

Universal Holdings Limited

友利控股有限公司

2005 ANNUAL REPORT

Stock Code : 419

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Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. Ko Chun Shun, Johnson

Executive Directors

Mr. Dong Ping

Mr. Shen Ka Yip, Timothy

Non-executive Directors

Mr. Cheong Chow Yin

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

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKER

Hang Seng Bank

SOLICITORS

Baker & McKenzie

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Cayman Islands

PRINCIPAL OFFICE IN HONG KONG

Unit 4306-07, Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

WEBSITE

www.uhl.com.hk

Chairman's Statement

BUSINESS FOCUS

On behalf of Universal Holdings 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 2005.

In the past year, the Group successfully underwent a period of transformation. While we have principally been engaged in the retail and distribution of home audio and video equipment as well as provision of IP telephony and related services, the Group observed that there were promising opportunities in the China media industry. Consequently, we acquired the entire issued share capital of Anglo Alliance whose principal asset represents 50% interest in Asian Union Film and Media ("AUFM"), thus launching the Group into the high growth media business in China.

The impetus that motivated Universal Holdings into entering this burgeoning sector began when the Chinese government proposed to deregulate the media sector. In a market with vast number of consumers and ever-increasing consumption power, we foresee an exponential level of growth in this sector as well as potentially huge demand for media content. While in the past, China's media industry was highly regulated, there has been a gradual shift that followed the country's entry into the WTO, thus allowing businesses such as our own to take a participatory role. The opening of China's media sector does not place early entrants at a disadvantage, but actually expands the overall size of the market as people become more aware and interested in getting involved.

Universal Holdings recognised this opportunity and by acquiring Anglo Alliance has become one of the first entrants in the China media industry — gearing ahead for still greater growth. We regard the acquisition of Anglo Alliance as a major and proactive step forward. By holding interest in one of the largest media corporations in China, we have realised our vision of expanding the Group's reach into the country's media market.

Anglo Alliance Group is engaged in various media related businesses in China, including production of television dramas, movies, as well as advertising agency and advertisement productions. It also holds a company which in turn owns the operating rights of a nation wide Channel in China with a theme in Travel and Leisures (the "Travel Channel"). The acquisition not only offers us an ideal opportunity to invest in the local media industry, particularly the advertising segment, but also helps the Group to diversify its income stream. It is a valuable opportunity to acquire interest in such a well-established media business that already has an experienced management team in place; hence the initiative has been a prudent and opportune one.

While developing into a new sector, the Group's other major investment in recent years, the business of DVN (Holdings) Limited ("DVN"), continues to improve, reflecting increasing acceptance and adoption of set-top boxes ("STB") in STB deployments throughout China as the country embraces digitalisation on a mass scale.

Chairman's Statement

PROSPECTS

We are bullish about the prospects of the China media industry which is a key component of the consumer sector and is expected to maintain a strong "outperformance" for at least up to 2008 — the year of the Olympics in Beijing. The outlook appears particularly bright in the advertising industry which has experienced a major boost over past years, mainly due to economic upturn around the region, plus the readiness of both consumption and brand expenditure. Moreover, China's advertising industry is expected to continue expanding, characterised by a rapid rise in ad spend within the country.

Anglo Alliance is only the first step in providing shareholders with the opportunity to invest in the China media sector. To further exploit the potential of this segment, we will realign our business focus accordingly. By taking advantage of the growing advertising market in China and the coming Olympics, we remain optimistic about the future well-being of Universal Holdings.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to fellow Directors for their commitment to the Group; and to all our staff for their diligence and dedication. I would also like to thank the shareholders, partners and associates for their continuing support.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 26th April 2006

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31st December 2005, the Group completed its acquisition of the Anglo Alliance, a leading player in the China media industry with access to the Travel Channel. This acquisition launched the Group into the high growth China media sector. After reviewing the operations and analysing the markets and potentials, we have sought to consolidate and focus the Group's business in this growth industry. During the year under review, the Group reported a turnover of approximately HK\$33,691,000 (2004: HK\$38,630,000) and a net loss of HK\$22,187,000 (2004: net loss of about HK\$9,931,000). The loss recorded in the current year was mainly due to the share of loss of the jointly controlled entity and an increase in administration expenses.

