



Asian Union New Media (Group) Limited
華億新媒體(集團)有限公司
Stock Code: 0419

2006
Annual Report

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Corporate Information

Board of Directors

Chairman

Mr. Dong Ping

Executive Director

Mr. Ko Chun Shun, Johnson

Non-executive Director

Mr. Tsoi Tong Hoo, Tony

Independent non-executive Directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

Mr. Yuen Kin

Company Secretary

Mr. Chan Kam Kwan, Jason

Qualified Accountant

Mr. Hau Wai Man, Raymond

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Banker

Hang Seng Bank

Solicitors

Baker & McKenzie

Registered Office

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

Principal Office in Hong Kong

Units 4306-07, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Branch Share Registrar and Transfer Office in Hong Kong

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

Website

www.aunewmedia.com

Chairman's Statement

On behalf of Asian Union New Media (Group) Limited, I am pleased to present to shareholders the annual report of the Company and its subsidiaries (the "Group") for the year ended 31st December 2006.

2006 was not only a remarkable year for Asian Union, but a special year for me as well. This is the first annual results of the Group I present to shareholders in my new capacity as Chairman of the Board since my appointment in May 2006. It is also the first annual results reflecting a full year contribution from our new core focus — China media and advertising business, after the Group completed the acquisition of Anglo Alliance in May 2005. Anglo Alliance's principal asset is an indirect 50% interest in Asian Union Film and media ("AUFM").

As the founder of AUFM, I am determined to draw on the best of my experience, knowledge and connections in the Media industry in China to grow and strengthen the Group's business. Year 2006 was particularly encouraging for us as we achieved notable progress in growing our China media and advertising business. Though it had only one full year of operation, the business has already become the major revenue contributor of the Group and turned the Group's business around. We are confident that the Group has the right plan in place to let it apply its extensive expertise and capabilities in achieving higher growth.

During the past year, we pushed forcefully forward with developing the Group's China media and advertising business, focusing on the Travel channel and its advertising operations that ride on the rapidly expanding advertising market in the country. Overall advertising spending in China has been increasing dramatically in the past decade along with the country's rocketing economy. However, as a percentage to the overall gross domestic products when compared with other developed countries, the number is still relatively low. We believe the country's advertising industry still has enormous room for growth, and upcoming major events such as the 2008 Beijing Olympics and 2010 Shanghai World Expo will give it additional boost.

To grasp the enormous business opportunities in China's advertising market, we have entered into an exclusive advertising agreement with Hai Nan Haishi Tourist Satellite TV Media Co., Ltd wherein our Group will be the exclusive advertising agent of all commercial advertising airtime and program sponsorship on the Travel Channel for a six-year period up to 31st December 2011, with full revenue entitlement.

Asian Union has made tremendous effort during the year to expand coverage of the Travel Channel in different areas in China and to enrich its programs, resulting in increased viewership among the Channel's targeted customers especially those with higher income and education level. For example, among the audience with higher income level, Travel Channel's peak period rating ranked number 3 among all provincial satellite TV channels in Shanghai. This achievement in turn attracted numerous renowned international brand names to place advertisements on the Channel. As such, Travel Channel's advertising revenue was boosted by a substantially 1.7 times to approximately HK\$218 million in 2 years' time.

During the year, we continued our prudent yet proactive strategy in developing our film and TV drama business. In recent years, the China movie industry has flourished with film productions making leaps in quality. Worldwide, Chinese films are also gaining higher reputation and recognition, and more and more blockbusters have been produced at the joint effort of Chinese and foreign investors. We see this positive trend continuing to gain force, hence are confident of the prospects of the industry. Thus, we will target to investment in movie projects with international award winning and marketing potential instead of just focusing on the China domestic market. As for the market of TV drama series, it has been competitive and a surplus in supply emerged recently. Therefore, we will actively explore opportunities yet be prudent in selecting our investments with emphasis on cost effectiveness.

Chairman's Statement

Prospects

We see bullish prospects for the China media and advertising industry, as advertising is an essential marketing tool in the consumer goods sector. The booming economy and hastening GDP growth has seen demand for consumer products and financial products and accordingly advertising spending rising in China. The Travel Channel, a unique positioned thematic TV channel that covers life style and travel topics and with viewership featured with the higher income and educated niche group, is the perfect marketing platform for consumer and financial products. Therefore, we expect the performance of our advertising business to grow and outperform the market, and bring increasing contributions to the Group in the years ahead.

To fully exploit the potential of the advertising segment, the Group will keep strengthening the unique image of the Travel Channel by enriching its program portfolio. Geographically, we are exploring new advertising markets for the Channel and the Eastern China will be our key focus this year. On top of growing traditional commercial air time sales, we are developing new advertising revenue stream such as title sponsorship, trailer sponsorship, embedded advertising in TV programs, etc., with good initial results.

With the unique content of Travel Channel, we plan to pursue opportunities that will allow us to expand our revenue source beyond traditional TV commercials. The establishment of Travel Club and the cooperation with Beijing United Interactive Television ("UiTV") for the development of Travel Channel interactive TV portal are promising initial steps. We are also planning for more efficient use of non-prime air time, for example, by development of regular shopping platform with leading industry players. We expect these strategic initiatives to effectively expand Travel Channel's viewership and our source of revenue.

Appreciation

I would like to take this opportunity to express my heartfelt gratitude to my fellow Directors for their commitment to the Group, and to all our staff for their diligence and dedication, without which the Group's new media business would not have taken off so smoothly and successfully. I would also like to thank our shareholders, partners and associates for their continuing support to the Group over the years.

Dong Ping

Chairman

Hong Kong, 23rd April 2007

Management Discussion and Analysis

Business review

For the year ended 31st December 2006, the Group is pleased to see the full year contributions from the media and advertising business subsequent to the acquisition of Anglo Alliance Co., Ltd. ("Anglo Alliance") completed in May 2005. During the year under review, the Group reported sales of approximately HK\$304,902,000 (2005: HK\$34,072,000) and a profit attributable to the equity holders of the Company of HK\$264,604,000 (2005: loss of HK\$22,187,000). It was the first profitable year of the Group after the Anglo Alliance acquisition. The Group's encouraging performance was braced mainly by the revenue derived from advertising business on the "Travel Channel" (the "Channel"), the satellite TV channel with nationwide coverage that focuses on travel, lifestyle and entertainment operated by the Group, positive returns from media investments, and a one-off fair value gain on the Group's interest in the ordinary shares of DVN (Holdings) Limited ("DVN") (Stock code: 500).

To better grasp the enormous business opportunities in China's advertising market, the Group has entered into an exclusive advertising agreement for all advertising resources of the Travel Channel in 2006 with full revenue entitlement. It has not only provided the Group with a steady income source, but also generated growth momentum for its China media and advertising business.

As a reward for shareholders' support and to focus attention on expanding its high-growth media and advertising business in China, the Group had distributed to shareholders all the DVN ordinary shares it held.

Below is a review of operations for each division of the Group:

Media and advertising business in China

During the year, the Group's media and advertising business in China became the major revenue contributor of the Group, reporting sales amounting to HK\$280,319,000, representing 92% of the Group's total sales. With the exclusive advertising agreement the Group signed with Hai Nan Haishi Travel Satellite TV Media Co., Ltd through its wholly owned subsidiary Beijing Hua Yi Qian Si Advertising Company Limited ("Qiansi") in the beginning of 2006, Qiansi has become the exclusive agent for all advertising resources of the Travel Channel for a six-year period up to 31st December 2011, with total revenue entitlement. The advertising revenue derived from the "Travel Channel" during the year, in particular, stood out, contributing HK\$217,725,000 or 71% of the Group's total sales.

In 2006, advertising expenditure in China continued to surge alongside the booming economy, translating into advertising business for the Group. According to CTR market research, the country's total advertising expenditure had risen by 18% to RMB287.5 billion in 2006 when compared with 2005, and the forecast growth rate for 2007 is about 20% and even higher for 2008. Among the different kinds of advertising, spending on TV advertising increased by 18% in 2006 and accounted for 76% of the country's total advertising expenses. TV is apparently the most popular platform for advertisers to publicize and promote their products and services. We see vast potentials in the country's advertising market for the Group.

