
Net cash generated from/(used in) investing activities		**(36,346)**	41,070
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the Company		**(22,791)**	(34,186)
Decrease in pledged deposit		**–**	6,000
Repayment of bank loans		**–**	(8,034)
Proceeds from exercise of share options		**–**	1,015
Net cash used in financing activities		**(22,791)**	(35,205)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(58,439)**	146,590
Cash and cash equivalents at beginning of the year		**456,302**	304,110
Exchange differences		**15,778**	5,602
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**413,641**	456,302

Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**–**	6
Interests in subsidiaries	18	**933,755**	963,723
Interest in a jointly controlled entity	19	**–**	–
Total non-current assets		**933,755**	963,729
CURRENT ASSETS			
Trade receivables	24	**–**	341
Prepayments, deposits and other receivables	27	**507**	512
Cash and cash equivalents	25	**21,800**	28,386
Total current assets		**22,307**	29,239
CURRENT LIABILITIES			
Other payables and accruals	29	**20,123**	21,448
Total current liabilities		**20,123**	21,448
Net current assets		**2,184**	7,791
Total assets less current liabilities/Net assets		**935,939**	971,520
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	**113,953**	113,953
Reserves	32	**821,986**	857,567
Total equity		**935,939**	971,520

Signed on behalf of the Board on 16 March 2012 by

Ko Chun Shun, Johnson
Director

Lui Pan
Director

Notes to Consolidated Financial Statements

1 General Information

DVN (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the design, development, integration and sales of smart cards, conditional access systems, 2-way cable network systems, digital set top boxes, digital broadcasting systems and the related software, the provision of advertising agency services, and the provision of online financial market information.

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 16 March 2012.

2 Summary of Significant 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.

2.1 Basis of Preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of Preparation *(Continued)*

Impact of new, amended and revised HKFRSs

The following amended and revised HKFRSs are mandatory for the Group's accounting period beginning on 1 January 2011 and are relevant to the Group's operations:

HKAS 1 (Amendment)	Presentation of Financial Statements
HKFRS 3 (Revised)	Business Combinations

The impacts of the adoption of these amended and revised HKFRSs on these consolidated financial statements are as follows:

(a) HKAS 1 (Amendment) "Presentation of Financial Statements". This amendment confirms that entities may present an analysis of the components of other comprehensive income by item either in the statement of changes in equity or within the notes. The adoption of this amendment does not have any impact on the presentation of the Group's consolidated financial statements.

(b) HKFRS 3 (Revised) "Business Combinations". This amendment clarifies that only when the acquiree has present ownership instruments that entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the acquirer can choose to measure the non-controlling interest at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This revision does not have any material financial impact on the Group.

The following new, amended and revised HKFRSs are mandatory for the Group's accounting period beginning on 1 January 2011, but are not currently relevant to the Group's operations:

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
HKAS 24 (Revised)	Related Party Disclosures
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 28 (Amendment)	Investments in Associates
HKAS 31 (Amendment)	Interests in Joint Ventures
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 34 (Amendment)	Interim Financial Reporting
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs
HKFRS 7 (Amendment)	Financial Instruments: Disclosures
HKFRS 8 (Amendment)	Disclosure of Information about Major Customers
HK(IFRIC) – Int 13 (Amendment)	Customer Loyalty Programmes
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

2 Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of Preparation *(Continued)*

Impact of new, amended and revised HKFRSs *(Continued)*

The following new, amended and revised HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2011 and have not been early adopted:

HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKFRS 1 (Amendment)	Severe Hyperinflation of Removal of Fixed Dates for First-time Adopters
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 7 (Revised)	Financial Instruments: Disclosures
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

2.2 Consolidation

The consolidated financial statements made up to 31 December include the financial statements of the Company and all its subsidiaries and also incorporate the Group's interests in jointly controlled entities and associates on the basis set out in Note 2.2(b) below.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries

Subsidiaries are all 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 Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment losses (Note 2.7). Cost includes direct attributable cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Associates and jointly controlled entities ("JCEs")

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. JCE is a joint venture that involves the establishment of a cooperation, for which there is a contractual arrangement between the venturers establishing joint control over the economic activity of the entity. Investments in associates and JCEs are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates and JCEs include goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.7).

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

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associates and jointly controlled entities ("JCEs") *(Continued)*

The Group determines at each financial position date whether there is any objective evidence that the investment in the associate or JCE is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or JCE and its carrying value and recognises the amount in the consolidated income statement.

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

The contingent consideration arising from the acquisition of associate or JCE is measured at fair value using the discounted cash flow analysis method.

In fair value approach, all contingent considerations are recognised and measured at fair value at the acquisition date. The contingent consideration is classified either as a liability or as equity. Contingent consideration that is classified as an equity instrument is not re-measured. Contingent consideration that is classified as liability is accounted for as per Note 2.10. Any change in the contingent consideration is then accounted for in profit or loss.

In the Company's statement of financial position, the investment in JCEs is accounted for at cost less provision for impairment losses (Note 2.7). The results of JCEs are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Group. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2 Summary of Significant Accounting Policies *(Continued)*

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HKD and the functional currency of the Company is Renminbi ("RMB"). As the Company is listed on the Main Board of the Stock Exchange, the directors consider that it is more appropriate to adopt HKD as the Group's and the Company's presentation currency.

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the financial position date;

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

(iii) all resulting exchange differences are recognised as other comprehensive income.

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

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. Exchange differences arising from the translation are recognised in equity.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.5 Property, Plant and Equipment

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

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

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

Leasehold improvements	Over the shorter of the term of the lease and the estimated useful life
Furniture and fixtures	18% to 32%
Office equipment	18% to 48%
Network equipment and tooling	10% to 33.3%
Motor vehicles	18% to 33.3%

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

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

2.6 Research and Development Costs

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

2 Summary of Significant Accounting Policies *(Continued)*

2.7 Impairment of Non-Financial Assets

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

2.8 Financial Assets

(a) 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 categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

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 those with maturities greater than twelve months after the financial position date classified as non-current assets. The Group's loans and receivables comprise trade receivables, deposits and other receivables, and cash and bank balances in the consolidated statement of financial position.

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of other categories. They are included in non-current assets unless the financial asset matures or management intends to dispose of it within twelve months after the financial position date.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.8 Financial Assets *(Continued)*

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised 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 recognised at fair value, and transactions costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all 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 subsequently carried at amortised cost using the effective interest method.

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

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired or have been legally transferred and the Group has transferred substantially all the risks and rewards of the financial asset.

2.9 Impairment of Financial Assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Impairment of Financial Assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

(i) Significant financial difficulty of the issuer or obligor;

(ii) A breach of contract, such as default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties; or

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio;

- national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade and other receivables is described in Note 2.12.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Impairment of Financial Assets *(Continued)*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria set out in Note 2.9(a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 recognised in profit or loss, is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are only reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated Income statement.

2.10 Financial Liabilities

(a) Classification

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. The Group's financial liabilities include trade payables, other payables and accruals, and other financial liabilities.

(b) Recognition and measurement

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value, in the case of a financial liability not as fair value through profit or loss, less transaction costs that are directly attributable to the issue of the financial liability.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the profit or loss.

2 Summary of Significant Accounting Policies *(Continued)*

2.11 Inventories

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

2.12 Trade and Other Receivables

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

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

2.13 Cash and Cash Equivalents

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

2.14 Share Capital

Ordinary shares are classified as equity.

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

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.15 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Government Grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Government grants relating to the depreciable assets are included in liabilities as deferred income and are released to the consolidated income statement on a straight-line basis over the useful lives of the related assets. Government grants relating to expense items are deferred and recognised in the same period as those expenses are charged to the consolidated income statement and are deducted in reporting the related expenses.

2.17 Current and Deferred Income Tax

The tax expense for the period 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 financial position date in the countries where the Group's subsidiaries, JCEs and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2 Summary of Significant Accounting Policies *(Continued)*

2.17 Current and Deferred Income Tax *(Continued)*

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

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.

2.18 Employee Benefits

(a) Pension obligations

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

(b) Share-based compensation

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

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.18 Employee Benefits *(Continued)*

(b) Share-based compensation *(Continued)*

The Group recognises the effects of modifications that increase the total fair value of the share-based compensation arrangement or are otherwise beneficial to the employees. The Group shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

If the Group cancels or settles a grant of equity instruments during the vesting period, the Group should treat this as an acceleration of vesting and recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

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 the Company's equity.

(c) Employee leave entitlement and long service payment

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

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

(d) Bonus plans

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

2 Summary of Significant Accounting Policies *(Continued)*

2.19 Provisions and Contingent Liabilities

(a) Provisions

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

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

Provisions are measured at the present value of the pre-tax 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 recognised as interest expense.

(b) Contingent liabilities

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

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

2.20 Revenue Recognition

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

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

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.20 Revenue Recognition *(Continued)*

(a) Sales of goods

The Group is engaged in the sales of digital broadcasting equipment. Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to and goods are accepted by the customers and collectibility of the related receivables is reasonably assured.

For the instalment sales of digital broadcasting equipment, the sales price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as other income as it is earned, using the effective interest method.

(b) Design, integration and installation of digital broadcasting systems

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

(c) Systems integration contracts

Contract revenue comprises the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed overheads.

Revenue from fixed price systems integration contracts and the related contract costs are recognised on the percentage of completion method, measured by reference to the proportion of work completed to date to the estimated total work of the relevant contracts.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(d) Advertising agency fee income

Advertising agency fee income is recognised when services are rendered and revenue can be reliably measured.

(e) Rendering of services

Service fee income for the provision of online financial market information is recognised on a straight-line basis over the period of the service contract.

2 Summary of Significant Accounting Policies *(Continued)*

2.20 Revenue Recognition *(Continued)*

(f) Licensing income

Licensing income is recognised when the significant risks and rewards of ownership have been transferred to and the licences are granted to the licensees.

(g) Leasing income

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

(h) Interest income

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

2.21 Operating Leases

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

2.22 Dividend Distribution

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

2.23 Discontinued Operations

Disposed assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Notes to Consolidated Financial Statements *(Continued)*

2 Summary of Significant Accounting Policies *(Continued)*

2.23 Discontinued Operations *(Continued)*

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

2.24 Related Parties

A person or entity is considered to be related to the Group if:

(a) a person or a close member of that person's family (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group;

(b) the entity and the Group are members of the same group, which means that each parent, subsidiary and fellow subsidiary is related to the others;

(c) one entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member;

(d) both entities are joint ventures of the same third party;

(e) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(f) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(g) the entity is controlled or jointly controlled by a person identified in (a); and

(h) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

2.25 Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values with resulting gain or loss recognised in profit or loss.