Riding on the vast potential of China's media market, and with the tireless efforts made by management on consolidating the Group's businesses, a solid platform has been created and which is expected to help generate material growth in the years ahead. Consistent with its efforts, the Group will continue to strategically focus its operations toward developing the burgeoning China media sector, while placing Anglo Alliance as its core operation.

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

China Media Business

Anglo Alliance is engaged in various media related businesses including investing in movie and television drama productions, serving as an advertising agency and the holding of a joint venture company which owns the operating rights of the Travel Channel. Following its acquisition on 31st May 2005, Anglo Alliance has contributed seven months of revenue to the consolidated accounts of the Group for the year under review.

Capitalising on exponential growth in the TV advertising industry, the "Travel Channel" has become a highlight of the Group's operations. Being one of 31 provincial satellite TV channels with nationwide access, the Travel Channel is well positioned to capture the ever-growing demand by mainland viewers for thematic programming — specialising in travel, lifestyle and entertainment. To better satisfy viewers' diverse needs, the Travel Channel has undergone a major revamp as of 9th January 2006. With fresh, comprehensive content comprising of four categories, namely, reality, variety, fashion and travel, as well as a total of 35 specialised programs, the revamp format has attracted and captivated audiences everywhere.

The Travel Channel, well known for its unique and modern style, holds a distinct identity that is separate from all other TV channels in China. In particular, it is well positioned to attract a niche viewership that is well educated with above average income and corresponding spending power. Thus, the Travel Channel is poised to attract upscale advertisers and stand out from the highly competitive advertising market. The Group is focusing more resources to expand the advertising agency division to capture this high-growth market.

Management Discussion and Analysis

Remaining in the entertainment sphere, the Group is also seeking opportunities arising from the production and distribution of TV drama series and films in China. Accordingly, in 2005, the Group has distributed a number of films such as "Peacock" and "A letter from an unknown woman" and certain TV programs in China and overseas, contributing to a turnover of approximately HK\$10 million to the Group. With the leverage on the name and market position of Asian Union Film and Media ("AUFM"), the Group will continue to explore opportunities to invest in the blockbuster movies and popular TV programs.

Building on the solid business foundation of Anglo Alliance, the Group will seek to consolidate all of its businesses and strive to establish an optimum business model. With promising growth in the media sector and a robust economy in China, the Group foresees a bright future in the multimedia and entertainment sectors.

Digital Broadcasting Investment

With the Chinese government promoting and mandating digitalisation in the country, DVN's sales performance improved significantly with increasing STB sales.

The number of DVN produced boxes and DVN licensed boxes increased by over 3 times compared to 2004, to 1,010,128 set top boxes. As a result, during 2005, DVN's revenue increased by 80% to HK\$304 million, total gross profit increased by 52% to HK\$74.6 million, while EBITDA before provisions reversed to a positive HK\$9.0 million. Net loss declined by 33.5% to HK\$39.7 million. With continued acceleration of its STB distribution, DVN is optimistic that its financial outlook will continue to improve.

Sales have accelerated as DVN has implemented its pioneering mass digitalisation model in Qingdao. The model has been so successful, that SARFT has nominated Qingdao as the flagship city for full digitalisation and is now encouraging cities and even entire provinces to adopt the Qingdao model. With the government's continued push towards digitalisation, DVN expects sales of STBs to continue to increase. For the first three months of 2006, DVN has already sold 426,295 STBs. DVN expects significant sales from Guangxi, the first province in China to attempt to migrate its entire 3 million subscriber network to digital. Foshan will also continue its forced migration rollouts.

DVN continues to look for new partners, particularly those that could help it expand its territories. DVN believes that the opportunities are enormous and that it makes more sense to partner with other companies that can complement DVN's core strength as a system integrator and provider of software for digital television.