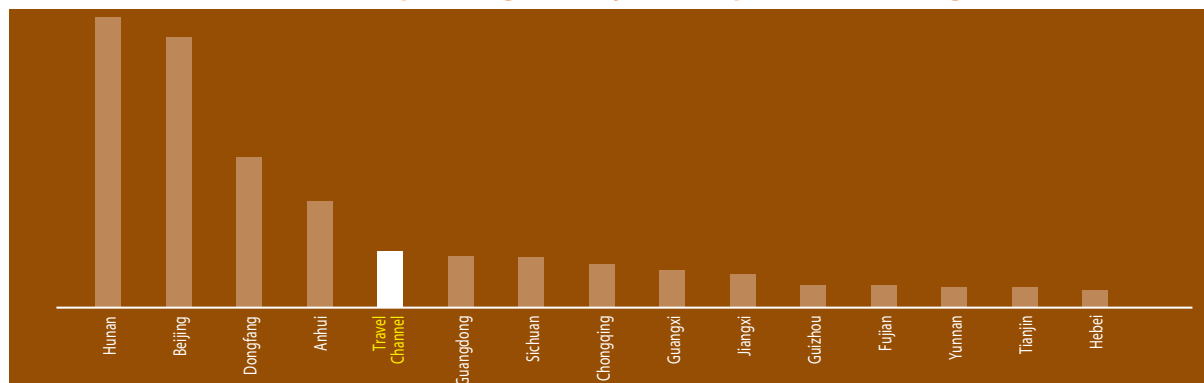
Management Discussion and Analysis

Television advertising — Travel Channel

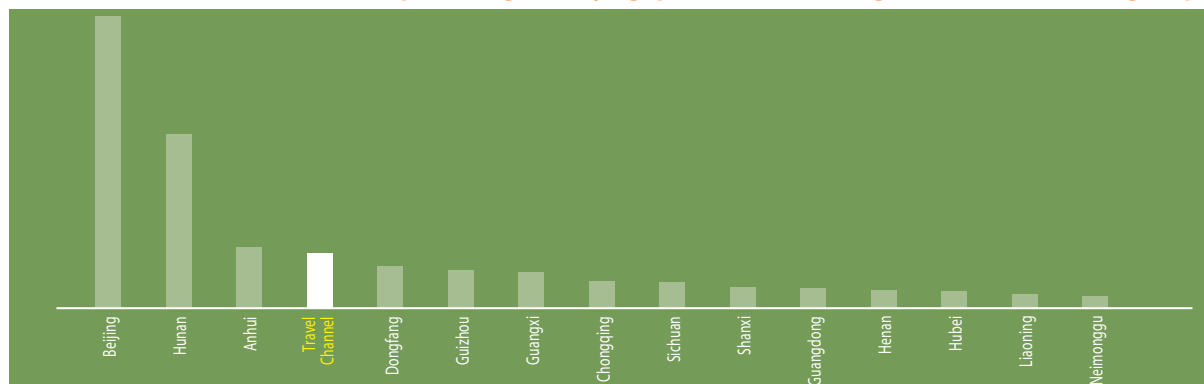
Travel Channel has a comprehensive network to capture the ever-growing demand for thematic programs of mainland viewers. Total available audience of the Channel jumped to 300 million in 2006 from 73 million in 2003, at an impressive average annual growth rate of 25.1%. According to CMMR research, the Channel was accessible in over 80% of all provincial capitals and municipalities as at October 2006.

The Group's effort in the past year to continuously improve programs on the Channel with fresh, comprehensive content on travel, fashion, lifestyle and entertainment has attracted viewers from the middle class with generally higher education, income level and consumption power — the key targeted customer base of the Channel. A CSM research found that the average viewership of the Channel rose by 28% in the first 3 quarters of 2006 comparing to last year, and the increase was even more significant at 52% during prime time. More specifically, viewership of the Channel among audience aged 25-44, with tertiary education and income of RMB2,000 or above grew impressively by 58% in the first 3 quarters of 2006 comparing to same period last year. In major cities including Beijing, Shanghai and Guangzhou, viewership of the Channel ranked top five in all provincial satellite TV channels during prime time among the audience with relatively higher income.

Provincial Satellite TV viewership ranking — 9 major cities, prime time and high-income audience group

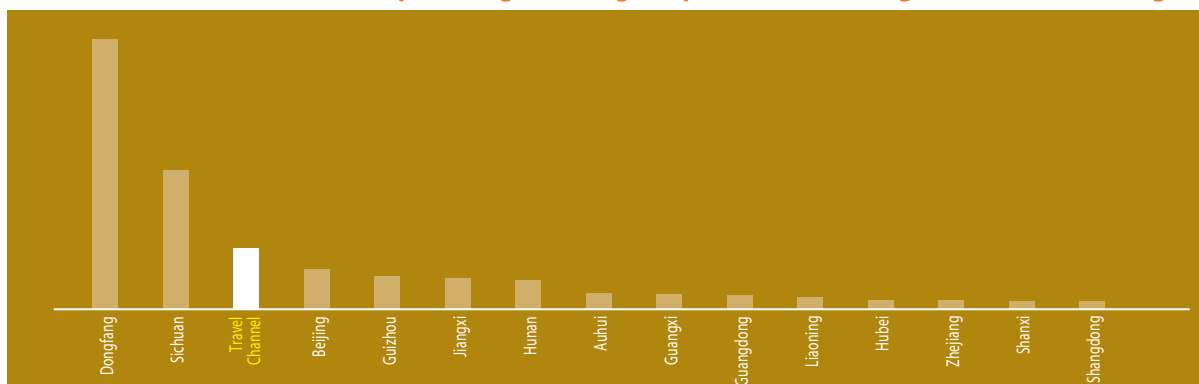


Provincial Satellite TV viewership ranking — Beijing, prime time and high-income audience group

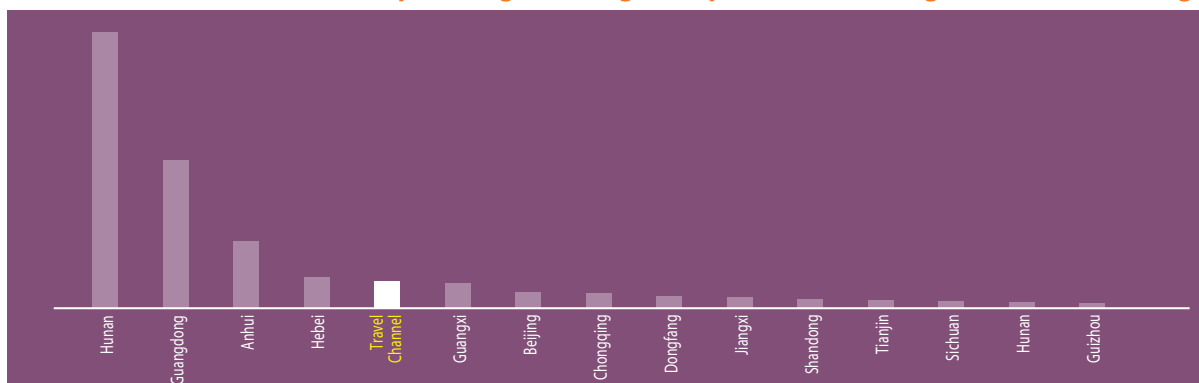


Management Discussion and Analysis

Provincial Satellite TV viewership ranking — Shanghai, prime time and high-income audience group



Provincial Satellite TV viewership ranking — Guangzhou, prime time and high-income audience group



Riding on the ever-expanding channel coverage and viewership, the Group pushed on with building the brand of the Channel. During the year, the Channel has acquired the right to broadcast a number of programs from Discovery Channel and ESPN, leading to an expanded viewer profile and more viewing choices on the Channel. Self-produced programs such as “Pretty Women” (美麗俏佳人) are well received by the audience during prime time. The “Travel Club” was jointly established with Beijing China Travel, and TV programs focusing on “Travel” were launched including the audience-led overseas travel program “Travel DIY”. Thanks to its unique positioning and distinctive programs, the Channel was named one of the “Seven most eye-catching satellite TV Channels in China” by Variety Magazine in June 2006.

The niche positioning of the Channel is a contributing factor to the boosted viewership, which in turn attracted large domestic and international advertising customers with well known brands in various sectors, such as automotive, mobile phones and telecom equipment, pharmaceutical products, consumer products, just to name a few. To expand its clientele, the Group has exerted extra effort in strengthening ties with international advertising agencies and established a special division to liaise with them.

Management Discussion and Analysis

Movie and TV drama

In the movie and TV drama area, the reported sales amounting to HK\$62,594,000, accounting for 21% to the Group's total sales. During the year, the Group has engaged in the production and distribution of "Jasmine Women" (茉莉花開) featuring world-renowned actress Ms. Zhang Ziyi (章子怡), and the licensing of other films and TV dramas in China and overseas market. Work on new movies and TV dramas are well on the way and are expected to be launched in 2007. They include those with strong cast such as 立春 directed by Gu Changwei (顧長衛) and a new TV drama 暴雨梨花 directed by Wong Jing (王晶) and casting Athena Chu (朱茵) and Kristy Yeung (楊恭如). The Group sees China's movie industry on a positive track with Chinese films beginning to gain international recognition. Going forward, the Group will continue to invest in popular TV programs and explore opportunities for investing in movies with award winning and international market potential.

Seeing prosperity for the media sector as well as the Chinese economy and with a solid foundation and growth platform, the Group believes it has the capability to grasp opportunities in the market to give its media and advertising business a brilliant future.

Digital broadcasting investment

As the Group's media business evolves, DVN's digital broadcasting business is increasingly deemed as a deviation from the Group's core media business. To reward shareholders for their support and to focus management attention in the high-growth media business in China in May 2006, the Board of Directors has made a strategic decision to distribute all DVN Shares it held to the then shareholders of the Company on a pro rata basis based on the number of Asian Union shares they held. The Group believes this move has not only consolidated its position in the China media industry and optimized its business model, but will also allow our Shareholders to realize more reasonable return from their investment.

Securities trading

The Hong Kong economy had substantial growth in year 2006. Leveraging the improved business environment and market sentiment, the Group traded securities in the capital market and made profit of approximately HK\$7,264,000 (2005: loss of HK\$48,000) during the year.

Communication and home audio division

Seeing the need to focus on the China media market, the management is reviewing the business operation of the Division with the aim of mapping out long-term strategy for it in alignment with the Group's new core business. There was insignificant contribution from this segment to the Group during the year.

Management Discussion and Analysis

Prospects

2007 and 2008 will be two important years for the Group's China media and advertising business. Riding on the momentum built after the first full year of operation of its media and advertising business, its comprehensive business structures, rich content portfolio and extensive business footprint, the Group is confident of capturing the tremendous advertising opportunities presented by impending international events including the 2008 Beijing Olympics and 2010 World Expo in Shanghai. According to PwC Global Entertainment and Media Outlook, the compound annual growth rate (CAGR) of television advertising spending in China between 2006 and 2010 is estimated at 16.7%, and the growth rate in 2008 alone is as high as 28%. From these statistics, it is apparent that advertising on TV in China has huge room for growth and the 2008 Olympics will see demand reaching its peak.

Other than the boost from international events, the booming Chinese economy has bred demand for consumer goods and financial products including cars, electronic products, credit cards and banking services of the middle class in the country. With advertising being an effective tool to reach consumers and the "Travel Channel" targeting particularly those in the middle class, the Group expects to derive consistently strong advertising income from the Channel in the coming years. Apart from directing effort on to growing the number of audience who are better educated and more apt to spend for the Travel Channel, the Group will also seek to widen its revenue base by boosting embedded advertisements, such as title and trailer sponsorships, into a new revenue stream.