3 Financial Risk Management

3.1 Financial Risk Factors

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

At 31 December 2011, the Group's financial instruments mainly consisted of trade receivables, deposits and other receivables, available-for-sale financial assets, cash and bank balances, trade payables and other payables.

(a) Market risk

i. Foreign currency risk

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

The currency risk arising on those assets and liabilities denominated in USD is insignificant as HKD is pegged to USD.

ii. Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from bank balances and deposits.

The Group's fair value interest rate risk arises primarily from available-for-sale financial assets and other payables. The Group has not used any derivative financial instruments to hedge its cash flow and fair value interest rate risk.

Notes to Consolidated Financial Statements *(Continued)*

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(a) Market risk *(Continued)*

ii. Cash flow and fair value interest rate risk (Continued)

At 31 December 2011, if interest rates had increased/decreased by 100 basis points (2010: 100 basis points) with all other variables held constant, the Group's loss after income tax and retained earnings would have had been approximately HK$4,392,000 (2010: HK$3,992,000) higher/lower and other components of equity would have been approximately HK$2,464,000 (2010: insignificant impact) higher/lower.

The sensitivity analysis above had been determined assuming that the change in interest rates had occurred at the financial position date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date, and that all other variables had remained constant. The stated increase/decrease represented management's assessment of reasonably possible changes in interest rates over the period until the next annual financial position date. The analysis was performed on the same basis for 2010.

iii. Price risk

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

(b) Credit risk

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

The Group's trade receivables are mainly receivables from the customers in the People's Republic of China ("PRC") arising from sales of goods and design, integration and installation of digital broadcasting systems. According to the industry practice and past payment patterns, the settlements of such trade receivable balances are slow. In order to minimise the credit risk, management will assess the credit quality of the customer taking into account its financial position, past experience and other factors. The Group has policies in place to review the recoverability of trade receivable balances on an ongoing basis and assess the adequacy of provision for impairment. The five highest debtor balances account for 57% (2010: 62%) of the Group's total trade receivables.

Surplus cash of the Group is generally placed in short to medium term deposits with reputable banks.

3 Financial Risk Management *(Continued)*

3.1 Financial Risk Factors *(Continued)*

(c) Liquidity risk

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

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

The financial liabilities that had contractual maturities as at the financial position date were summarised as follow:

	On demand HK$'000	Within 1 year HK$'000	Total HK$'000
Group			
At 31 December 2011			
Trade payables	**6,167**	**190,329**	**196,496**
Other payables and accruals	**–**	**126,454**	**126,454**
	6,167	**316,783**	**322,950**
At 31 December 2010			
Trade payables	5,903	283,252	289,155
Other payables and accruals	–	70,691	70,691
	5,903	353,943	359,846
Company			
At 31 December 2011			
Other payables and accruals	**–**	**16,655**	**16,655**
At 31 December 2010			
Other payables and accruals	–	15,382	15,382

Notes to Consolidated Financial Statements *(Continued)*

3 Financial Risk Management *(Continued)*

3.2 Capital Management

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

The Group reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010. The Group is not subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of a total liabilities-to-total assets ratio, which shows the proportion of the Group's assets being financed through debt. During 2011, the Group's strategy was to maintain the total liabilities-to-total assets ratio below 50% (2010: 50%). The total liabilities-to-total assets ratio at 31 December 2011 was as follows:

	Group	
	2011 **HK$'000**	2010 HK$'000
Total liabilities	**432,812**	476,985
Total assets	**1,562,288**	1,697,506
Total liabilities-to-total assets ratio	**28%**	28%

3 Financial Risk Management *(Continued)*

3.3 Fair Value Estimation

At 31 December 2011, the Group's available-for-sale financial assets and derivative financial liabilities disclosed in Notes 23 and 29 respectively are grouped into level 3 whereas the inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). The fair value for disclosure purpose is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Group for similar financial instruments. The fair value of the financial instruments that are not traded in an active market (for example, over-the-counter derivates) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The changes in the Group's level 3 financial assets are presented in Note 23.

The changes in the Group's level 3 financial liabilities are presented in Note 29.

At 31 December 2011, if the market interest rate had increased/decreased by 100 basis points (2010: 100 basis points) with all other variables held constant, the Group's loss after income tax and retained earnings would have decreased/increased by approximately HK$1,929,000 (2010: HK$3,991,000).

4 Critical Accounting Estimates and Judgements

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

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

4.1 Available-for-Sale Financial Assets

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for available-for-sale financial assets that are not traded in active markets. Determining the cash flows requires management to make assumptions regarding the expected sales quantity of set top boxes to be sold by the acquirer of the STB Business (as defined in Note 9) and the timing of the respective sales receipts.

At 31 December 2011, if the expected receipt from the related sales applied in the discounted cash flow analysis had increased/decreased by 10% (2010: 10%) from management's estimates, the Group's loss after income tax and retained earnings would have decreased/increased by approximately HK$5,081,000 (2010: HK$14,153,000).

Notes to Consolidated Financial Statements *(Continued)*

4 Critical Accounting Estimates and Judgements *(Continued)*

4.2 Trade Receivables

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

4.3 Deferred Income Tax

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred income tax liabilities are recognised in respect of the unremitted earnings of subsidiaries in Mainland China generated subsequent to 1 January 2008, except to the extent that the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred income tax liabilities to be recognised, which is based upon the estimated timing of dividend distribution.

4.4 Fair Value Estimates on Acquisition of Subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amounts of these assets and liabilities.

4.5 Intangible Assets

Intangible assets are capitalised in accordance with the accounting policy for research and development costs. Determining the amounts to be capitalised or impaired requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. Had the actual results been different from the management's estimate, the intangible assets might result in impairment.

5 Segment Information

Management has determined the operating segments based on the internal reports reviewed by the Chief Executive Officer of the Group that are used to assess performance and allocate resources. The Group's operating segments are structured and managed separately according to the products and services provided by different strategic business units that the products and services offered are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

(i) Digital broadcasting business ("DVB Business") – Design, development, integration and sales of smart cards, conditional access systems, 2-way cable network systems, digital set top boxes, digital broadcasting systems and the related software;

(ii) Advertising agency business ("AA Business") – Provision of advertising agency services;

(iii) Financial market information business ("FMI Business") – Provision of online financial market information; and

(iv) Direct Investments – Other direct investments of information technology business.

Others include corporate income and expenses and others.

As further explained in Note 9, the discontinued STB Business (as defined in Note 9) under the DVB Business has been classified as discontinued operations.

There are some changes in the operating segments presented during the year ended 31 December 2011. The operating segment "Advertising agency business" has been newly presented for the year ended 31 December 2011 as a result of the acquisition of 100% equity interest in Sinofocus Media (Holdings) Limited ("Sinofocus").

Notes to Consolidated Financial Statements *(Continued)*

5 Segment Information *(Continued)*

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the year ended 31 December 2011 by operating segments is as follows:

	Continuing operations						Discontinued operations	Total
	DVB Business HK$'000	AA Business HK$'000	FMI Business HK$'000	Direct Investments HK$'000	Others HK$'000	Sub-total HK$'000	DVB Business HK$'000	HK$'000
Revenue (from external customers)	514,232	22,901	30,591	–	–	567,724	–	567,724
Depreciation	4,740	346	177	–	152	5,415	–	5,415
Amortisation	14,253	–	–	–	–	14,253	–	14,253
Operating profit/(loss) (Note (i))	(34,688)	6,331	1,014	–	(12,847)	(40,190)	(60,081)	(100,271)
Finance costs	(11)	–	–	–	–	(11)	–	(11)
Share of loss of jointly controlled entities	–	(911)	–	(19,731)	–	(20,642)	–	(20,642)
Share of loss of associates	(6,503)	–	–	(2,791)	–	(9,294)	–	(9,294)
Loss before income tax						(70,137)	(60,081)	(130,218)
Income tax credit/(expenses)						(2,647)	15,020	12,373
Loss for the year						(72,784)	(45,061)	(117,845)
Total assets (Note (ii))	1,258,416	165,201	26,031	94,102	18,538	1,562,288	–	1,562,288
Total assets include:								
Interests in jointly controlled entities	–	7,742	–	16,221	–	23,963	–	23,963
Interests in associates	1,709	–	–	71,714	–	73,423	–	73,423
Total liabilities (Note (iii))	303,592	29,435	11,031	61,838	26,916	432,812	–	432,812
Capital expenditure	14,369	228	398	–	13	15,008	–	15,008
Interest income	16,479	127	4	–	133	16,743	–	16,743
Interest expenses	11	–	–	–	–	11	–	11

5 Segment Information *(Continued)*

An analysis of the Group's revenue, results and certain assets, liabilities and expenditure information for the year ended 31 December 2010 by operating segments is as follows:

	Continuing operations						Discontinued operations	Total
	DVB Business HK$'000	AA Business HK$'000	FMI Business HK$'000	Direct Investments HK$'000	Others HK$'000	Sub-total HK$'000	DVB Business HK$'000	HK$'000
Revenue (from external customers)	624,639	–	30,314	–	–	654,953	132,757	787,710
Depreciation	4,641	–	295	–	64	5,000	490	5,490
Amortisation	11,341	–	–	–	–	11,341	5,094	16,435
Operating profit/(loss)	7,212	–	4,053	–	(10,325)	940	77,163	78,103
Finance costs	–	–	–	–	–	–	–	–
Share of loss of jointly controlled entities	(862)	–	–	–	–	(862)	–	(862)
Share of loss of associates	(636)	–	–	–	–	(636)	–	(636)
Profit/(loss) before income tax						(558)	77,163	76,605
Income tax expenses						(1,937)	(32,932)	(34,869)
Profit/(loss) for the year						(2,495)	44,231	41,736
Total assets (Note (ii))	1,635,487	–	24,883	–	37,136	1,697,506	–	1,697,506
Total assets include:								
Interests in jointly controlled entities	34,535	–	–	–	–	34,535	–	34,535
Interests in associates	25,848	–	–	–	–	25,848	–	25,848
Total liabilities (Note (iii))	444,836	–	10,796	–	21,353	476,985	–	476,985
Capital expenditure	22,667	–	245	–	–	22,912	2,072	24,984
Interest income	9,398	–	1	–	194	9,593	–	9,593
Interest expenses	–	–	–	–	–	–	–	–

Notes to Consolidated Financial Statements *(Continued)*

5 Segment Information *(Continued)*

Notes:

(i) The operating loss of Others for the year ended 31 December 2011 includes, inter alia, the gain on bargain purchase of subsidiaries related to the AA Business amounting to HK$12,967,000 and the loss on disposal of associates related to the DVB Business amounting to HK$2,491,000.