Communication Division

With the aim of aligning operations and directing the Group's strategic focus on developing the media business in China, the management has commenced reviewing the communication side of its operations. Accordingly, the long-term strategy for this area of expertise is currently being mapped out. Turnover for the communication division declined from HK\$3,889,000 in 2004 to HK\$2,561,000 in 2005 and has contributed a gain of HK\$60,000 (2004: a loss of HK\$354,000) to the Group.

Management Discussion and Analysis

Securities Trading

The Hong Kong economy continued to generate growth during the year 2005. Capitalising on this improved business environment and positive market sentiment, the Group traded securities in the capital market and recorded a turnover of HK\$1,387,000 (2004: HK\$16,561,000) and a loss of approximately HK\$48,000 (2004: a profit HK\$ of 1,249,000) for this segment.

Home Audio Division

Facing intense price competition in the market, the Group will continue to seek ways to expand into higher value products in order to raise profit margins as well as improve overall performance of the business. Concurrently, the Group will review operations and implement a long-term strategy that aligns the business in sync with its media activities in China. This year, the home audio recorded a turnover of HK\$19,384,000 (2004: HK\$18,180,000) and a loss of approximately HK\$3,700,000 (2004: HK\$3,092,000) for this segment.

Future Prospects

In the future, the Group expects to see promising growth in China's media sector. While taking advantage of being an early entrant in the industry, the Group will continue to focus on this segment and align all of its existing operations with this core business to achieve further synergies.

Among the media industries that Anglo Alliance is engaged in, advertising has become a focal point due to the strong momentum being generated within that segment. The growth of China's economy is expected to moderate in 2006 but remain robust, boosted by solid investments and export indicators that point to strong consumption. Benefiting from this trend, the advertising industry in China is likely to continue enjoying double-digit growth, and at a more rapid rate than many other Asian countries.

Gross estimates from ACNielsen forecasts that China's advertising market will expand by 29.7% in 2006 versus 19.4% in 2005, contributing to almost 34% (gross value: US\$4.8 billion) of the total Asian advertising market (gross value: US\$14.2 billion) in 2006. As well, with still more positive developments ahead, including the 2008 Beijing Olympics and 2010 World Expo in Shanghai, China's advertising industry is expected to reap further growth in the years to come.

Among all of the advertising mediums available in China, CVSC-TNS Research has found that 77.98% of advertising expenditures are directed towards TV advertising, amounting to RMB 150.3 billion, with a further 20-30% increase expected this year. Taking such findings into account, AUFM as well as the Group stands to directly benefit as the former is engaged in the production of quality advertisement for top tier companies.

Consequently, the Group views the advertising sector as a major growth driver and will seek to fully tap into this specific area. Especially since the Travel Channel can serve as an ideal platform for attracting upscale advertisers with its niche positioning, thus helping fuel the Group's growth in the TV advertising market.

Management Discussion and Analysis

Looking ahead, the Group will continue to apply a proactive yet prudent approach to investing in the media field so as to expand its core operations and develop a diversified yet balanced business model. As such, the Management envisions stronger growth potential for its new business and holds the conviction that it will achieve still greater results in the coming years.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December 2005, the Group held cash deposits of HK\$15,548,000, an increase of 9.9% compared to 31st December 2004. The current ratio increased from 1.07 at the prior year end to 4.5 as at 31st December 2005. The gearing ratio, representing long term liabilities to net worth, increased from 0.093 at 31st December 2004 to 0.18 at 31st December 2005.

There were no significant exposures to foreign currency fluctuations. All borrowings during the year were based on market interest rate. The Group had no long term bank loan and no bank overdrafts outstanding as at year end. The Group did not have any assets pledged or charged as at 31st December 2005.

During the year, the Company issued 654,850,000 shares at HK\$0.12 each in February 2005 and raised approximately HK\$78 million for general working capital. The Company also issued approximately 5.747 billion shares for the acquisition of Anglo Alliance.