It is also the Group's intention to actively explore new markets in the coming year with the Eastern China market as the key focus. To this end, the Group has established a joint venture with a leading advertising agent in Shanghai in order to facilitate exploitation of huge market potential. Furthermore, the Group is confident that the new quality movies and TV dramas to be launched in the coming year will be successful. Pursuits of partnership with famous directors and production houses and high profile artists will also continue to ensure reasonable returns from projects.

Last but not least, the Group is also actively exploring opportunities to expand into interactive television and value-added media entertainment services, such as interactive SMS, interactive games and shopping programs, etc. In March 2007, the Group has signed a cooperative agreement with Beijing United Interactive Television ("UiTV") for the launch of an interactive TV portal based on the content of Travel Channel. The website is scheduled to commence operation in the second quarter of 2007 and the two parties will equally split the revenues from advertising, e-commerce and publication rights made by the website. We believe that such initiatives, with Travel Channel's rich contents and the solid media and advertising business as leverage, will add to the growth momentum of our business in the years ahead.

Management Discussion and Analysis

Financial review

For the year ended 31st December 2006, the Group achieved sales of approximately HK\$304,902,000 (2005: HK\$34,072,000), an 8-time increase compared with last year. The significant increase mainly arose from the inclusion of the new Television Advertising segment which contributed sales of approximately HK\$217,725,000 during the year. Gross profit increase by 24 times to approximately HK\$112,646,000 (2005: HK\$4,541,000), mainly contributed by the two major segments of Television Advertising and Film and TV Drama.

The Group achieved an operating profit of approximately HK\$90,950,000 (2005: HK\$1,261,000), a 71-time increase compared with last year. The significant increase was mainly due to the good performance of both Television Advertising and Film and TV Drama segments, whose segment results were approximately HK\$44,623,000 and HK\$32,121,000 respectively. Profit attributable to equity holders of the Company for the current year was approximately HK\$264,604,000 (2005: loss of HK\$22,187,000), which include a one-off fair value gain on financial assets at fair value through profit or loss of approximately HK\$185,553,000 (2005: Nil). Excluding this one-off gain, pro forma profit attributable to equity holders of the Company for the current year would be HK\$79,051,000 (2005: loss of HK\$22,187,000).

Liquidity and financial resources

As at 31st December 2006, the Group held bank deposits of approximately HK\$30,447,000, an increase of 96% compared to 31st December 2005, mainly due to the strong performance of the Media and Advertising Business in China during the year. The current ratio decreased from 4.46 as at 31st December 2005 to 1.17 as at 31st December 2006. The gearing ratio, representing long term liabilities to net worth, increased from 0.18 at 31st December 2005 to 1.10 at 31st December 2006.

The Group mainly operates in China and is exposed of foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollars. All borrowings during the year were based on market interest rate. Other than the outstanding short-term borrowings of approximately HK\$22,776,000 (2005: HK\$14,758,000), the Group had no long-term bank loan outstanding as at 31st December 2006. As at 31st December 2006, the Group has pledged bank deposits of HK\$17,000,000 (2005: nil) against its short-term bank borrowing.

Significant investments held

In May 2005, the Group has acquired 100% equity interest in Anglo Alliance, the China media business of the Group. The total nominal consideration for this acquisition finalized at approximately HK\$524 million. Details of the acquisition are disclosed in the Company's circular dated 13th May 2005.

As at 31st December 2006, the Group also held an investment in preference shares which are exchangeable, after adjustment, to approximately 31,250,000 ordinary shares of DVN. The fair value of the investment was approximately HK\$97,895,000 as at 31st December 2006.

Capital structure

The Group has mainly relied on its internally generated cash flow and short-term borrowings to finance its operations. As at 31st December 2006, the Group has outstanding short-term borrowings of approximately HK\$22,776,000 (2005: HK\$14,758,000).

Management Discussion and Analysis

During the year, the Company has issued 2,122,136,612 new ordinary shares upon the conversion of a convertible note held by Mr. Ko Chun Shun, Johnson, the executive director of the Company.

During the year, the Company has also issued convertible notes which can be converted into 3,202,234,673 ordinary shares of the Company to Mr. Ko Chun Shun, Johnson, the executive director of the Company. As at 31st December 2006, none of the above convertible notes was converted into ordinary shares.

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

As at 31st December 2006, the Group employed a total of 11 employees in Hong Kong and a work force of about 111 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Corporate Governance Report

The board of Directors of the Company (the "Board") is committed in achieving high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all the Group's various shareholders.

The principles of corporate governance adopted by the Group emphasis a quality board, sound internal control, and transparency and accountability to all the shareholders.

Throughout the financial year ended 31st December 2006, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices ("the Code") set out in Appendix to the Listing Rules, except with the following deviations:

Code Provision A. 2. 1

There is no separation of the role of chairman ("Chairman") and chief executive officer ("CEO") as set out in the code provision A.2.1. Mr. Dong Ping currently assumes the role of both the Chairman and the CEO of the Company. Since the resignation of Mr. Shen Ka Yip as the Acting Chief Executive Officer, the Company has been actively seeking a candidate whose ability and experience is suitable for the position of Chief Executive Officer. While the Company is still seeking for such candidate, Mr. Dong who is also the Chairman is utilizing his extensive experience and network in the media industry to oversee the daily operation and business development of the Group. The Group considers that such arrangement is for the best interests of the shareholders.

Code Provision A. 4. 1

The code provision A. 4. 1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

Not all the existing independent non-executive directors ("INED(s)") are appointed for a specific term. However, all INEDs are subject to the retirement by rotation and re-election at every annual general meeting of the Company in accordance with the articles of the Company.

The Board

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

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

As at 31st December 2006, the Board comprised six Directors, including Chairman, one Executive Director, three Independent Non-executive Directors and one Non-executive Directors. Biographical details of the Directors appear under the Directors and Senior Management Section on page 24.

Corporate Governance Report

The Board *(Continued)*

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

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

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

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

The Board held 5 meetings in 2006.

	Name of Director	Attended/Eligible to attend
Chairman	Dong Ping	5/5
Executive Director	Ko Chun Shun, Johnson	5/5
Acting Chief Executive Officer & Chief Financial Officer	Shen Ka Yip, Timothy*	1/1
Non-executive Directors	Tsoi Tong Hoo, Tony	5/5
	Cheong Chow Yin*	0/0
Independent Non-Executive Directors	Wilton Timothy Carr Ingram	5/5
	Dr. Wong Yau Kar David	5/5
	Yuen Kin	5/5

*Note: Messrs Shen Ka Yip, Timothy and Cheong Chow Yin resigned on 30 August 2006 and 29 June 2006 respectively.

Corporate Governance Report

The Board *(Continued)*

All Directors are subject to re-election by shareholders at the annual general meeting following their appointment and given the current number of directors, the directors shall retire and shall be eligible to offer himself for re-election not longer than at every three years on a rotation basis. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval, with a view of appointing to the Board individuals with leadership capabilities so as to enable the Company to retain as well as improve its competitive position.

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

Directors' Responsibility for the Financial Statements

The following statements, which set out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's report on page 28 which acknowledges the reporting responsibilities of the Group's Auditors.

Annual Report and Financial Statements

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

Accounting Policies

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

Accounting Records

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

Safeguarding Assets

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

Going Concern

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

Corporate Governance Report

Company Secretary

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meeting and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of Report and Financial Statements and interim reports within the period laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of directors' dealings in securities of the Group.

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

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

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

Auditors' Remuneration

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

Nature of the services	2006	2005
	<i>HK'000</i>	<i>HK'000</i>
Audit services	3,110	2,316
Other services	690	2,197
	3,800	4,513

Corporate Governance Report

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Audit Committee is chaired by Mr. Wilton Timothy Carr Ingram and the other members of the Audit Committee are Dr. Wong Yau Kar David and Mr. Yuen Kin.

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

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

The Audit Committee held 3 meetings in 2006.

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

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

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

Financial Statements

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

External Auditors

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

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

Corporate Governance Report

Audit Committee *(Continued)*

External Auditors *(Continued)*

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

- Audit services — includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.
- Audit related services — includes services that would normally be provided by an external auditor but not generally included in audit fees, for example, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit report for tax or other purposes. The external auditors are to be invited to undertake these services that they must or are best placed to undertake in their capacity as auditors.
- Tax related services — includes all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work is undertaken by other parties as appropriate.
- Other services — includes, for example, audits or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditors are also permitted to assist management with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.
- General consulting services — The Group's policy is that the external auditors are not eligible to provide services involving general consulting work.

Review of Risk Management and Internal Control

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

Remuneration Committee

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Remuneration Committee is chaired by Mr. Ko Chun Shun, Johnson, Executive Director, with Dr. Wong Yau Kar, David and Mr. Yuen Kin, Independent Non-executive Director, as members. The Remuneration Committee meets for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee also meets as and when required to consider remuneration related matters.

Corporate Governance Report

Remuneration Committee (Continued)

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

The Remuneration Committee held 1 meeting in 2006.

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

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2006 are as below:

Name	Fees	Basic Salaries, Allowances and Benefits- in-kind	Discretionary Bonuses	Provident Fund Contributions	Total Emoluments
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Dong Ping	—	1,200	—	—	1,200
Ko Chun Shun, Johnson (2)	—	1,896	158	12	2,066
Shen Ka Yip, Timothy (4)	—	720	1,000	8	1,728
Tsoi Tong Hoo, Tony (1)	240	—	20	10	270
Cheong Chow Yin (4)	72	—	—	—	72
Wilton Timothy Carr Ingram (3)	—	—	—	—	—
Dr. Wong Yau Kar, David (2), (3)	144	—	—	—	144
Yuen Kin (2), (3)	144	—	—	—	144

Corporate Governance Report

Remuneration Committee *(Continued)*

Notes:

- (1) Non-executive Director.
- (2) Members of the Remuneration Committee.
- (3) Independent Non-executive Directors and members of the Audit Committee.
- (4) Resigned in 2006.