(ii) The total assets under the continuing operations of the DVB Business include those assets, which mainly represent STB Business related trade receivables and the expected periodic adjustment payments classified as available-for-sale financial assets, of the discontinued STB Business, which were not transferred to the Seller WFOE (as defined in Note 9) and still remain in the Group after the completion of the disposal of the STB Business.

(iii) The total liabilities under the continuing operations of the DVB Business include those liabilities, which mainly represent deferred income tax liabilities provided for the expected periodic adjustment payments classified as available-for-sale financial assets, of the discontinued STB Business.

The Company is domiciled in Hong Kong. The Group's revenue from external customers by countries is as follows:

	Group					
	2011			2010		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
The PRC						
– Mainland China	**517,212**	**–**	**517,212**	626,162	105,494	731,656
– Hong Kong	**41,057**	**–**	**41,057**	19,158	27,263	46,421
Others	**9,455**	**–**	**9,455**	9,633	–	9,633
	567,724	**–**	**567,724**	654,953	132,757	787,710

The total of non-current assets other than financial instruments and deferred income tax assets by countries is as follows:

	Group					
	2011			2010		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
The PRC						
– Mainland China	**132,352**	**–**	**132,352**	97,812	–	97,812
– Hong Kong	**16,864**	**–**	**16,864**	17,941	–	17,941
Others	**142**	**–**	**142**	45	–	45
	149,358	**–**	**149,358**	115,798	–	115,798

5 Segment Information *(Continued)*

Revenue derived from external customers with amounts equal to or above 10% of the Group's revenue, is as follows:

	Operating segment	Group 2011 HK$'000	Group 2010 HK$'000
Customer A	DVB Business	**180,902**	321,472

6 Revenue

An analysis of revenue is as follows:

	Group 2011			Group 2010		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Revenue from sales of goods	**468,618**	**–**	**468,618**	592,775	131,837	724,612
Revenue from design, integration and installation of digital broadcasting systems	**42,804**	**–**	**42,804**	28,627	–	28,627
Advertising agency fee income	**22,901**	**–**	**22,901**	–	–	–
Revenue from provision of online financial market information	**30,591**	**–**	**30,591**	30,314	–	30,314
Licensing and leasing income	**2,810**	**–**	**2,810**	3,237	920	4,157
	567,724	**–**	**567,724**	654,953	132,757	787,710

7 Finance Costs

	Group 2011 HK$'000	Group 2010 HK$'000
Interest on bank borrowings	**11**	–

Notes to Consolidated Financial Statements *(Continued)*

8 Income Tax Credit/(Expenses)

	Group					
	2011			2010		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Current income tax						
– Hong Kong						
– Provision for the year	**(270)**	**–**	**(270)**	(649)	–	(649)
– Adjustment in respect of prior years	**12**	**–**	**12**	–	–	–
– Outside Hong Kong						
– Provision for the year	**(2,229)**	**–**	**(2,229)**	(1,381)	(672)	(2,053)
– Adjustment in respect of prior years	**609**	**–**	**609**	524	(306)	218
	(1,878)	**–**	**(1,878)**	(1,506)	(978)	(2,484)
Deferred income tax						
– Hong Kong	**(22)**	**–**	**(22)**	14	–	14
– Outside Hong Kong	**(747)**	**15,020**	**14,273**	(445)	(31,954)	(32,399)
	(769)	**15,020**	**14,251**	(431)	(31,954)	(32,385)
Income tax credit/(expenses)	**(2,647)**	**15,020**	**12,373**	(1,937)	(32,932)	(34,869)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) for the year on the estimated assessable profits less estimated available tax losses arising in Hong Kong.

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

The corporate income tax in Mainland China has been provided at the rate of 25% (2010: 25%) on the profits for the Mainland China statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the Mainland China corporate income tax purpose. Certain subsidiaries of the Group are entitled to preferential tax treatments including two years exemption followed by three years of a 50% tax reduction.

8 Income Tax Credit/(Expenses) *(Continued)*

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to each of the group companies for the year is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Profit/(loss) before income tax		
– continuing operations	**(70,137)**	(558)
– discontinued operations	**(60,081)**	77,163
	(130,218)	76,605
Tax calculated at the rates applicable in the countries concerned	**27,245**	(28,057)
Tax incentives	**21,829**	22,885
Tax effects of:		
– Income not subject to tax	**3,595**	10,598
– Expenses not deductible for tax purposes	**(25,570)**	(17,948)
– Utilisation of previously unrecognised tax losses	**622**	2,008
– Temporary differences not recognised	**–**	246
– Tax losses not recognised	**(14,972)**	(24,598)
Re-measurement of deferred income tax – change in tax rate	**(997)**	(221)
Adjustment in respect of prior years	**621**	218
Income tax credit/(expenses)	**12,373**	(34,869)

The weighted average applicable tax rate for the year was 21% (2010: 37%). The change in weighted average applicable tax rate was mainly caused by a change in mix of profits earned in different group companies which are subject to different tax rates.

Notes to Consolidated Financial Statements *(Continued)*

9 Discontinued Operations

(a) Discontinued Operations

On 23 October 2009, the Company, Crystal Cube Limited (the "Seller", a wholly-owned subsidiary of the Company), Cisco Systems (HK) Limited (the "Acquirer") and Billion Champion International Limited (the "Subject Company", a then indirect wholly-owned subsidiary of the Company) entered into a share purchase agreement (the "Share Acquisition Agreement"), pursuant to which the Seller agreed to sell 100% of the issued share capital of the Subject Company to the Acquirer (the "Disposal").

On the same date, 億添視頻技術（上海）有限公司 (the "Seller WFOE", a then wholly-owned subsidiary of the Subject Company) and a number of the Company's indirect wholly-owned subsidiaries (the "Group Vendor Companies") entered into an asset purchase agreement (the "Asset Purchase Agreement"), pursuant to which the Group Vendor Companies would transfer the digital set top box business (the "STB Business") and the set top box assets (the "STB Assets") to the Seller WFOE.

The Disposal and the transfer of the STB Business and the STB Assets were completed on 5 May 2010 and the Group ceased to have any equity interest in the Subject Company and the Seller WFOE.

9 Discontinued Operations *(Continued)*

(b) Profit/(Loss) from Discontinued Operations

(I) The analysis of the profit/(loss) from the STB Business presented as discontinued operations in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" is as follows:

	2011 HK$'000	2010 HK$'000
Revenue (Note 6)	–	132,757
Cost of sales	–	(114,279)
Gross profit	–	18,478
Other income	–	(957)
Marketing, selling and distribution costs	–	(16,322)
Administrative expenses	–	(18,841)
Other operating expenses (Note (i))	–	(76,664)
Loss before income tax	–	(94,306)
Income tax expenses (Notes 5 & 8)	–	(978)
Loss after tax of discontinued operations	–	(95,284)
Change in value on available-for-sale financial assets (Note 23)	**(60,081)**	–
Gain on disposal of STB Business	–	171,469
Pre-tax gain/(loss) recognised on disposal	**(60,081)**	171,469
Income tax credit/(expenses) (Notes 5 & 8)	**15,020**	(31,954)
After-tax gain/(loss) recognised on disposal	**(45,061)**	139,515
Profit/(loss) for the year	**(45,061)**	44,231

Note:

(i) Other operating expenses including:		
Write-off of trade receivables, net	–	32,731
Provision for impairment of trade receivables	–	32,401
Provision for impairment of other receivables	–	1,693
Provision for inventories	–	3,428

Certain comparative figures in the analysis presented above have been reclassified in order to conform to the current year's presentation for a fairer presentation of the results of the STB Business.

Notes to Consolidated Financial Statements *(Continued)*

9 Discontinued Operations *(Continued)*

(b) Profit/(Loss) from Discontinued Operations *(Continued)*

(II) Historically, the STB Business formed part of the business operation of the Group. In the preparation of separate results of the STB Business, all revenues and related costs, expenses and charges that were directly attributable to the STB Business were included in the results of the STB Business. Costs for which a specific identification method could not be practically applied, which mainly represented the staff costs attributable directly to sales department and administrative functions, other than the interest income on bank balances and head office overheads as further explained below, had been charged by the estimated time used by the staff engaged in the STB Business during the year ended 31 December 2010.

(III) Interest income on bank balances earned at the central treasury of the Company was not reflected in the operating results of the STB Business during the year ended 31 December 2010 as the STB Business did not individually and separately manage any bank balances. Staff costs incurred at the head office level, which could not be allocated on a fair basis, were also not reflected in the operating results of the STB Business.

(c) Analysis of the Cash Flows from Discontinued Operations

	2011 **HK$'000**	2010 HK$'000
Net cash generated from operating activities	**–**	92,163
Net cash generated from investing activities	**42,066**	67,931
	42,066	160,094

The cash flows of the STB Business for the year ended 31 December 2010 were prepared based on the results of the STB Business as set out in Note 9(b) and the assets and liabilities directly attributable to the STB Business. As the treasury functions are centrally administered by the Company, the net inflows for the STB Business during the year ended 31 December 2010 were dealt with in the current account with the Company.