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

Internal Control and Group Risk Management

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

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

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

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

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

Corporate Governance Report

Internal Control and Group Risk Management *(Continued)*

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material misstatement or loss.

Investor Relations and Shareholders' Rights

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

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

The Group values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are always welcomed.

By Order of the Board

Dong Ping

Chairman

Hong Kong, 23rd April 2007

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31st December 2006.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 36 to the consolidated financial statements.

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

Change of Company Name

The Company changed its name to Asian Union New Media (Group) Limited on 4th July 2006.

Results and Dividends

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

During the year, the Group has paid interim dividend in specie of HK\$211,206,000 by distributing 113,318,812 ordinary shares of DVN (Holdings) Limited to its Shareholders. The directors do not recommend the payment of a final dividend in respect of the year ended 31st December 2006.

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 84.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in note 26 to the financial statements.

Share Options

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

Pursuant to this 10-year term Option Scheme, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 30th June 2005, the Company can grant up to 991,647,402 share options to the Qualified Persons.

Report of the Directors

Share Options (Continued)

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

The Company did not grant any share options in 2006.

Details of the share options outstanding as at 31st December 2006 which have been granted under the scheme are as follows:

	Date of share options granted	Number of share options outstanding as at 1st January 2006	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2006	Exercise period	Exercise price per share
Qualified person (excluding directors)	1/12/2004	277,400,000	—	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
		277,400,000	—	—	—	277,400,000		

Reserves

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

Distributable Reserves

The distributable reserves of the Company as at 31st December 2006, calculated under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK\$370,899,000 (2005: HK\$292,962,000), representing the amount standing to the credit of the share premium of HK\$325,371,000 (2005: HK\$447,208,000) plus the retained profits of HK\$45,528,000 (2005: less the accumulated losses of HK\$154,246,000). The Company may make distributions to its members out of the share premium in certain circumstances.

Report of the Directors

Major suppliers and Major Customers

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

Sales

— the largest customer	9%
— five largest customers combined	39%

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

Directors

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

Executive directors

Mr. Dong Ping

Mr. Ko Chun Shun, Johnson

Mr. Shen Ka Yip, Timothy (resigned on 30th August 2006)

Non-executive directors

Mr. Tsoi Tong Hoo, Tony

Mr. Cheong Chow Yin (resigned on 29th June 2006)

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

Mr. Yuen Kin

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Messrs Wilton Timothy Carr Ingram and Tsoi Tong Hoo, Tony will retire, and being eligible, offers themselves for re-election at the forthcoming annual general meeting.

Not all the existing INEDs are appointed for a specific term, all Directors are subject to the retirement by rotation and re-election at the annual general meeting of the Company.

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

Report of the Directors

Biographical Details of Directors and Senior Management

Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Dong Ping	46	Chairman and Executive Director	2	Television and media, advertising, movie and TV drama investments
Mr. Ko Chun Shun, Johnson	55	Executive Director	13	Direct investments, mergers and acquisitions, TMT (television, media and telecommunications), advertising, electronic manufacturing services, financial services and property investments
Mr. Tsoi Tong Hoo, Tony	42	Non-executive Director	3	Media and corporate finance
Mr. Wilton Timothy Carr Ingram	59	Independent Non-executive Director	11	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	49	Independent Non-executive Director	7	Manufacturing, international trade and corporate finance
Mr. Yuen Kin	52	Independent Non-executive Director	3	Finance and accounting

Senior management staff

Mr. Wang Yi	45	Vice President — Media Division	2	Media
Mr. Hau Wai Man, Raymond	31	Financial Controller	1	Finance and accounting
Mr. Chan Kam Kwan, Jason	33	Company Secretary	7	Accounting, corporate finance

Report of the Directors

Directors' Service Contracts

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

Directors' Interests in Contracts

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

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

At 31st December 2006, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

(A) Long positions in ordinary shares of HK\$0.01 each in the Company

Names	Note	Personal interests	Number of shares held.			Total	% of the Issued Share Capital of the Company
			Family interests	Corporate interests			
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	Long positions (i)	3,187,347,483	—	1,000,437,150	4,187,784,633	34.79	
Mr. Dong Ping ("Mr. Dong")	Long positions	2,700,000,000	—	—	2,700,000,000	22.43	

Notes:

- (i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.

Report of the Directors

Directors' and Chief Executives' Interests in the Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation *(Continued)*

(B) Convertible notes of the Company

Mr. Ko holds convertible notes which can be converted into 3,202,234,673 ordinary shares of HK\$0.01 each of the Company.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 31st December 2006, none of the directors, the chief executive (including their spouses and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SFO).

At no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

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

As at 31st December 2006, save as disclosed under the section "Directors' and Chief Executives' interests in shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO.

Connected Transactions

During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$18,000 (2005: HK\$29.7 million).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum and has no fixed terms of repayment. There was no interest payable to the fellow subsidiary for the year ended 31st December 2006 (2005: interest of HK\$517,000).

The directors, including the independent non-executive directors, of the Company are of the opinion and have confirmed to the Company that the above connected transaction was carried out in the ordinary and normal course of business of the Group.

Related Party Transactions

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

Report of the Directors

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's by-laws and there was no restriction against such rights under the laws of the Cayman Islands.

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

During the year ended 31st December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company.

Management Contracts

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

Subsequent Event

The Group has no significant post balance sheet event. As announced by the Company on 20th March 2007, the Company entered into a Subscription Agreement with Speedy Swift Investments Limited. Pursuant to the agreement, the Company had issued and allot 500,000,000 new shares at HK\$0.07 per share together with 1,900,000,000 warrants. Each warrant confers the holder the right to subscribe for one new share of the Company at the exercise price of HK\$0.10.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this annual report under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Auditors

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

On behalf of the Board

Dong Ping
Chairman

Hong Kong, 23rd April 2007

Independent Auditor's Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of Asian Union New Media (Group) Limited
(formerly known as Universal Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Asian Union New Media (Group) Limited (formerly known as Universal Holdings Limited) (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd April 2007

Consolidated Income Statement

For the year ended 31st December 2006

		2006	2005
	Notes	HK\$'000	HK\$'000 (Note 35)
Sales	5	304,902	34,072
Cost of sales		(192,256)	(29,531)
Gross profit		112,646	4,541
Other revenues	5	16,462	10,150
Marketing and selling expenses		(13,225)	(1,570)
Administrative expenses		(27,898)	(23,963)
Net gain on dilution of interests in a former associated company		—	10,637
Net other operating income		2,965	1,466
Operating profit		90,950	1,261
Finance costs	7	(51,232)	(3,634)
Fair value gain on financial assets at fair value through profit or loss	16	185,553	—
Fair value gain on investment in preference shares		34,317	2,439
Share of profit/(loss) of a jointly controlled entity		10,944	(13,700)
Share of profit/(loss) of a former associated company		5,990	(8,223)
Profit/(loss) before taxation	8	276,522	(21,857)
Taxation	9	(12,065)	(330)
Profit/(loss) for the year		264,457	(22,187)
Attributable to:			
Equity holders of the Company		264,604	(22,187)
Minority interests		(147)	—
		264,457	(22,187)
Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year		HK Cents	HK Cents
— Basic	10	2.36	(0.30)
— Diluted	10	2.34	N/A
Dividends	11	211,206	—

The notes on pages 34 to 83 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	7,057	622
Intangible assets	14	1,414,069	247,957
Interests in associated companies	16	—	19,663
Interests in jointly controlled entities and its subsidiaries	17	70,259	56,130
Available for sale financial assets		360	360
Preference dividends receivable			
— non-current portion	18	—	14,896
Investment in preference shares — non-current	18	—	63,578
Deferred tax assets	9	12,171	—
		1,503,916	403,206
CURRENT ASSETS			
Inventories		—	10
Trade receivables	19	85,034	17,501
Due from a jointly controlled entity and its subsidiaries	17	84,384	67,691
Preference dividends receivable			
— current portion	18	2,422	7,680
Financial assets at fair value through profit or loss	20	11,150	12,000
Investment in preference shares — current	18	97,895	—
Prepayments, deposits and other receivables	21	28,301	9,382
Pledged bank deposit	24	17,000	—
Cash and bank balances		13,447	15,548
		339,633	129,812
CURRENT LIABILITIES			
Agency fee payable — current	14	181,836	—
Trade payables	22	283	34
Current income tax liabilities		24,769	1,968
Other payables and accrued liabilities	23	61,166	12,340
Loans	24	22,776	14,758
		290,830	29,100
NET CURRENT ASSETS		48,803	100,712
TOTAL ASSETS LESS CURRENT LIABILITIES		1,552,719	503,918
NON-CURRENT LIABILITIES			
Agency fee payable — non-current	14	691,544	—
Convertible notes	25	121,230	77,070
		812,774	77,070
NET ASSETS		739,945	426,848
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Issued capital	26	120,386	99,165
Reserves	27	619,559	327,683
		739,945	426,848
Minority interests		—	—
TOTAL EQUITY		739,945	426,848

Dong Ping
Director

Ko Chun Shun, Johnson
Director

The notes on pages 34 to 83 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31st December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	727,966	425,637
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	1,006	1
Amounts due from subsidiaries — current	15	114,816	98,789
Cash and cash equivalents		3,509	1,476
		119,331	100,266
CURRENT LIABILITIES			
Amount due to subsidiaries — current	15	51,662	25,661
Other payables and accrued liabilities	23	2,120	1,061
		53,782	26,722
NET CURRENT ASSETS			
		65,549	73,544
TOTAL ASSETS LESS CURRENT LIABILITIES			
		793,515	499,181
NON-CURRENT LIABILITIES			
Convertible notes	25	121,230	77,070
NET ASSETS			
		672,285	422,111
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	26	120,386	99,165
Reserves	27	551,899	322,946
TOTAL EQUITY			
		672,285	422,111

Dong Ping
Director

Ko Chun Shun, Johnson
Director

The notes on pages 34 to 83 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2006