9 Discontinued Operations *(Continued)*

(c) Analysis of the Cash Flows from Discontinued Operations *(Continued)*

The effect on the financial position, the total considerations received and gain on disposal of the STB Business were as follows:

	2010 HK$'000
Net assets disposed of:	
Property, plant and equipment	1,038
Inventories	5,321
Intangible assets	23,243
Cash and cash equivalents	38,934
	68,536
Cost, fees and expenses, accrued and paid	22,783
Gain on disposal of STB Business	171,469
	262,788
Satisfied by:	
Consideration received, satisfied in cash	70,108
Escrow money to be received	13,428
Fair value of expected periodic adjustment payments classified as available-for-sale financial assets (Note 23)	140,318
Shareholder's loan to be received	38,934
	262,788

	Year ended 31 December 2010 HK$'000
Consideration received, satisfied in cash	70,108
Receipt of shareholder's loan	38,829
Cash and cash equivalents disposed of	(38,934)
Net cash inflow	70,003

Notes to Consolidated Financial Statements *(Continued)*

10 Profit/(Loss) for the Year

The Group's profit/(loss) for the year is arrived at after charging/(crediting):

	Group	
	2011 HK$'000	2010 HK$'000 (Note)
Cost of inventories sold	**352,869**	613,613
Cost of provision of advertising agency services	**2,796**	–
Cost of provision of online financial market information	**9,146**	8,250
Depreciation (Note 16)	**5,415**	5,490
Auditor's remuneration		
– Provision for the year	**3,450**	3,010
– Under-provision for the previous year	**50**	300
Employee benefit expenses (Note 11)	**119,079**	91,511
Operating lease rentals on land and buildings	**11,158**	11,583
Operating lease rentals on motor vehicle	**235**	235
Operating lease rentals on office equipment	**340**	–
Net exchange losses	**488**	519
Net loss on disposal of property, plant and equipment (Note 34)	**259**	410
Change in value of available-for-sale financial assets (Note 23)	**60,081**	–
Other operating expenses including:		
Amortisation of deferred development costs (Note 17)	**14,253**	16,435
Write-off of deferred development costs (Note 17)	**2,428**	809
Provision for inventories (Note 26)	**858**	10,706
Provision for impairment of trade receivables (Note 24)	**56,016**	33,389
Write-off of trade receivables (Note 24)	**–**	33,017
Provision for impairment of prepayments, deposits and other receivables	**1,571**	1,747
Net loss on disposal of associates	**2,080**	–
Other income:		
Interest income on bank balances	**(4,546)**	(3,228)
Interest income on trade receivables	**(9,599)**	(6,365)
Interest income on available-for-sale financial assets	**(2,598)**	–
Value-added tax refund	**(20,678)**	(5,445)
Government grants	**(130)**	(1,522)
Non-compete income	**(2,597)**	(1,731)
Consultancy fee from an associate	**–**	(12,667)
Gain on bargain purchase of subsidiaries (Note 15.1)	**(12,967)**	–
Gain on disposal of subsidiaries	**(12)**	–
Gain on disposal of associates	**–**	(1,782)
Gain on disposal of STB Business (Note 9(c))	**–**	(171,469)
Others	**(1,732)**	(3,032)

Note: The income and expenses for the year ended 31 December 2010 shown above covered both continuing and discontinued operations.

11 Employee Benefit Expenses

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries and bonus	**113,353**	98,752
Pension costs – defined contribution plans	**6,782**	5,556
Termination benefits	**782**	515
Unutilised annual leave	**285**	394
Other benefits	**11,560**	10,003
	132,762	115,220
Less: Costs capitalised in deferred development costs	**(13,683)**	(23,709)
	119,079	91,511

(a) Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2011 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Contributions to pension schemes HK$'000	Other benefits HK$'000 Note (i)	Total HK$'000
Mr Ko Chun Shun, Johnson	120	–	1,595	–	–	1,715
Dr Lui Pan	144	4,528	1,595	36	274	6,577
Mr Luo Ning	–	–	–	–	–	–
Mr Jin Wei	–	–	–	–	–	–
Mr Xu Qiang	–	1,238	1,485	30	35	2,788
Mr Hu Qinggang	–	1,238	1,485	69	66	2,858
Mr Chu Hon Pong	144	–	–	–	–	144
Mr Liu Tsun Kie	144	–	–	–	–	144
Mr Yap Fat Suan, Henry	144	–	–	–	–	144
Total	696	7,004	6,160	135	375	14,370

Notes to Consolidated Financial Statements *(Continued)*

11 Employee Benefit Expenses *(Continued)*

(a) Directors' Emoluments *(Continued)*

The remuneration of each director of the Company for the year ended 31 December 2010 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Contributions to pension schemes HK$'000	Other benefits HK$'000 Note (i)	Total HK$'000
Mr Ko Chun Shun, Johnson	120	–	1,595	–	–	1,715
Dr Lui Pan	144	4,387	1,595	36	257	6,419
Mr Luo Ning	–	–	–	–	–	–
Mr Jin Wei	–	–	–	–	–	–
Mr Xu Qiang	–	1,187	1,485	8	4	2,684
Mr Hu Qinggang	–	1,187	1,485	64	60	2,796
Mr Chu Hon Pong	144	–	–	–	–	144
Mr Liu Tsun Kie	144	–	–	–	–	144
Mr Yap Fat Suan, Henry	144	–	–	–	–	144
Total	696	6,761	6,160	108	321	14,046

Note:

(i) Other benefits include club membership fee, housing allowance, medical insurance, travel insurance and other statutory welfare contributions.

11 Employee Benefit Expenses *(Continued)*

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: three) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: two) individuals during the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**3,352**	3,753
Discretionary bonuses	**2,825**	1,785
Contributions to pension schemes	**48**	72
	6,225	5,610

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2011**	2010
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	1

12 Loss Attributable to the Ordinary Equity Holders of the Company

The loss attributable to the ordinary equity holders of the Company for the year ended 31 December 2011 dealt with in the financial statements of the Company was approximately HK$12,790,000 (2010: HK$1,196,000).

Notes to Consolidated Financial Statements *(Continued)*

13 Earnings/(Loss) Per Share

The calculation of the basic loss per share for the year is based on the Group's loss from continuing operations and discontinued operations attributable to the ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted loss per share for the year is based on the Group's loss from continuing operations and discontinued operations attributable to the ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year assuming the conversion of the exchangeable preference shares (Note 33) and the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the year) based on the monetary values of the exchange price of the exchangeable preference shares and the subscription rights attached to the outstanding share options. The weighted average number of ordinary shares for the calculation of the diluted earnings/(loss) per share is set out as follows:

	Group	
	2011	2010
Weighted average number of ordinary shares in issue	**1,139,531,432**	1,139,297,048
Adjustment for preference shares	**–**	–
Adjustment for share options	**–**	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share	**1,139,531,432**	1,139,297,048
	HK$'000	HK$'000
Group's profit/(loss) attributable to the ordinary equity holders of the Company		
– continuing operations	**(72,660)**	(2,495)
– discontinued operations	**(45,061)**	44,231
	(117,721)	41,736

The basic and diluted earnings/(loss) per share for each of the years ended 31 December 2011 and 2010 are the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding during the years were anti-dilutive.

14 Dividends

	Group	
	2011 **HK$'000**	2010 HK$'000
Proposed final dividend of HK$Nil (2010: HK$0.02) per ordinary share	**–**	22,791
Special interim dividend paid of HK$Nil (2010: HK$0.01) per ordinary share	**–**	11,395
	–	34,186

The Board does not recommend the payment of any final dividend (2010: HK$0.02 per ordinary share) for the year.

A final dividend in respect of the year ended 31 December 2010 of HK$0.02 per ordinary share amounting to a total of approximately HK$22,791,000 was declared by the Board on 22 March 2011, which was approved by the shareholders of the Company at the annual general meeting on 3 June 2011 and was paid on 30 June 2011. Such dividend represented for 1,139,531,432 ordinary shares issued and outstanding as at 31 May 2011 and was accounted for in equity as an appropriation of retained earnings during the year ended 31 December 2011.

Notes to Consolidated Financial Statements *(Continued)*

15 Business Combinations

15.1 Acquisition of Sinofocus

On 17 June 2011, the Group acquired 100% of the issued share capital of Sinofocus, which is an investment holding company and is engaged in advertising agency business through its subsidiaries, together with an assignment of a shareholder's loan for a consideration of HK$82,000,000. The acquisition of Sinofocus represents an opportunity for the Group to venture into the television advertising agency business.

The following table summarises the consideration paid for the issued share capital of Sinofocus and the shareholder's loan, the acquisition-related costs, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	HK$'000
Purchase consideration	
Cash paid	**82,000**
Acquisition-related costs, included in other operating expenses	**297**
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	**82,000**
Cash and cash equivalents in subsidiaries acquired	**(5,165)**
Net cash outflow on acquisition	**76,835**
Cash and cash equivalents	**5,165**
Property, plant and equipment	**1,634**
Receivables (a)	**145,011**
Payables	**(56,545)**
Total identifiable net assets	**95,265**
Non-controlling interests (b)	**(298)**
Gain on bargain purchase (c)	**(12,967)**
	82,000

15 Business Combinations *(Continued)*

15.1 Acquisition of Sinofocus *(Continued)*

(a) Acquired receivables

The fair value of receivables is approximately HK$145,011,000, which includes trade receivables with a fair value of approximately HK$107,962,000. The fair values of trade and other receivables approximate their carrying amounts.

(b) Non-controlling interests

The Group has chosen to recognise the non-controlling interests at its fair value for this acquisition. The fair value of the non-controlling interests was estimated based on the proportion of net assets acquired shared by non-controlling interests.

(c) Gain on bargain purchase

The Group recognised a gain on bargain purchase of approximately HK$12,967,000 in the consolidated income statement for the year ended 31 December 2011, which was primarily attributable to the consideration that was mutually agreed between the parties, with reference to the carrying amount of the identifiable net assets of Sinofocus.

(d) Revenue and profit contribution

The acquired business contributed revenue of approximately HK$22,901,000 and net profit after tax of approximately HK$3,554,000 to the Group for the period from 17 June 2011 (date of acquisition) to 31 December 2011. If the acquisition had occurred on 1 January 2011, the contribution to the consolidated revenue and consolidated net profit after tax for the year ended 31 December 2011 would have been approximately HK$32,358,000 and HK$7,620,000 respectively.

15.2 Acquisition of Laketune (BVI), Inc.

On 15 April 2010, the Group entered into an agreement with the other shareholders of Laketune (BVI), Inc. ("Laketune (BVI)"), a 51% owned subsidiary of the Group, pursuant to which the Group would prepay the consideration to acquire an additional 49% equity interest in Laketune (BVI) based on performance criteria defined in the agreement. The acquisition would only be completed when the performance criteria had been fully met. On 29 September 2011, the performance criteria had been fully met and the Group completed the acquisition of the additional 49% equity interest in Laketune (BVI) at a total consideration of RMB10,455,000 (equivalent to approximately HK$12,822,000). Since then, Laketune (BVI) has become a wholly-owned subsidiary of the Group. The acquisition of Laketune (BVI) allows the Group to control the daily operations and future development of 雷科通技術（杭州）有限公司 ("Laketune (HZ)"), the wholly-owned subsidiary of Laketune (BVI). Laketune (HZ) was a 51% owned associate of the Group before the acquisition. The acquisition of the additional 49% equity interest in Laketune (BVI) led to a deemed disposal of a 51% owned associate and an acquisition of a wholly-owned subsidiary in respect of the equity interest in Laketune (HZ).