		2006	2005
	Notes	HK\$'000	HK\$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	28(a)	26,632	(168,768)
Interest paid		(559)	(565)
Tax paid		—	449
Net cash from/(used in) operating activities		26,073	(168,884)
Cash flows from investing activities			
Interest received		248	3,098
Purchases of property, plant and equipment		(6,913)	(245)
Acquisition of subsidiaries net of cash	28(b)	(1,084)	(3,675)
Loan to a jointly controlled entity		—	93,135
Additions of intangible assets		(37,917)	(5,436)
Receipt of preference dividend		29,000	2,000
Purchases of financial assets		—	(10,000)
Payment of transaction costs for acquisition		(2,509)	—
Disposal of subsidiaries net of cash		—	3,901
Capital injection for establishment of a jointly controlled entity		(500)	—
Capital injection from a minority shareholder of a subsidiary		147	—
Net cash (used in)/generated from investing activities		(19,528)	82,778
Cash flows from financing activities			
Increase in pledged bank deposit		(17,000)	—
Proceeds on issue of shares, net of expenses		—	76,188
Decrease in amounts due to fellow subsidiaries		—	(5,000)
Increase in short-term loans		8,018	14,758
Net cash (used in)/generated from financing activities		(8,982)	85,946
Net decrease in cash and cash equivalents		(2,437)	(160)
Cash and cash equivalents at 1st January		15,548	14,152
Exchange gain on cash and cash equivalents		336	1,556
Cash and cash equivalents at 31st December		13,447	15,548

The notes on pages 34 to 83 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2006

	Attributable to equity holders of the Company			Minority interests	Total equity
	Share capital	Other reserves	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2005	35,151	1,032,942	(991,006)	—	77,087
Loss for the year	—	—	(22,187)	—	(22,187)
Issue of shares — placing	6,549	69,639	—	—	76,188
Issue of shares					
— business combination	57,465	205,216	—	—	262,681
Issue of convertible notes					
— equity component	—	29,984	—	—	29,984
Currency translation differences	—	1,529	—	—	1,529
Movement in reserves of associated companies	—	1,566	—	—	1,566
Balance at 31st December 2005	99,165	1,340,876	(1,013,193)	—	426,848
Balance at 1st January 2006	99,165	1,340,876	(1,013,193)	—	426,848
Dividend in specie					
— interests in ordinary shares of DVN Holdings Limited	—	(211,206)	—	—	(211,206)
Conversion of convertible notes	21,221	57,819	—	—	79,040
Issue of convertible notes-equity component	—	181,000	—	—	181,000
Injection by a minority shareholder of a subsidiary	—	—	—	147	147
Profit for the year	—	—	264,604	(147)	264,457
Currency translation differences	—	(341)	—	—	(341)
Balance at 31st December 2006	120,386	1,368,148	(748,589)	—	739,945

The notes on pages 34 to 83 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

1. General information

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

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

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

2. Principal accounting policies

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

(a) Basis of preparation

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

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

The adoption of new/revised HKFRS

The following new standards, amendments to published standards and interpretations are mandatory for the Group's accounting periods beginning on or after 1st January 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1st January 2006. The amendment has no material effect on the Group's policy;
- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1st January 2006. The amendment has no material effect on the Group's policy;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1st January 2006. The amendment has no material effect on the Group's policy;

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1st January 2006. The amendment has no material effect on the Group's policy;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1st January 2006. The amendment has no material effect on the Group's policy;
- HKFRS 6, "Exploration for and evaluation of mineral resources" and its amendments, effective for annual periods beginning on or after 1st January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1st January 2006. The Group has reviewed its contracts. This interpretation has no material effect on the Group's policy;
- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market" waste electrical and electronic equipment", effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1st March 2006. Management do not expect the interpretation to have material effect on the Group's policy;
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1st May 2006. Management do not expect the interpretation to have material effect on the Group's policy;
- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June 2006. Management do not expect the interpretation to have material effect on the Group's policy;

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1st November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st January 2007, but it is not expected to have any impact on the Group's financial statements; and
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January 2007, and HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.

(b) Group accounting

(i) Consolidation

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

(ii) Subsidiaries

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(ii) **Subsidiaries** *(Continued)*

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

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

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

(iii) **Associated companies and jointly controlled entity ("JCE")**

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(b) Group accounting (Continued)

(iii) Associated companies and jointly controlled entity ("JCE") (Continued)

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

(c) Property, plant and equipment

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

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

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

Leasehold buildings outside Hong Kong	25 years
Plant, equipment and other assets	3 to 10 years

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

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

(d) Leases

Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(d) Leases (Continued)

Finance lease

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

(e) Intangible assets

(i) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated companies/JCE at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/JCE is included in investments in associated companies/JCE. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) **Exclusive advertising agency right**

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(e) Intangible assets (Continued)

(iii) Programmes and film rights

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

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

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

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

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

(iv) Programmes and films in progress

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies *(Continued)*

(f) Financial Assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) *Available-for-sale financial assets*

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(f) Financial Assets (Continued)

(iii) Available-for-sale financial assets (Continued)

Purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sales are recognized in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

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

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out basis, comprises software solutions. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies *(Continued)*

(h) Translation of foreign currencies

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

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

(iii) **Group companies**

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognized as a separate component of equity.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(h) Translation of foreign currencies (Continued)

(iii) Group companies (Continued)

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

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

(i) Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amount due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

(j) Cash and cash equivalents

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

(k) Provisions

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

(l) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 that have been enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies *(Continued)*

(l) **Deferred income tax** *(Continued)*

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

(m) **Revenue recognition**

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

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

Securities trading income is recognized when the title has passed.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefit costs

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

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

(iii) Share-based compensation

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(n) Employee benefits (Continued)

(iii) Share-based compensation (Continued)

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

(o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial assets or financial liability, including fees and commissions paid to agents, adviser, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity.

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

(p) Segment reporting

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

2. Principal accounting policies (Continued)

(q) Impairment of assets

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

(r) Share capital

Ordinary shares and preference shares are classified as equity.

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

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

(s) Dividend distribution

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

3. Financial risk management

(i) Financial risk factors

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

(a) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

3. Financial risk management (Continued)

(i) Financial risk factors (Continued)

(b) Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The carrying amounts of cash and bank balances, trade receivables, and prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

(c) Foreign exchange risk

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

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

(d) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(ii) Fair value estimation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

4. Critical accounting estimates and judgments

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

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Had the pre-tax discount rate applied to the discounted cash flow been different from the management's estimate, the goodwill might result in impairment (note 14).

(ii) Amortization and impairment of programmes and film rights

In accordance with the accounting policy stated in note 2(e) (ii), programmes and film rights are amortized based on estimated projected revenues over their expected economic beneficial periods, and additional amortization will be charged if estimated projected revenues adversely differ from the previous estimation. Programmes and film rights are impaired to its net realizable value which is estimated based on projected revenues. Actual revenues might differ from such future revenue projections. Had there been change to the revenue projection, the programmes and film rights might result in impairment.

(iii) Income taxes

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

5. Sales and other revenues

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

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales:		
Television advertising	217,725	—
Licensing and sub-licensing of film and TV programs	62,594	10,359
Sales of goods	—	19,384
Securities trading	21,954	1,387
Provision of computer telephony integration engineering and IP related services	2,629	2,942
	304,902	34,072
Other revenues:		
Preference dividend income	6,589	5,036
Unrealized gain on securities	330	2,000
Interest income	9,047	3,098
Miscellaneous	496	16
	16,462	10,150
Total revenues	321,364	44,222

The non-cash revenue arising from exchange of goods or services during the year included in sales from television advertising amounted to HK\$2,264,000 (2005: nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

6. Segment information

At 31st December 2006, the Group is organized into two main business segments: (i) television advertising business; and (ii) film and TV dramas business. Other Group operations mainly comprise the provision of IP Telephony and related services; and trading of investment securities. Neither of these constitutes a separately reportable segment for the year.

There are no sales between the business segments.

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

	2006			Total HK\$'000
	Television advertising HK\$'000	Film and TV drama HK\$'000	Others HK\$'000	
Sales	217,725	62,594	24,583	304,902
Segment results	44,623	32,121	6,877	83,621
Interest income on loan from a JCE				8,798
Exchange gain				9,446
Unallocated costs, net				(10,915)
Operating profit				90,950
Finance costs				(51,232)
Fair value gain on financial assets at fair value through profit or loss				185,553
Fair value gain on investment in preference shares				34,317
Share of profit of a jointly controlled entity	9,720	1,224	—	10,944
Share of profit of a former associated company	—	—	5,990	5,990
Profit before taxation				276,522
Taxation				(12,065)
Profit for the year				264,457
Minority interests				147
Profit attributable to equity holders of the Company				264,604
Segment assets	919,129	129,918	15,748	1,064,795
Goodwill	378,988	117,096	—	496,084
Interests in jointly controlled entities				
— current				84,384
— non-current				70,259
Unallocated assets				128,027
Total assets				1,843,549
Segment liabilities	929,652	48,949	649	979,250
Unallocated liabilities				124,354
				1,103,604
Capital expenditure				
Allocated	979,322	40,038	42	1,019,402
Unallocated				1,608
Depreciation				
Allocated	520	399	68	987
Unallocated				319
Amortization	164,176	17,584	—	181,760

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

6. Segment information (Continued)

Primary reporting format — business segments (Continued)

	2005		
	Media-related business	Other	Total
	HK\$'000	HK\$'000	HK\$'000
Sales	10,359	23,713	34,072
Segment results	4,747	(3,688)	1,059
Net gain on dilution of interests in a former associated company			10,637
Exchange gain			2,205
Unallocated costs, net			(12,640)
Finance costs			1,261
Fair value gain on investment in preference share			(3,634)
Share of loss of a jointly controlled entity			2,439
Share of losses of a former associated company			(13,700)
			(8,223)
Loss before taxation			(21,857)
Taxation			(330)
Loss for the year			(22,187)
Minority interests			—
Loss attributable to equity holders of the Company			(22,187)
Segment assets	277,852	21,098	298,950
Interests in a former associated company			19,663
Interests in a jointly controlled entity			
— current			67,691
— non-current			56,130
Unallocated assets			90,584
Total assets			533,018
Segment liabilities	23,440	727	24,167
Unallocated liabilities			82,003
			106,170
Capital expenditure			
Allocated	63,453	—	63,453
Unallocated			245
Depreciation			
Allocated	—	253	253
Unallocated			23
Amortization	5,265	—	5,265

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For the year ended 31st December 2006

6. Segment information (Continued)

Primary reporting format — business segments (Continued)

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

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

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

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

7. Finance costs

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loan	3	48
Other loans	556	—
Amount due to a fellow subsidiary		
— repayable within one year	—	517
	559	565
Notional non-cash interest accretion on:		
— Convertible notes	4,380	3,069
— Pre-agreed periodic payments on exclusive advertising agency right (note 14)	46,293	—
	50,673	3,069
	51,232	3,634

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

8. Profit/(loss) before taxation

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

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other gains		
Exchange gain	9,446	2,205
Expenses by nature		
Depreciation of property, plant and equipment	1,306	295
Amortization of intangible assets	181,760	5,265
Auditors' remuneration	1,622	2,316
Operating lease rentals — land and buildings	4,538	1,518
Loss on sale of subsidiaries	—	115
Staff costs (excluding directors' remuneration, <i>note 12(a)</i>):		
Wages and salaries	16,101	3,293
Long service payment provision	—	344
Contributions to defined contribution pension schemes	457	102
Provision for bad and doubtful debts	—	626
Write-off of bad and doubtful debts	—	30

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

9. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit of the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
— Hong Kong profits tax	—	—
— Overseas taxation	24,003	330
Deferred income tax	(11,938)	—
	12,065	330

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	276,522	(21,857)
Calculated at a tax rate of 17.5% (2005: 17.5%)	48,391	(3,825)
Effect of different rates in other countries	942	(1,544)
Income not subject to taxation	(44,584)	(4,607)
Expenses not deductible for taxation purposes	2,951	5,833
Unrecognized tax losses	4,365	4,473
Taxation charge	12,065	330

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

9. Taxation (Continued)

The movement of the Group's deferred tax assets account is as follows:

	Decelerated tax amortization in the PRC <i>HK\$'000</i>
At 1st January 2005 and 31st December 2005	—
Credited to income statement	11,938
Exchange differences	233
At 31 December 2006	12,171

Deferred tax assets are not recognized for tax losses carry forward to the extent that the realization of the related tax benefit through the future taxable profits is not probable. As at 31st December 2006, the Group had unrecognized tax losses of approximately HK\$250,586,000 (2005: HK\$236,439,000) to carry forward against future taxable income indefinitely, subject to Inland Revenue Department's approval.

10. Earnings per share

Basic

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company	264,604	(22,187)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	11,236,269	7,355,352
Basic earnings per share (<i>HK cents per share</i>)	2.36	(0.30)

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

10. Earnings per share (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of potential ordinary shares: share options and convertible notes. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share option. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. On the other hand, the conversion of all potential ordinary shares arising from convertible notes would have an anti-dilutive effect on the earnings per share for the year ended 31st December 2006.

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

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

There were no potential ordinary shares from share options granted and from the convertible notes at 31st December 2005. The conversion of all potential ordinary shares arising from share options granted by the Company and convertible notes would have an anti-dilutive effect on the loss per share for the year ended 31st December 2005.

11. Dividends

The Company has paid interim dividend in specie of HK\$211,206,000 (HK\$0.022 per share) in May 2006 by distributing 113,318,812 ordinary shares of DVN (Holdings) Limited to its then shareholders. The distribution was made out of share premium account of the Company. The directors do not recommend the payment of a final dividend in respect of the year ended 31st December 2006 (2005: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

12. Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2006	2005
	HK\$'000	HK\$'000
Fees:		
Non-executive directors	600	696
Other emoluments:		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	4,994	4,347
Contributions to defined contribution Mandatory Provident Fund	30	35
	5,624	5,078

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

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

* Resigned in 2006

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

12. Directors' and senior management's emoluments (Continued)

(a) Directors' emoluments (Continued)

The remuneration of each Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Others benefits	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Ko Chun Shun, Johnson	—	2,053	79	—	12	2,144
Mr. Dong Ping	—	660	—	—	—	660
Mr. Shen Ka Yip, Timothy*	—	880	—	—	11	891
Mr. Tsoi Tong Hoo, Tony	120	600	75	—	12	807
Mr. Cheong Chow Yin*	144	—	—	—	—	144
Mr. Wilton Timothy Carr Ingram	144	—	—	—	—	144
Dr. Wong Yau Kar, David	144	—	—	—	—	144
Mr. Yuen Kin	144	—	—	—	—	144

* Resigned in 2006

(a) Other than as presented above, for 2005 and 2006 there were:

- (i) no arrangement under which a director waived or agreed to waive any remuneration;
- (ii) no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office; and
- (iii) no share options of the Company have been granted to directors.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

12. Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors and ex-director whose emoluments are reflected in the analysis presented above. The emoluments payable to the two (2005: two) individuals during the year are as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, bonuses, other allowances and benefits in kind	800	615
Contributions to defined contribution Mandatory Provident Fund	18	24
	818	639

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK\$NIL — HK\$1,500,000	2	2
HK\$1,500,001 — HK\$2,000,000	—	—
	2	2

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

13. Property, plant and equipment

	Leashold buildings outside HK	Plant, equipment and other assets	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January 2005	2,907	8,318	11,225
Additions	—	245	245
Write-offs	—	(76)	(76)
Disposal of subsidiaries	(2,907)	—	(2,907)
At 31st December 2005	—	8,487	8,487
Accumulated depreciation			
At 1st January 2005	810	7,895	8,705
Charge for the year	19	276	295
Write-offs	—	(306)	(306)
Disposal of subsidiaries	(829)	—	(829)
At 31st December 2005	—	7,865	7,865
Net book value:			
At 31st December 2005	—	622	622
Cost			
At 1st January 2006	—	8,487	8,487
Additions	—	6,913	6,913
Acquisition of a subsidiary (note 28(b))	—	758	758
Write-offs	—	(227)	(227)
Adjustment to translation reserve	—	126	126
At 31st December 2006	—	16,057	16,057
Accumulated depreciation			
At 1st January 2006	—	7,865	7,865
Acquisition of a subsidiary (note 28(b))	—	35	35
Charge for the year	—	1,306	1,306
Write-offs	—	(227)	(227)
Adjustment to translation reserve	—	21	21
At 31st December 2006	—	9,000	9,000
Net book value:			
At 31st December 2006	—	7,057	7,057

Depreciation expense of HK\$1,306,000 (2005: HK\$295,000) has been included in administrative expenses.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

14. Intangible assets

	Goodwill	Exclusive advertising agency right	Program and film rights	Program and film production in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005					
Cost	—	—	—	—	—
Accumulated amortization	—	—	—	—	—
Net book amount	—	—	—	—	—
Year ended 31st December 2005					
Opening net book amount	—	—	—	—	—
Acquisition of a subsidiary	189,798	—	—	—	189,798
Additions	—	—	50,591	12,862	63,453
Exchange difference	—	—	(29)	—	(29)
Amortization expense	—	—	(5,265)	—	(5,265)
Closing net book amount	189,798	—	45,297	12,862	247,957
At 31st December 2005					
Cost	189,798	—	50,562	12,862	253,222
Accumulated amortization	—	—	(5,265)	—	(5,265)
Net book amount	189,798	—	45,297	12,862	247,957
Year ended 31st December 2006					
Opening net book amount	189,798	—	45,297	12,862	247,957
Acquisition of a subsidiary (note 30)	3,846	—	—	—	3,846
Additional purchase consideration and transaction costs	302,329	—	—	—	302,329
Additions	—	976,180	8,857	29,060	1,014,097
Amortization expense (note 8)	—	(164,176)	(17,584)	—	(181,760)
Exchange difference	111	24,948	1,406	1,135	27,600
Closing net book amount	496,084	836,952	37,976	43,057	1,414,069
At 31st December 2006					
Cost	496,084	1,004,342	58,503	43,057	1,601,986
Accumulated amortization	—	(167,390)	(20,527)	—	(187,917)
Net book amount	496,084	836,952	37,976	43,057	1,414,069

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For the year ended 31st December 2006

14. Intangible assets (Continued)

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

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

Amortization of HK\$181,760,000 (2005: HK\$5,265,000) is included in the cost of sales.

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

Impairment tests for cash-generating units containing goodwill

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

	2006
	HK\$'000
TV advertising business	378,988
Film and TV drama business	117,096
	496,084

In 2005, the Group had only one CGU containing goodwill, which was the media-related business in the PRC.

Notes to the Consolidated Financial Statements

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14. Intangible assets (Continued)

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

Key assumptions used for value-in-use calculations:

TV advertising business	
	%
— Average annual revenue growth rate in five-year period	22%
— Annual growth rate beyond the five-year period	0%
— Discount rate	15%
Film and TV drama business	
	%
— Average annual gross margin in five-year period	24%
— Annual gross margin beyond the five-year period	17%
— Discount rate	15%

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

15. Investments in subsidiaries

	Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at cost	193,018	193,018
Provision for impairment loss	(140,000)	(140,000)
Amounts due from subsidiaries — non-current	53,018	53,018
	674,948	372,619
	727,966	425,637

The balances with subsidiaries are unsecured, interest-free and are not repayable within one year.

Particulars of the principal subsidiaries are set out in note 36 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

16. Interests in associated companies

The Group's interests in the ordinary shares of DVN (Holdings) Limited were reclassified as financial asset at fair value through profit or loss during the year. These ordinary shares were distributed to the Company's shareholders during the year.