Notes to Consolidated Financial Statements *(Continued)*

15 Business Combinations *(Continued)*

15.2 Acquisition of Laketune (BVI), Inc. *(Continued)*

The following table summarises the consideration paid for the 49% equity interest in Laketune (BVI), the acquisition-related costs, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	HK$'000
Equity interest previously held by the Group	15,836
Loss on measuring the equity interest to fair value included in other operating expenses	(2,491)
Fair value of the previously held equity interest at the acquisition date	13,345
Purchase consideration	
Cash paid	12,822
Acquisition-related costs, included in other operating expenses	–
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	12,822
Cash and cash equivalents in subsidiaries acquired	(35,966)
Net cash inflow on acquisition	(23,144)
Cash and cash equivalents	35,966
Property, plant and equipment	983
Receivables (a)	85,278
Inventories	10,485
Payables	(106,546)
Total identifiable net assets and provisional fair value of recognised amounts of identifiable assets acquired and liabilities assumed	26,166

15 Business Combinations *(Continued)*

15.2 Acquisition of Laketune (BVI), Inc. *(Continued)*

(a) Acquired receivables

The fair value of receivables is approximately HK$85,278,000, which includes trade receivables with a fair value of approximately HK$79,296,000. The fair values of trade and other receivables approximate their carrying amounts.

(b) Revenue and profit contribution

The acquired business contributed revenue of approximately HK$13,752,000 and net profit after tax of approximately HK$1,736,000 to the Group for the period from 29 September 2011 (date of acquisition) to 31 December 2011. If the acquisition had occurred on 1 January 2011, the contribution to the consolidated revenue and consolidated net loss after tax for the year ended 31 December 2011 would have been approximately HK$112,945,000 and HK$8,026,000 respectively.

Notes to Consolidated Financial Statements *(Continued)*

16 Property, Plant and Equipment

Group

	Leasehold improvements HK$'000	Network equipment and tooling HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010						
Cost	4,441	76,979	11,655	2,169	3,851	99,095
Accumulated depreciation and impairment	(3,054)	(71,322)	(6,550)	(759)	(1,333)	(83,018)
Net carrying amount	1,387	5,657	5,105	1,410	2,518	16,077
Year ended 31 December 2010						
Opening net carrying amount	1,387	5,657	5,105	1,410	2,518	16,077
Additions	1,137	62	3,831	1,544	741	7,315
Disposals (Note 34)	–	–	(253)	(899)	–	(1,152)
Depreciation (Note 10)	(1,361)	(700)	(1,978)	(761)	(690)	(5,490)
Transfer	–	–	–	78	(78)	–
Transfer from intangible assets	–	270	–	–	–	270
Transfer from assets held for sale	–	–	351	302	–	653
Exchange differences	14	189	193	48	65	509
Closing net carrying amount	1,177	5,478	7,249	1,722	2,556	18,182
At 31 December 2010						
Cost	3,312	56,667	14,751	3,045	4,643	82,418
Accumulated depreciation and impairment	(2,135)	(51,189)	(7,502)	(1,323)	(2,087)	(64,236)
Net carrying amount	1,177	5,478	7,249	1,722	2,556	18,182
Year ended 31 December 2011						
Opening net carrying amount	**1,177**	**5,478**	**7,249**	**1,722**	**2,556**	**18,182**
Additions	**1,373**	**17**	**1,550**	**159**	**262**	**3,361**
Disposals (Note 34)	**–**	**–**	**(299)**	**(43)**	**–**	**(342)**
Depreciation (Note 10)	**(837)**	**(775)**	**(1,889)**	**(878)**	**(1,036)**	**(5,415)**
Acquisition of subsidiaries (Note 15)	**23**	**–**	**810**	**83**	**1,701**	**2,617**
Exchange differences	**31**	**214**	**269**	**95**	**108**	**717**
Closing net carrying amount	**1,767**	**4,934**	**7,690**	**1,138**	**3,591**	**19,120**
At 31 December 2011						
Cost	**4,936**	**58,449**	**17,476**	**3,361**	**7,409**	**91,631**
Accumulated depreciation and impairment	**(3,169)**	**(53,515)**	**(9,786)**	**(2,223)**	**(3,818)**	**(72,511)**
Net carrying amount	**1,767**	**4,934**	**7,690**	**1,138**	**3,591**	**19,120**

16 Property, Plant and Equipment *(Continued)*

Company

	Leasehold improvements HK$'000
At 1 January 2010	
Cost	414
Accumulated depreciation	(344)
Net carrying amount	70
Year ended 31 December 2010	
Opening net carrying amount	70
Depreciation	(64)
Closing net carrying amount	6
At 31 December 2010	
Cost	414
Accumulated depreciation	(408)
Net carrying amount	6
Year ended 31 December 2011	
Opening net carrying amount	**6**
Depreciation	**(6)**
Closing net carrying amount	**–**
At 31 December 2011	
Cost	**414**
Accumulated depreciation	**(414)**
Net carrying amount	**–**

Notes to Consolidated Financial Statements *(Continued)*

17 Intangible Assets

Group

	Deferred development costs HK$'000
At 1 January 2010	
Cost	57,386
Accumulated amortisation and impairment	(23,742)
Net carrying amount	33,644
Year ended 31 December 2010	
Opening net carrying amount	33,644
Additions	17,669
Amortisation charge (Note 10)	(16,435)
Write-off (Note 10)	(809)
Transfer to property, plant and equipment	(270)
Transfer from assets held for sale	3,042
Exchange differences	392
Closing net carrying amount	37,233
At 31 December 2010	
Cost	69,626
Accumulated amortisation and impairment	(32,393)
Net carrying amount	37,233
Year ended 31 December 2011	
Opening net carrying amount	**37,233**
Additions	**11,647**
Amortisation charge (Note 10)	**(14,253)**
Write-off (Note 10)	**(2,428)**
Exchange differences	**653**
Closing net carrying amount	**32,852**
At 31 December 2011	
Cost	**79,140**
Accumulated amortisation and impairment	**(46,288)**
Net carrying amount	**32,852**

18 Interests in Subsidiaries

	Company	
	2011 HK$'000	2010 HK$'000
Unlisted investments, at cost	**76,863**	76,863
Less: Provision for impairment	**(75,074)**	(75,074)
	1,789	1,789
Amounts due from subsidiaries	**986,458**	1,022,681
Less: Provision for amounts due from subsidiaries	**(54,492)**	(60,747)
	931,966	961,934
	933,755	963,723

The balances with subsidiaries are unsecured, interest-free and without fixed terms of repayment. The fair values of the amounts due from subsidiaries approximate their carrying amounts.

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

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/ preference shares/ paid-up capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
DVN (Group) Limited	British Virgin Islands	US$10 ordinary US$15,000,000 preference	100%	–	Investment holding
DVN (Management) Limited	Hong Kong	HK$2 ordinary	100%	–	Provision of administrative services
DVN Technology Limited	Hong Kong	HK$2 ordinary	100%	–	Design, development, integration and sales of digital broadcasting systems and related software and components

Notes to Consolidated Financial Statements *(Continued)*

18 Interests in Subsidiaries *(Continued)*

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/ preference shares/ paid-up capital	Percentage of attributable equity interest held by the Company: Directly	Indirectly	Principal activities
Digital Video Networks Company Limited	Mainland China*	US$13,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
Laketune (BVI), Inc. (Note 15.2)	British Virgin Islands	US$100 ordinary	–	100%	Investment holding
天栢寬帶網絡科技(上海)有限公司	Mainland China*	US$20,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
天柏寬帶網絡科技(北京)有限公司	Mainland China*	RMB100,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
廣西天柏寬帶網絡科技有限公司	Mainland China*	RMB3,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software
天數寬頻科技(上海)有限公司	Mainland China*	US$10,000,000 paid-up capital	–	100%	Sales of digital set top boxes, digital broadcasting systems and related software
柏視數碼科技(上海)有限公司	Mainland China*	US$10,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital broadcasting systems and related software
北京信柏視訊技術有限公司	Mainland China*	RMB100,000,000 paid-up capital	–	100%	Design, development, integration and sales of digital broadcasting systems and related software

18 Interests in Subsidiaries *(Continued)*

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/ preference shares/ paid-up capital	Percentage of attributable equity interest held by the Company Directly	Indirectly	Principal activities
雷科通技術(杭州)有限公司 (Note 15.2)	Mainland China*	US$2,900,000 paid-up capital	–	100%	Design, development and sales of 2-way networking products
Digital Video Networks Limited	Hong Kong	HK$2 ordinary	100%	–	Holding of patents
Rich Linkage Limited	British Virgin Islands	US$1 ordinary	–	100%	Investment holding
Step Success Trading Company Limited	British Virgin Islands	US$1 ordinary	–	100%	Investment holding
Whizz Kid Limited	British Virgin Islands	US$1 ordinary	–	100%	Investment holding
Sinofocus Media (Holdings) Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Sinofocus Media Limited	Hong Kong	HK$10,000 ordinary	–	100%	Advertising agency and investment holding
Guangdong SinoFocus Media Limited	Mainland China*	RMB50,000,000 paid-up capital	–	100%	Advertising agency
北京合縱聯橫廣告有限公司	Mainland China*	RMB5,000,000 paid-up capital	–	100%	Advertising agency
上海真樂見廣告有限公司	Mainland China*	RMB500,000 paid-up capital	–	100%	Advertising agency
廣州中見正信廣告有限公司	Mainland China	RMB1,000,000 paid-up capital	–	60%	Advertising agency
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	–	100%	Provision of online financial market information
Telequote Network (Singapore) Pte Limited	Singapore	SGD2 ordinary	–	100%	Provision of online financial market information

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

Notes to Consolidated Financial Statements *(Continued)*

19 Interests in Jointly Controlled Entities

	Group 2011 HK$'000	Group 2010 HK$'000
Beginning of the year	**34,535**	–
Acquisition of JCEs	**8,684**	34,888
Share of loss of JCEs	**(20,642)**	(862)
Exchange differences	**1,386**	509
End of the year	**23,963**	34,535

	Company 2011 HK$'000	Company 2010 HK$'000
Unlisted investment outside Hong Kong, at cost	**14,200**	14,200
Provision for impairment	**(14,200)**	(14,200)
	–	–

Details of the JCEs as at 31 December 2011 are as follows:

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/ paid-up capital	Interest held	Principal activities
Jiangsu Hongtian Broad Communication Co., Ltd#	Mainland China	RMB30,000,000 paid-up capital	50%	Dormant
Beijing Tongfang Ehero Technology Co., Ltd ("Tongfang Ehero")	Mainland China	RMB63,800,000 paid-up capital	33.33%	Development, operation and the provision of related services of interactive TV media systems
Data Source Technology Limited ("Data Source")	Hong Kong	HK$5,000,000 ordinary	51%	Investment holding
乾志互動數碼科技(上海)有限公司(「乾志」)	Mainland China*	HK$4,500,000 paid-up capital	51%	Development and provision of digital media application software and related services
Midas Media Limited ("Midas")	Mainland China*	RMB10,000,000 paid-up capital	50%	Advertising agency and brand consulting

Directly held by the Company

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

19 Interests in Jointly Controlled Entities *(Continued)*

Jiangsu Hongtian Broad Communication Co., Ltd has been dormant since July 2006 and an impairment provision of HK$14,200,000 was already recognised in 2006 for the whole amount of the investment cost of the JCE.