The principal associated company as at 31st December 2006 is as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly		Principal activities and place of operation
			2006	2005	
北京電發網博科技有限公司	The People's Republic of China, co-operative joint venture	US\$5,000,000	35.00%	35.00%	Provision of IP Telephone services in the PRC

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	(528)	(11,672)
Loan to a jointly controlled entity	70,787	67,802
	70,259	56,130

Loan to a jointly controlled entity is unsecured, interest-bearing at prevailing market rates and not repayable in the coming twelve months.

The current portion of the amount due from a jointly controlled entity is unsecured, interest-bearing at prevailing market rates and has no fixed repayment terms.

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

The principal jointly controlled entity companies as at 31st December 2006 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/preference share/registered capital	Interest held indirectly		Principal activities and place of operation
			2006	2005	
(1) AUFM GROUP					
Asian Union Film and Media (*)	The People's Republic of China, limited liability company	RMB120,000,000	50%	50%	Investment in television drama, film production and advertising production in the PRC
Hai Nan Haishi Travel Satellite TV Media Co., Ltd (*)	The People's Republic of China, limited liability company	RMB115,963,100	24.50%	24.50%	Production of television programmes (other than news) for the Travel Channel in the PRC
Beijing Ying Shi Film & Television Art Limited Liability Company (*)	The People's Republic of China, limited Liability company	RMB500,000	30%	30%	Television drama production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	The People's Republic of China, limited liability company	RMB1,020,000	25.50%	25.50%	Advertisement production in the PRC
(2) 上海艾普華億廣告有限公司	The People's Republic of China, limited liability company	RMB1,000,000	49%	—	Advertising agency in the PRC

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

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

The consolidated results and financial position of the AUFM, of which the Group held 50% equity interests, at 31st December 2006 were as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets:		
Non-current assets	308,402	280,444
Current assets	21,731	66,541
	330,133	346,985
Liabilities:		
Current liabilities	(274,048)	(303,935)
Long-term liabilities	(139,008)	(143,329)
	(413,056)	(447,264)
Net Liabilities	(82,923)	(100,279)
		Period from 1st June 2005 to 31st December 2005
	2006	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income	21,131	58,343
Share of profit/(loss) of an associated company	19,440	(15,649)
Expenses	(18,683)	(101,492)
Profit/(loss) for the period	21,888	(58,798)

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

18. Investment in preference shares and preference dividends receivable

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment in preference shares is segregated into:		
— Available-for-sale portion	48,750	48,750
— Derivative portion	49,145	14,828
End of year	97,895	63,578

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

During the year, the shareholders of the Company have approved the Board of Directors' mandate to dispose of the Group's investment in preference shares including the rights to receive dividends attached to the preference shares on a normal commercial terms from time to time during the twelve-month period after the shareholders have approved the granting of the mandate. Since then, the investment in preference shares has been classified as current asset in the Group's consolidated balance sheet.

19. Trade receivables

At 31st December 2006, the aging analysis of trade receivables is as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Note 35)
0 — 3 months	26,306	1,091
4 — 6 months	32,974	16,410
Over 6 months	25,754	—
	85,034	17,501

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

19. Trade receivables (Continued)

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

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform completely as contracted. Top five trade receivables accounted for 77% of total trade receivables as at 31st December 2006. Management does not expect any material losses from non-performance by these counterparties.

Included in the trade receivables was an amount due from a related party of approximately HK\$20,076,000. An amount due from a related company of HK\$16,324,000 was included in prepayments, deposits and other receivables as at 31st December 2005 and was reclassified to trade receivables to conform with the current year's presentation.

20. Financial assets at fair value through profit and loss

	Group	
	2006	2005
	HK\$'000	HK\$'000
Equity securities:		
Listed in Hong Kong	11,150	12,000

The unrealized gain on equity securities is included in other revenues in the consolidated income statement.

21. Prepayments, deposits and other receivables

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments, deposits and other receivables	22,591	4,640	1,006	1
Amounts due from a related company and subsidiaries of JCE (i)	5,710	4,742	—	—
	28,301	9,382	1,006	1

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

22. Trade payables

At 31st December 2006, the aging analysis of trade payables is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 — 3 months	17	—
4 — 6 months	231	1
Over 6 months	35	33
	283	34

23. Other payables and accrued liabilities

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits received, accrued charges and other payables	61,166	5,615	2,120	1,061
Amount due to a fellow subsidiary	—	18	—	—
Amount due to an associated company	—	470	—	—
Amount due to a subsidiary of JCE	—	6,237	—	—
	61,166	12,340	2,120	1,061

24. Loans

	Group	
	2006	2005
	HK\$'000	HK\$'000
Wholly repayable within one year:		
Bank loan	16,000	8,621
Other loan	6,776	6,137
	22,776	14,758

The bank loan is interest-bearing at 5% per annum and is secured against the Group's pledged bank deposits of HK\$17,000,000. The other loan is interest bearing at 6% per annum, unsecured and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

25. Convertible notes

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

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

	Group and the Company 2006
	<i>HK\$'000</i>
Fair value of Second Tranche Convertible Note issued during the year	299,820
Equity portion	(181,000)
Liability portion at the issuance date	118,820
Interest accretion	2,410
Liability portion at 31st December 2006	121,230

The net book value of the liability portion of Second Tranche Convertible Note at 31st December 2006 approximates to its fair value, which is calculated using cash flows discounted at a rate of 7.85% per annum, based on the yield of bonds issued in US dollar with a rating of B, whose maturity is 3 to 4 years.

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

The First Tranche Convertible Note, whose carrying amount was approximately HK\$77,070,000 as at 31st December 2005, has been fully converted into 2,122,136,612 ordinary shares of the Company on 18th May 2006.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

26. Share capital

	Authorized				
	Preference shares of HK\$0.01 each		Ordinary shares of HK\$0.01 each		Total
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000	HK\$'000
At 1st January 2005 and 31st December 2005	240,760	2,408	30,000,000	300,000	302,408
At 1st January 2006 and 31st December 2006	240,760	2,408	30,000,000	300,000	302,408

	Issued and fully paid				
	Preference shares of HK\$0.01 each		Ordinary shares of HK\$0.01 each		Total
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000	HK\$'000
At 1st January 2005	240,760	2,408	3,274,293	32,743	35,151
Issue of shares on placing	—	—	654,850	6,549	6,549
Issue of shares on acquisition of a subsidiary company	—	—	5,746,571	57,465	57,465
Conversion of preference shares	(240,760)	(2,408)	240,760	2,408	—
At 31st December 2005	—	—	9,916,474	99,165	99,165
At 1st January 2006	—	—	9,916,474	99,165	99,165
Conversion of convertible note (i)	—	—	2,122,137	21,221	21,221
At 31st December 2006	—	—	12,038,611	120,386	120,386

Ordinary shares

During the year, the Company issued ordinary shares as follows:

- (i) On 18th May 2006, 2,122,136,612 ordinary shares were issued upon the full conversion of the First Tranche Convertible note at a conversion rate of HK\$0.049 per share. Details of the transaction is disclosed in the Company's circular dated 13th May 2005.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

26. Share capital (Continued)

Share options

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 30th June 2005, the Company can grant up to 991,647,402 share options to the Qualified Persons.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company. During the year, no share-based compensation is charged to the consolidated income statement (2005: Nil) since all share options outstanding were fully vested before 1st January 2005.

Movement of share options during the year:

Date of Share Options Granted	Number of share options outstanding as at 1st January 2006	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2006	Exercise period	Exercise price per share
1/12/2004	277,400,000	—	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
	277,400,000	—	—	—	277,400,000		

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

27. Reserves

Group

	Attributable to the equity holders of the Company									
	Share premium	Merger reserve	Available for sale investments	Convertible notes	Currency translation reserve	Interests in a former associated company	Acc-umulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2005	172,353	860,640	120	—	(171)	—	(991,006)	41,936	—	41,936
Loss for the year	—	—	—	—	—	—	(22,187)	(22,187)	—	(22,187)
Issue of shares — placing	69,639	—	—	—	—	—	—	69,639	—	69,639
Issue of shares										
— business combination	205,216	—	—	—	—	—	—	205,216	—	205,216
Convertible notes										
— equity component	—	—	—	29,984	—	—	—	29,984	—	29,984
Currency translation difference	—	—	—	—	1,529	—	—	1,529	—	1,529
Movement in reserves of a former associated company	—	—	—	—	—	1,566	—	1,566	—	1,566
Balance at 31st December 2005	447,208	860,640	120	29,984	1,358	1,566	(1,013,193)	327,683	—	327,683
Balance at 1st January 2006	447,208	860,640	120	29,984	1,358	1,566	(1,013,193)	327,683	—	327,683
Profit for the year	—	—	—	—	—	—	264,604	264,604	(147)	264,457
Conversion of convertible notes	87,803	—	—	(29,984)	—	—	—	57,819	—	57,819
Convertible notes										
— equity component	—	—	—	181,000	—	—	—	181,000	—	181,000
Dividend in specie										
— interest in ordinary shares of DVN (Holdings) Limited	(209,640)	—	—	—	—	(1,566)	—	(211,206)	—	(211,206)
Currency translation difference	—	—	—	—	(341)	—	—	(341)	—	(341)
Injection by minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	147	147
Balance at 31st December 2006	325,371	860,640	120	181,000	1,017	—	(748,589)	619,559	—	619,559

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

27. Reserves (Continued)

Company

	Share premium (ii)	Convertible notes	Retained profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005	172,353	—	(147,871)	24,482
Issue of shares on placing	69,639	—	—	69,639
Issue of shares — business combination	205,216	—	—	205,216
Issue of convertible notes — equity component	—	29,984	—	29,984
Loss for the year	—	—	(6,375)	(6,375)
At 31st December 2005	447,208	29,984	(154,246)	322,946
At 1st January 2006	447,208	29,984	(154,246)	322,946
Conversion of convertible notes	87,803	(29,984)	—	57,819
Issue of convertible notes				
— equity component	—	181,000	—	181,000
Dividend in specie				
— interest in ordinary shares of DVN Holdings Limited	(209,640)	—	—	(209,640)
Profit for the year	—	—	199,774	199,774
At 31st December 2006	325,371	181,000	45,528	551,899