On 18 August 2010, the Group completed the acquisition of 33.33% equity interest in Tongfang Ehero at a total consideration of RMB30,000,000 (equivalent to approximately HK$34,888,000). Pursuant to the terms of the investment agreement, the Group considered that each of the shareholders of Tongfang Ehero has joint control over the financial and operating policies of Tongfang Ehero and therefore, the investment has been treated as a JCE.

In April 2011, the Group invested HK$2,550,000 for a 51% equity interest in Data Source. 乾志 is a wholly-owned subsidiary of Data Source. Pursuant to the terms of the investment agreement, the Group considered that each of the shareholders of Data Source has joint control over the financial and operating policies of Data Source and therefore, the investments in Data Source and 乾志 have been treated as JCEs.

In November 2011, the Group invested RMB5,000,000 (equivalent to approximately HK$6,134,000) for a 50% equity interest in Midas. Pursuant to the terms of the investment agreement, the Group considered that each of the shareholders of Midas has joint control over the financial and operating policies of Midas and therefore, the investment has been treated as a JCE.

Summarised financial information based on the unaudited management accounts of the JCEs is as follows:

	2011 **HK$'000**	2010 HK$'000
Assets	**95,380**	139,619
Liabilities	**31,297**	36,406
Equity	**64,083**	103,213
Revenue	**18,066**	3,826
Loss	**60,981**	2,587

Notes to Consolidated Financial Statements *(Continued)*

20 Interests in Associates

	Group	
	2011	2010
	HK$'000	HK$'000
Beginning of the year	**25,848**	31,266
Acquisition of associates	**72,555**	2,124
Disposal of associates	**(16,024)**	(7,256)
Share of loss of associates	**(9,294)**	(636)
Exchange differences	**338**	350
End of the year	**73,423**	25,848

Details of the associates as at 31 December 2011 are as follows:

Name	Place of incorporation or registration/ operation	Nominal value of issued ordinary shares/ paid-up capital	Interest held	Principal activities
廣西潤眾數字電視傳媒技術有限公司	Mainland China	RMB3,000,000 paid-up capital	20%	Integration and sales of digital set top boxes, digital broadcasting systems and related software
華誠互動(北京)影視傳播有限公司(「華誠互動」)	Mainland China	RMB10,000,000 paid-up capital	10%	Distribution of films and TV programmes
上海博游網絡科技有限公司(「上海博游」)	Mainland China	RMB1,333,000 paid-up capital	25%	Development and provision of online game
Chinese Online Corporation Limited ("COL")	Hong Kong	HK$125 ordinary (HK$100 paid-up)	20%	Investment holding
天地華文(北京)科技有限公司(「天地華文」)	Mainland China*	HK$1,000,000 paid-up capital	20%	Provision of online Chinese language learning system, relevant teaching materials and related services

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Pursuant to the terms of the investment agreement of 華誠互動, the Group considered that it has significant influence over the financial and operating policies of 華誠互動 and therefore, the investment has been treated as an associate.

20 Interests in Associates *(Continued)*

In April 2011, the Group entered into an investment agreement with 上海博游, pursuant to which the Group is entitled to acquire up to 35% shareholding by four stages based on the performance criteria by上海博游 as defined in the investment agreement. Pursuant to the terms of the investment agreement, the Group considered that it has significant influence over the financial and operating policies of上海博游 and therefore, the investment has been treated as an associate. The total consideration for ultimate shareholding of 35% is RMB22,430,000 (equivalent to approximately HK$27,283,000). Upon the signing of the investment agreement, the Group first acquired 25% equity interest in上海博游 at a consideration of RMB9,000,000 (equivalent to approximately HK$10,717,000). Contingent investments in the second, third and fourth stages dependent on the achievement of the performance criteria by 上海博游 are recognised as derivative financial liabilities.

At 31 December 2011, the performance criteria for the second stage investment has been achieved by上海博游, and consideration payable of RMB6,683,000 (equivalent to approximately HK$8,243,000) has been recognised (Note 29). The fair value of the derivative financial liabilities for the third and fourth stages as at 31 December 2011 was RMB5,677,000 (equivalent to approximately HK$7,003,000) (Note 29).

In April 2011, the Group disposed of its 50% equity interest in 智領地數碼科技(北京)有限公司 for a net proceeds of RMB500,000 (equivalent to approximately HK$595,000), resulted in a gain on disposal of associate of RMB345,000 (equivalent to approximately HK$411,000).

On 28 September 2011, the Group invested 20% equity interest in COL at a total consideration of US$6,000,000 (equivalent to approximately HK$46,593,000), including a contingent consideration of US$3,000,000 (equivalent to approximately HK$23,296,500). 天地華文 is a wholly-owned subsidiary of COL. Pursuant to the terms of the investment agreement, the Group considered that it has significant influence over the financial and operating policies of COL and 天地華文 and therefore, the investment has been treated as an associate.

Summarised financial information based on the unaudited management accounts of the associates is as follows:

	2011 **HK$'000**	2010 HK$'000
Assets	**196,471**	130,502
Liabilities	**24,203**	59,715
Equity	**172,268**	70,787
Revenue	**8,992**	100,871
Loss	**11,671**	232

Notes to Consolidated Financial Statements *(Continued)*

21 Deferred Taxation

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

	Group	
	2011	2010
	HK$'000	HK$'000
Deferred income tax assets	**8,193**	7,892
Deferred income tax liabilities	**(24,190)**	(37,125)
	(15,997)	(29,233)

The movements in deferred income tax assets and liabilities during the year, without taken into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred Income Tax Assets

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**12,491**	11,101
Credited/(charged) to consolidated income statement	**(243)**	1,062
Exchange differences	**430**	328
At 31 December	**12,678**	12,491

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2011, the Group did not recognise deferred income tax assets of HK$86,006,000 (2010: HK$66,957,000) in respect of unrecognised tax losses of HK$432,586,000 (2010: HK$345,769,000) that can be carried forward to offset against future taxable income. The unused tax losses include an amount of approximately HK$101,553,000 (2010: HK$53,094,000) arising in Mainland China which is due to expire within one to five years for offsetting against future taxable profits of the companies in which the losses arise.

21 Deferred Taxation *(Continued)*

Deferred Income Tax Liabilities

	Group							
	Accelerated tax depreciation		Deferred development costs and others		Expected periodic adjustment payments		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
At 1 January	**106**	100	**5,342**	7,174	**36,276**	–	**41,724**	7,274
Charged/(credited) to consolidated income statement	**(13)**	6	**539**	(1,941)	**(15,020)**	35,382	**(14,494)**	33,447
Exchange differences	**–**	–	**129**	109	**1,316**	894	**1,445**	1,003
At 31 December	**93**	106	**6,010**	5,342	**22,572**	36,276	**28,675**	41,724

At 31 December 2011, the Group has not recognised deferred income tax liabilities in respect of temporary differences relating to the withholding taxes of HK$26,138,000 (2010: HK$41,446,000) on the unremitted profits of subsidiaries in Mainland China amounting to HK$270,038,000 (2010: HK$414,465,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

22 Financial Instruments by Category

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Loans and receivables				
Trade receivables (Note 24)	**717,991**	808,029	**–**	341
Prepayments, deposits and other receivables excluding prepayments (Note 27)	**85,368**	57,151	**215**	204
Cash and bank balances (Note 25)	**413,641**	465,849	**21,800**	28,386
	1,217,000	1,331,029	**22,015**	28,931
Available-for-sale financial assets (Note 23)	**61,797**	145,106	**–**	–
	1,278,797	1,476,135	**22,015**	28,931

Notes to Consolidated Financial Statements *(Continued)*

22 Financial Instruments by Category *(Continued)*

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other financial liabilities at amortised cost				
Trade payables (Note 28)	**196,496**	289,155	**–**	–
Other payables and accruals	**119,451**	70,691	**16,655**	15,382
	315,947	359,846	**16,655**	15,382
Derivative financial liabilities (Note 29)	**7,003**	–	**–**	–
	322,950	359,846	**16,655**	15,382

23 Available-for-sale Financial Assets

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**145,106**	–
Fair value of expected periodic adjustment payments as a consideration for the disposal of STB Business	**–**	140,318
Receipt of periodic adjustment payments	**(27,923)**	–
Change in value (Notes 9(b) & 10)	**(60,081)**	–
Exchange differences	**4,695**	4,788
At 31 December	**61,797**	145,106
Less: Non-current portion	**(51,694)**	(139,429)
Current portion	**10,103**	5,677

There was no change in the classification of the fair value hierarchy of the available-for-sale financial assets which were grouped into level 3 during the year ended 31 December 2011.

23 Available-for-sale Financial Assets *(Continued)*

The fair value of the available-for-sale financial assets is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. At 31 December 2011, the expected sales quantity of STB applied in the discounted cash flow analysis had been adjusted downwards substantially by the management in view of the latest actual sales quantity of STB available to the management and the estimated sales trend of STB in the coming years. The change in revised estimated cash flows resulted in a change in value of the available-for-sale financial assets of HK$60,081,000 which was recorded under the Discontinued Operations for the year ended 31 December 2011.

The expected periodic adjustment payments are denominated in RMB and their fair value was calculated at a discount rate of 7.45% (2010: 6.31%) per annum.

24 Trade Receivables

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Trade receivables	**817,718**	854,664	**–**	341
Less: Provision for impairment	**(99,727)**	(46,635)	**–**	–
	717,991	808,029	**–**	341
Less: Non-current portion	**(102,777)**	(129,691)	**–**	–
Current portion	**615,214**	678,338	**–**	341

The fair value of trade receivables approximates its carrying amount.

The effective interest rates on trade receivables in relation to instalment sales ranged from 2.7% to 16.1% (2010: 2.7% to 16.1%) per annum.

The Group's trading terms with its customers are payment in advance or on credit. The credit period to direct sales customers is generally for a period of three months, extending up to nine months for certain major customers. The Group also has instalment sales to certain customers with repayments over a period of several years. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers.

During the year ended 31 December 2010, trade receivables of approximately HK$33,017,000 (Note 10) were impaired and written off. The impaired receivables mainly relate to the discounts offered to some customers in order to speed up the settlement process of the outstanding receivables for instalment sales.

Notes to Consolidated Financial Statements *(Continued)*

24 Trade Receivables *(Continued)*

During the year ended 31 December 2011, additional provision for impairment of approximately HK$56,016,000 (2010: HK$33,389,000) was made after considering the collectibility, overdue aging analysis, past collection history and settlement after the financial position date of the trade receivables.

An aging analysis, based on the invoice date, of the current trade receivables as at the financial position date is as follows:

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Within 6 months	**370,111**	386,216	**–**	341
7 – 12 months	**144,243**	158,570	**–**	–
Over 12 months	**200,587**	180,187	**–**	–
	714,941	724,973	**–**	341
Less: Provision for impairment	**(99,727)**	(46,635)	**–**	–
	615,214	678,338	**–**	341

At 31 December 2011, trade receivables of HK$157,854,000 (2010: HK$90,483,000) were subject to impairment. Taking into account of the financial difficulties of the trade debtors and delinquency in payments, business relationship and transaction volumes with the trade debtors, it was assessed that only a portion of these receivables is expected to be recoverable. The amount of the provision for these receivables as at 31 December 2011 was HK$99,727,000 (2010: HK$46,635,000). The overdue aging analysis of these receivables as at the financial position date is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Within 6 months	**–**	24,415
7 - 12 months	**38,313**	–
Over 12 months	**119,541**	66,068
	157,854	90,483

24 Trade Receivables *(Continued)*

Trade receivables that are past due for not more than six months are not considered impaired. At 31 December 2011, trade receivables, of HK$188,670,000 (2010: HK$172,869,000) were past due. After considering their creditworthiness, past collection history and settlement after the financial position date, these overdue trade receivables were not considered impaired. The past due aging analysis of these trade receivables without provision made is as follows:

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Within 6 months	**138,752**	133,295	**–**	–
7 – 12 months	**43,203**	19,876	**–**	–
Over 12 months	**6,715**	19,698	**–**	–
	188,670	172,869	**–**	–

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

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
RMB	**614,394**	677,997	**–**	–
USD	**–**	341	**–**	341
HKD	**820**	–	**–**	–
	615,214	678,338	**–**	341

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

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

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
At 1 January	**46,635**	10,414	**–**	–
Provision for impairment	**56,016**	33,389	**–**	–
Write-off	**(4,934)**	–	**–**	–
Exchange differences	**2,010**	2,832	**–**	–
At 31 December	**99,727**	46,635	**–**	–

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

Notes to Consolidated Financial Statements *(Continued)*

25 Cash and Bank Balances

	Group		Company	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Restricted cash (Note (i))				
– non-current portion	**–**	3,542	**–**	–
– current portion	**–**	946	**–**	–
	–	4,488	**–**	–
Short-term bank deposits, with original maturities over three months	**–**	5,059	**–**	–
Cash and cash equivalents				
– Cash at banks and on hand	**307,337**	225,912	**4,518**	327
– Short-term bank deposits, with original maturities of three months or less	**106,304**	230,390	**17,282**	28,059
	413,641	456,302	**21,800**	28,386
	413,641	465,849	**21,800**	28,386

Notes:

(i) At 31 December 2010, a total amount of RMB3,801,000 (equivalent to approximately HK$4,488,000) was placed in the designated interest-bearing bank accounts as performance bonds pursuant to contracts signed by a wholly-owned subsidiary with its customers.

(ii) Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and six months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(iii) At 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$352,133,000 (2010: HK$352,377,000). RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

(iv) The fair values of all bank balances approximate their carrying amounts.

26 Inventories

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**12,193**	5,181
Work-in-progress	**37,931**	36,855
Finished goods	**13,118**	11,526
	63,242	53,562

During the year ended 31 December 2011, provision for inventories amounting to HK$858,000 (2010: HK$10,706,000) (Note 10) was recognised as expense and included in other operating expenses.

27 Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Escrow fund for the disposal of STB Business	**–**	17,778	**–**	–
Other deposits and other receivables, net of provision	**85,368**	39,373	**215**	204
	85,368	57,151	**215**	204
Prepayments	**37,993**	8,785	**292**	308
Value-added tax receivable	**19,578**	30,464	**–**	–
	142,939	96,400	**507**	512

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

Notes to Consolidated Financial Statements *(Continued)*

27 Prepayments, Deposits and Other Receivables *(Continued)*

Movements in the provision for impairment of certain prepayments, deposits and other receivables, which were financial assets, are as follows:

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
At 1 January	**1,791**	–	**–**	–
Provision for impairment	**1,571**	1,747	**–**	–
Exchange differences	**113**	44	**–**	–
At 31 December	**3,475**	1,791	**–**	–

28 Trade Payables

An aging analysis, based on the invoice date, of the trade payables as at the financial position date is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Within 6 months	**149,951**	277,829
7 – 12 months	**4,730**	133
Over 12 months	**41,815**	11,193
	196,496	289,155

The fair value of trade payables approximates its carrying amount.

29 Other Payables and Accruals

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Other payables and accruals	**73,423**	59,614	**16,655**	15,382
Investment payables (Note (i))	**54,836**	–	**–**	–
Derivative financial liabilities (Note 20 and Note (ii))	**7,003**	–	**–**	–
VAT payables	**3,737**	13,411	**–**	–
Receipts in advance	**31,364**	41,190	**–**	–
Deferred income	**35,042**	33,675	**3,468**	6,066
	205,405	147,890	**20,123**	21,448

29 Other Payables and Accruals *(Continued)*

Notes:

(i) The investment payables include the consideration payable to COL of US$6,000,000 (equivalent to approximately HK$46,593,000) and consideration payable to 上海博游 for the second stage of subscription of RMB6,683,000 (equivalent to approximately HK$8,243,000) (Note 20).

(ii) The changes in the Group's level 3 financial liabilities for the year ended 31 December 2011 are as follows:

	2011 **HK$'000**
At 1 January	–
Additions	**7,003**
At 31 December	**7,003**

30 Share Capital

	Ordinary shares of HK$0.10 each Number of shares	HK$'000
Authorised		
At 31 December 2010 and 2011	3,000,000,000	300,000
Issued and fully paid		
At 1 January 2010	1,138,081,432	113,808
Exercise of share options during the year ended 31 December 2010	1,450,000	145
At 31 December 2010 and 2011	1,139,531,432	113,953

31 Share Option Scheme

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

Notes to Consolidated Financial Statements *(Continued)*

31 Share Option Scheme *(Continued)*

Pursuant to the Scheme, the Company can grant options to Qualified Persons for a consideration of HK$1 for each grant payable by the Qualified Persons to the Company. The total number of shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any twelve-month period shall not exceed 1% of the shares then in issue. The Scheme limit was refreshed by a resolution passed at the annual general meeting held on 12 June 2008. The maximum number of options that can be granted by the Company was refreshed to 113,808,143. At the date of this report, the total number of options that can be granted was 113,808,143, representing 9.99% of the issued share capital of the Company.

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

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

It is proposed by the directors of the Company that at the special general meeting of the shareholders to be held on 28 March 2012, an ordinary resolution will be proposed for the Company to terminate the operation of this Scheme. Details of the proposal were set out in the circular of the Company dated 2 March 2012.

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

	2011		2010	
	Weighted average exercise price per share HK$	**Number of options**	Weighted average exercise price per share HK$	Number of options
At 1 January	**1.99**	**1,000,000**	0.72	69,408,000
Exercised	**–**	**–**	0.70	(1,450,000)
Lapsed	**–**	**–**	0.70	(66,958,000)
At 31 December	**1.99**	**1,000,000**	1.99	1,000,000

All of the outstanding options as at 31 December 2011 were exercisable (2010: same). The related weighted average share price at the time of exercise during the year ended 31 December 2010 was HK$0.82.

31 Share Option Scheme *(Continued)*

Share options outstanding at the financial position date have the following expiry dates and exercise prices:

Expiry date	Exercise price per share HK$	Number of Options 2011	2010
11 February 2017	1.99	**1,000,000**	1,000,000

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

Date of share options granted 12 February 2007
Exercise price HK$1.99
Exercise period 12 August 2007 – 11 February 2017

	Outstanding options at 1 January 2011	Options granted during the year	Options exercised during the year	Options lapsed during the year	Outstanding options at 31 December 2011	Weighted average closing price before dates of exercise HK$
Held by service providers						
In aggregate	500,000	–	–	–	500,000	–

Date of share options granted 12 February 2007
Exercise price HK$1.99
Exercise period 12 February 2008 – 11 February 2017

	Outstanding options at 1 January 2011	Options granted during the year	Options exercised during the year	Options lapsed during the year	Outstanding options at 31 December 2011	Weighted average closing price before dates of exercise HK$
Held by service providers						
In aggregate	500,000	–	–	–	500,000	–

Notes to Consolidated Financial Statements *(Continued)*

32 Reserves

Group

	Share premium HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (ii))	Exchange reserve HK$'000 (Note (iii))	Retained earnings HK$'000	General reserve HK$'000 (Note (iv))	Share-based compensation reserve HK$'000 (Note (v))	Total HK$'000
Balance at 1 January 2010	–	628,235	88,935	153,529	23,224	43,319	937,242
Profit for the year	–	–	–	41,736	–	–	41,736
Other comprehensive income							
– Currency translation differences	–	–	43,148	–	–	–	43,148
Dividends							
– 2009 special final dividend paid	–	–	–	(22,791)	–	–	(22,791)
– 2010 special interim dividend paid	–	–	–	(11,395)	–	–	(11,395)
Share option scheme							
– Proceeds from shares issued	870	–	–	–	–	–	870
– Transfer upon options exercised	854	–	–	–	–	(854)	–
– Transfer upon options lapsed	–	–	–	41,586	–	(41,586)	–
Transfer to general reserve	–	–	–	(3,610)	3,610	–	–
Balance at 31 December 2010	1,724	628,235	132,083	199,055	26,834	879	988,810
Representing:							
Proposed dividend	–	–	–	22,791	–	–	22,791
Others	1,724	628,235	132,083	176,264	26,834	879	966,019
	1,724	628,235	132,083	199,055	26,834	879	988,810