Notes:

- (i) The merger reserve of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Universal Appliances Limited pursuant to the group reorganization in 2002, and the consolidated net asset value of Universal Appliances Limited so acquired. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.
- (ii) The share premium of the Company represents the excess of the fair value of the issued shares over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

28. Notes to the consolidated cash flow statement

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

	2006	2005
	HK\$'000	HK\$'000
Profit/(loss) before taxation	276,522	(21,857)
Adjustments for:		
— Share of (profit)/loss of jointly controlled entity	(10,944)	13,700
— Share of (profit)/loss of a former associated company	(5,990)	8,223
— Interest income	(9,047)	(104)
— Depreciation	1,306	295
— Amortization of intangible assets	181,760	5,265
— Fair value gain on financial assets at fair value through profit or loss	(185,553)	—
— Unrealized gain on trading securities	—	(2,000)
— Preference share dividend income	(6,589)	(5,036)
— Finance costs	51,232	3,634
— Increase in fair value of preference share	(34,317)	(2,439)
— Increase in fair value of preference share dividend receivable	(2,257)	—
— Gain on disposal of property, plant and equipment	—	(230)
— Net gain on dilution of interest in an associated company	—	(10,637)
Operating profit/(loss) before working capital changes	256,123	(11,186)
Changes in working capital:		
— Decrease in financial assets in fair value through profit or loss	850	—
— Decrease in inventories	10	95
— Increase in amounts due from a jointly controlled entity and its subsidiaries	(10,880)	(113,003)
— Increase in trade receivables, prepayments, deposits and other receivables	(49,538)	(22,738)
— Decrease in agency fee payables, trade payables, other payables and accrued liabilities	(169,933)	(21,936)
Cash generated from/(used in) operations	26,632	(168,768)

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

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

(b) Acquisition of interests in a subsidiary

Details of acquisition of interests in a subsidiary:

	2006	2005
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	723	—
Investment in a jointly controlled entity	—	17,549
Amount due from a jointly controlled entity	—	160,937
Prepayments, deposits and other receivables	36,914	2,154
Cash and cash equivalents	1,589	2,000
Payables and accrued liabilities	(40,399)	(97)
	(1,173)	182,543
Goodwill	3,846	189,798
	2,673	372,341
Satisfied by:		
Consideration payable		
Issue of shares	—	(262,681)
Convertible notes	—	(103,985)
Cash	2,673	5,675
Cash and cash equivalents in subsidiaries acquired	(1,589)	(2,000)
Cash outflow on acquisition	1,084	3,675

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

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

(c) Significant non-cash transactions

- (i) In September 2006, the Company issued Second Tranche Convertible Note with a fair value of approximately HK\$299,820,000 (please refer to note 25 for details) as additional consideration for the acquisition of 100% equity interests in Anglo Alliance Co., Ltd. that was completed in May 2005. The goodwill of the Group has been increased by the same amount accordingly.
- (ii) In May 2006, 2,122,136,612 ordinary shares were issued upon the full conversion of the First Tranche Convertible Note at a conversion rate of HK\$0.049 per share.
- (iii) During the year, the Company has distributed the Group's interests in the ordinary shares of DVN (Holding) Limited to its shareholders. The distribution was made out of the share premium.
- (iv) During the year, the Group has acquired from Travel TV an exclusive advertising agency right (an intangible asset) initially recognized at the net present value of the corresponding agency fee payable of approximately HK\$976,180,000 (please refer to note 14 for details).

29. Commitments

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2006	2005
	HK\$'000	HK\$'000
Not later than one year	128	577
Later than one year and not later than five years	—	50
	128	627

	Equipment	
	2006	2005
	HK\$'000	HK\$'000
Not later than one year	14	14
Later than one year and not later than five years	42	56
	56	70

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

30. Business combinations

On 1st January 2006, the Group has acquired 100% equity interest in Qiansi, a company that principally engaged in the sale of television advertisements, for a cash consideration of approximately HK\$2,673,000. Qiansi was 60% owned by a jointly controlled entity of the Group prior to the acquisition.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration — cash paid	2,673
Fair value of net identifiable liabilities acquired (see below)	1,173
Goodwill (note 14)	3,846

The goodwill is attributable to the future expected profitability of the acquired business and the significant synergies expected to arise after the reorganization.

The assets and liabilities arising from the acquisition are as follows:

	Acquirees' carrying amount	Aggregated fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	1,589	1,589
Property, plant and equipment	723	723
Receivables	36,914	36,914
Payable	(40,399)	(40,399)
Net identifiable liabilities acquired	(1,173)	(1,173)
Outflow of cash to acquire business, net of cash acquired		
— cash consideration		2,673
— cash and cash equivalents in subsidiary acquired		(1,589)
Cash outflow on acquisition		1,084

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

31. Related party transactions

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

	2006	2005
	HK\$'000	HK\$'000
Purchase of programs and film rights from a JCE	1,000	34,574
Purchase of revenue receivable rights of certain programs and films from a JCE	—	17,252
Purchases of investment in a film from a JCE	—	12,561
Dividend income from an associated company	6,589	5,036
Sale of advertising resources to an associated company of a JCE	44,136	—
Interest income from loan to a JCE	8,798	8,174
Purchase of property, plant and equipment from a JCE	2,040	—

(ii) Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 12(a) and certain of the highest paid employees is disclosed in note 12(b).

32. Profit/(loss) attributable to ordinary shareholders

The profit attributable to ordinary shareholders is dealt with in the financial statements of the Company to the extent of HK\$199,774,000 (2005: loss of HK\$6,375,000).

33. Approval of consolidated financial statements

The consolidated financial statements were approved by the board of directors on 23rd April 2007.

34. Events after the balance sheet date

On 16th March 2007, the corporate income tax law was passed at the Fifth Session of Tenth National People's Congress of PRC whereby all enterprises with operations in the PRC will be subject to the same statutory income tax rate effective from 1st January 2008. As at the date that these consolidated financial statements are approved for issue, detail measures of the new law has yet to be issued. The Group will evaluate the impact of the new law on the operating results and the financial position of the future periods as more detail measures and other related regulations are announced.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

35. Comparative figures

Certain 2005 Comparative figures have been reclassified in order to be consistent with the current year presentation.

36. Particulars of principal subsidiaries

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Anglo Alliances Co. Ltd	British Virgin Islands, limited company	US\$2 ordinary	100%	Investment holding
Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (*)	PRC, co-operative joint venture	RMB30,000,000	100%	Investment holding and licensing of films and TV drama
Beijing E-Pay Net Technology Co. Ltd.	PRC, co-operative joint venture	US\$2,680,000 ordinary	70%	Provision of communication Services in the PRC
Beijing Jiya Telecommunication Engineering Co Ltd	PRC, co-operative joint venture	US\$2,680,000 ordinary	70%	Provision of computer telephony integration engineering service in the PRC
Asian Union New Media (Hong Kong) Limited (formerly known as "Barnwell Enterprises Limited")	Hong Kong, limited company	HK\$2 ordinary	100%	Group treasury and administrative services in Hong Kong
Beijing Hua Yi Qian Si Advertising Company Limited (*)	PRC, limited liability Company	RMB 5,000,000	100%	Advertising agency

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

36. Particulars of principal subsidiaries (Continued)

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Global Assets Limited	Hong Kong, limited company	HK\$5,000,000 ordinary	100%	Group treasury and administrative services in Hong Kong
Million Way Enterprises Limited	British Virgin Islands, limited company	US\$1 ordinary	100%	Investment holding
Netbroad Communication Limited	British Virgin Islands, limited company	HK\$1 ordinary	100%	Investment holding
Orient Venture Limited	Hong Kong, limited company	HK\$2 ordinary	100%	Investment holding
Prime Pacific International Limited	British Virgin Islands, limited company	US\$50,000 ordinary	67%	Investment holding
Smoothline Limited	Hong Kong, limited company	HK\$7,500,000 ordinary	100%	Inactive
Super China Development Limited	British Virgin Islands, limited company	US\$1 ordinary	100%	Investment holding
Universal Appliances Limited	Hong Kong, limited company	HK\$499,373,000 ordinary HK\$43,337,000 Preference	#100%	Investment holding

Shares held directly by the Company

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

Except for Asian Union New Media (Hong Kong) Limited and Global Assets Limited, the statutory financial statements of all other subsidiaries for years ended 31st December 2006 and 2005 are not audited by PricewaterhouseCoopers.

Financial Summary

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

Results

	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales					
Continuing operations	304,902	34,072	38,630	30,011	51,791
Operating profit/(loss)	90,950	1,261	8,593	(27,706)	(154,256)
Profit/(loss) before tax	276,522	(21,857)	(8,839)	(69,851)	(171,355)
Taxation	(12,065)	(330)	(1,092)	(195)	—
Minority interests	147	—	—	—	76,252
Profit/(loss) attributable to shareholders	264,604	(22,187)	(9,931)	(70,046)	(95,103)
Property, plant and equipment	7,057	622	2,520	2,560	6,030
Intangible assets	1,414,069	247,957	—	1,685	2,249
Interests in a jointly controlled entity	70,259	56,130	—	—	—
Interests in associated companies	—	19,663	15,348	15,837	39,742
Preference dividends receivable					
— non-current portion	—	14,896	—	—	—
Available for sale financial assets	360	360	—	—	—
Investment in preference shares-non-current	—	63,578	—	—	—
Investment securities	—	—	36,000	36,000	80,508
Other assets	12,171	—	2,065	4,533	6,169
Current assets	339,633	129,812	38,046	72,653	38,643
Total assets	1,843,549	533,018	93,979	133,268	173,341
Current liabilities	290,830	29,100	35,070	59,428	32,803
Long-term liabilities	812,774	77,070	5,000	10,000	21,216
Total liabilities	1,103,604	106,170	40,070	69,428	54,019
Minority interests	—	—	—	—	—
Net assets	739,945	426,848	53,909	63,840	119,322

Notes to the five year summary:

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