32 Reserves *(Continued)*

Group

	Share premium HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (ii))	Exchange reserve HK$'000 (Note (iii))	Retained earnings HK$'000	General reserve HK$'000 (Note (iv))	Share-based compensation reserve HK$'000 (Note (v))	Total HK$'000
Balance at 1 January 2011	**1,724**	**628,235**	**132,083**	**199,055**	**26,834**	**879**	**988,810**
Loss for the year	–	–	–	**(117,721)**	–	–	**(117,721)**
Other comprehensive income							
– Currency translation differences	–	–	**49,284**	–	–	–	**49,284**
Dividends							
– 2010 final dividend paid	–	–	–	**(22,791)**	–	–	**(22,791)**
Transfer to general reserve	–	–	–	**(3,288)**	**3,288**	–	–
Balance at 31 December 2011	**1,724**	**628,235**	**181,367**	**55,255**	**30,122**	**879**	**897,582**
Representing:							
Proposed dividend	–	–	–	–	–	–	–
Others	**1,724**	**628,235**	**181,367**	**55,255**	**30,122**	**879**	**897,582**
	1,724	**628,235**	**181,367**	**55,255**	**30,122**	**879**	**897,582**

Notes to Consolidated Financial Statements *(Continued)*

32 Reserves *(Continued)*

Company

	Share premium HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (ii))	Retained earnings HK$'000	Share-based compensation reserve HK$'000 (Note (v))	Total HK$'000
Balance at 1 January 2010	–	558,899	319,414	43,319	921,632
Loss for the year	–	–	(1,196)	–	(1,196)
Dividends					
– 2009 special final dividend paid	–	–	(22,791)	–	(22,791)
– 2010 special interim dividend paid	–	–	(11,395)	–	(11,395)
Share option scheme					
– Proceeds from shares issued	870	–	–	–	870
– Transfer upon options exercised	854	–	–	(854)	–
– Transfer upon options lapsed	–	–	12,033	(41,586)	(29,553)
Balance at 31 December 2010	1,724	558,899	296,065	879	857,567
Representing:					
Proposed dividend	–	–	22,791	–	22,791
Others	1,724	558,899	273,274	879	834,776
	1,724	558,899	296,065	879	857,567
Balance at 1 January 2011	**1,724**	**558,899**	**296,065**	**879**	**857,567**
Loss for the year	**–**	**–**	**(12,790)**	**–**	**(12,790)**
Dividends					
– 2010 final dividend paid	**–**	**–**	**(22,791)**	**–**	**(22,791)**
Balance at 31 December 2011	**1,724**	**558,899**	**260,484**	**879**	**821,986**
Representing:					
Proposed dividend	**–**	**–**	**–**	**–**	**–**
Others	**1,724**	**558,899**	**260,484**	**879**	**821,986**
	1,724	**558,899**	**260,484**	**879**	**821,986**

32 Reserves *(Continued)*

Notes:

(i) The application of the share premium account is governed by the Companies Act 1981 of Bermuda.

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

(iii) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4.

(iv) In accordance with the PRC regulations, each of the Group's PRC subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries in accordance with their articles of association.

(v) The share-based compensation reserve represents the fair value of the unexercised share options granted under the Company's share option scheme to the qualified persons recognised in accordance with the accounting policy set out in Note 2.18(b).

33 Non-controlling Interests

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

Notes to Consolidated Financial Statements *(Continued)*

34 Cash Generated from Operations

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

	Group	
	2011 **HK$'000**	2010 HK$'000
Loss for the year from continuing operations	**(72,784)**	(2,495)
Profit/(loss) for the year from discontinued operations	**(45,061)**	44,231
	(117,845)	41,736
Adjustments for:		
Income tax expenses/(credit)	**(12,373)**	34,869
Depreciation	**5,415**	5,490
Amortisation of deferred development costs	**14,253**	16,435
Write-off of deferred development costs	**2,428**	809
Change in value of available-for-sale financial assets	**60,081**	–
Provision for impairment of trade receivables and other receivables	**57,587**	35,136
Write-off of trade receivables	**–**	33,017
Provision for inventories	**858**	10,706
Net gain on disposal of deferred development costs	**–**	(1,546)
Net loss on disposal of property, plant and equipment	**259**	410
Net loss/(gain) on disposal of associates	**2,080**	(1,782)
Gain on bargain purchase of subsidiaries	**(12,967)**	–
Gain on disposal of STB Business	**–**	(171,469)
Interest income on bank balances	**(4,546)**	(3,228)
Finance costs	**11**	–
Share of loss of jointly controlled entities	**20,642**	862
Share of loss of associates	**9,294**	636
Changes in working capital:		
Inventories	**(53)**	(8,482)
Trade receivables, prepayments, deposits and other receivables	**123,811**	(146,763)
Restricted cash	**4,488**	(4,488)
Trade payables, other payables and accruals	**(178,308)**	270,894
Exchange differences	**25,730**	32,645
Cash generated from operations	**845**	145,887

34 Cash Generated from Operations *(Continued)*

Notes:

(i) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Group	
	2011	2010
	HK$'000	HK$'000
Net carrying amount (Note 16)	**342**	1,152
Net loss on disposal of property, plant and equipment (Note 10)	**(259)**	(410)
Proceeds from disposal of property, plant and equipment	**83**	742

(ii) The principal non-cash transactions are the investment payables and the derivative financial liabilities for the acquisition of associates (Note 29).

35 Commitments and Contingent Liabilities

(a) Capital Expenditure Commitments

The Group and the Company did not have any material capital expenditure commitments at 31 December 2011 and 2010.

(b) Operating Lease Commitments

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

Notes to Consolidated Financial Statements *(Continued)*

35 Commitments and Contingent Liabilities *(Continued)*

(b) Operating Lease Commitments *(Continued)*

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Land and buildings		
– Not later than one year	**10,513**	7,438
– Later than one year but not later than five years	**14,172**	7,742
– Later than five years	**5**	–
	24,690	15,180
Office equipment		
– Not later than one year	**180**	–
	180	–
Total		
– Not later than one year	**10,693**	7,438
– Later than one year but not later than five years	**14,172**	7,742
– Later than five years	**5**	–
	24,870	15,180

The Company did not have any commitments under operating lease at 31 December 2011 and 2010.

35 Commitments and Contingent Liabilities *(Continued)*

(c) Financial Commitments

At 31 December 2011, the Group had financial commitments in respect of registered capital contribution to a subsidiary as described below:

	Group	
	2011	2010
	HK$'000	HK$'000
Subsidiary (Note (i))	**11,491**	10,999

Note:

(i) Included in the financial commitments in respect of registered capital contribution to a subsidiary is an amount of RMB5,316,000 (equivalent to approximately HK$6,557,000) (2010: RMB5,316,000 equivalent to approximately HK$6,276,000) that was paid in 1999 but the capital verification process has not been completed. The Group has no intention to contribute the overdue remaining balance of the registered capital into the subsidiary as it has already ceased operation.

The Company did not have any significant financial commitments at 31 December 2011 and 2010.

(d) Contingent Liabilities

During the year ended 31 December 2011, the Company had given corporate guarantees to several banks in respect of banking facilities granted by those banks to certain wholly-owned subsidiaries. At 31 December 2011, such facilities were drawn down by those wholly-owned subsidiaries to the extent of HK$18,000 (2010: HK$53,000) and the maximum liability of the Company under the guarantees was HK$18,000 (2010: HK$53,000).

Apart from above mentioned, the Company and the Group did not have any significant contingent liabilities at 31 December 2011 (2010: Nil).

Notes to Consolidated Financial Statements *(Continued)*

36 Related Party Transactions

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

(a) Sales or Purchases of Goods and Services

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Sales of goods and services				
– Related companies of a shareholder	**40,127**	74,575	**–**	–
– An associate	**55,044**	46,818	**–**	–
Purchases of goods and services				
– Associates	**236**	19,148	**–**	–
– A JCE	**181**	–	**–**	–
– A related company of a shareholder	**363**	345	**–**	–
Advisory service expense				
– A related company of a shareholder and a director	**80**	–	**80**	–

All the transactions were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

(b) Details of Key Management Compensation of the Group

	Group	
	2011 HK$'000	2010 HK$'000
Short-term employee benefits	**14,235**	19,966
Post-employment benefits	**135**	183
	14,370	20,149

36 Related Party Transactions *(Continued)*

(c) Year-End Balances Arising from Sales/Purchases and Services Rendered

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Trade receivables				
– Related companies of a shareholder	**70,639**	123,928	**–**	–
– An associate	**–**	45,663	**–**	–
Trade payables				
– JCEs	**5,302**	5,074	**–**	–
– Associates	**–**	2,978	**–**	–
Other payables and accruals				
– Related companies of a shareholder	**10,301**	5,004	**–**	–
– A related company of a shareholder and a director	**80**	–	**80**	–

(d) Other Year-End Balances

	Group	
	2011 HK$'000	2010 HK$'000
Prepayments, deposits and other receivables		
– A JCE	**387**	–
– Associates	**6,172**	5
Other payables and accruals		
– JCEs	**–**	369
– Associates	**61,839**	–

37 Events after the Financial Position Date

There has been no material event subsequent to the year end which requires adjustment of or disclosure in these consolidated financial statements.

Five Year Financial Summary

The consolidated results, and assets and liabilities of the Group for the last five financial years are summarised below.

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Results					
Revenue	**567,724**	787,710	705,312	759,833	991,293
Profit/(loss) before income tax	**(130,218)**	76,605	22,135	92,228	125,546
Income tax credit/(expenses)	**12,373**	(34,869)	(10,325)	660	(8,910)
Non-controlling interests	**124**	–	–	–	–
Dividends on preference shares	**–**	–	–	–	(1,453)
Profit/(loss) attributable to the equity holders of the Company	**(117,721)**	41,736	11,810	92,888	115,183
Assets and liabilities					
Property, plant and equipment	**19,120**	18,182	16,077	15,105	11,872
Intangible assets	**32,852**	37,233	33,644	68,710	50,324
Investments	**97,386**	60,383	31,266	31,948	1,846
Other non-current assets	**162,664**	280,554	266,421	337,189	178,274
Net current assets	**841,644**	861,294	825,292	729,198	792,300
	1,153,666	1,257,646	1,172,700	1,182,150	1,034,616
Non-current liabilities	**(24,190)**	(37,125)	(3,892)	(15,909)	–
Net assets	**1,129,476**	1,220,521	1,168,808	1,166,241	1,034,616
Shareholders' equity	**1,011,535**	1,102,763	1,051,050	1,048,483	916,858
Non-controlling interests	**117,941**	117,758	117,758	117,758	117,758
	1,129,476	1,220,521	1,168,808	1,166,241	1,034,616