SIGNIFICANT ACQUISITION

During the year, the Group has acquired 100% equity interests in Anglo Alliance. Anglo Alliance indirectly holds approximately 50% of the registered capital in AUFM. AUFM is engaged in various media related businesses, including production of television drama, investment in movie production, advertising agency as well as advertising and content production for the Travel Channel.

The maximum consideration for this acquisition is HK\$550.0 million, subject to adjustments. Details of this acquisition are disclosed in the Company's circular dated 13th May 2005.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

As at 31st December 2005, the Group employed a total of 10 full-time employees in Hong Kong and a work force of about 33 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 including engineering and product development staff 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 to 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.

The Company has complied with the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31st December 2005 except that Non-executive Directors had no set term of office but retire on rotation basis.

Below are the corporate governance practices adopted by the Group.

THE BOARD

The Board is responsible for the oversight of the management of the Company's business and affairs of the organisation 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, responsible for the day-to-day operations of the Group under the leadership of the Acting Chief Executive Officer.

As at 31st December 2005, the Board comprised eight Directors, including Chairman, one Acting Chief Executive Officer, one Executive Director-Media Division, three Independent Non-executive Directors and two Non-executive Directors. Biographical details of the Directors is contained in the Report of the Directors in this annual report.

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 independent of Directors, the Board follows the requirement set out in the Listing Rules. The Board considers all the Independent Non-executive Directors to be independent during the year and as at this annual report date.

The roles of the Chairman are separated from that of the Acting Chief Executive Officer. Such division of responsibilities helps to reinforce their independent and accountability.

Corporate Governance Report

THE BOARD *(Continued)*

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests for the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of Executive Directors 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 affairs and make contributions 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 Chief Executive Officer and the Executive Director(s), 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 Executive Directors attend to developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board and are directly responsible for maintaining the operational performance of the Group. Working with the executive management team of each core business division, they ensure that the Board is fully apprised of the funding requirements of the businesses of the Group. In addition, the Executive Directors ensure that the funding requirements of the businesses are met and closely monitor 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 is maintained with the Chairman and all Directors to keep them fully informed of all major business developments 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.

Corporate Governance Report

THE BOARD *(Continued)*

The Board held four meetings in 2005 and one meeting to date in 2006 with an average attendance rate of 100%.

	Name of Director	Attended/Eligible to attend
Chairman	Ko Chun Shun, Johnson	5/5
Executive Directors	Dong Ping (<i>Executive Director — Media Division</i>)	3/3
	Shen Ka Yip, Timothy (<i>Acting Chief Executive Officer and Chief Financial Officer</i>)	4/4
Non-executive Director	Cheong Chow Yin	5/5
	Tsoi Tong Hoo, Tony (<i>Note</i>)	5/5
Independent Non- Executive Directors	Wilton Timothy Carr Ingram	5/5
	Dr. Wong Yau Kar David	5/5
	Yuen Kin	5/5

Note: Re-designated from Executive Director to Non-executive Director from 14th March 2005.

All Directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least 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.

Upon appointment to the Board, the Director receives a package of orientation materials and attends extensive presentations given by senior executives to review the Group's businesses. Information is provided to Directors regularly to help ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

In 2004, the Board adopted the Model Code for Securities Transactions by Directors of Listed issuers in the Listing Rules (the "Model Code") as the Group's code of conduct regarding Directors' securities transactions. All Directors confirmed that they have complied with the Model Code in their securities transactions throughout the year.

Corporate Governance Report

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

Annual Report and Accounts

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.

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 Accounts and interim reports within the period laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the Group to the market and ensuring that proper notification is made of directors' dealings in securities of the Group.

Corporate Governance Report

COMPANY SECRETARY *(Continued)*

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 Group secretarial function within the Group, the Company Secretary leads a team that maintains formal minutes for Board and other meetings.

In relation to connected transactions, regular briefings to legal counsels within the Group are made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analyses are 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	2005	2004
	HK'000	HK'000
Audit services	2,299	521
Other services	2,197	—
	4,496	521

Other services rendered to the Group included principally professional fee in relation to the acquisition of Anglo Alliance Group.

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 Committee is chaired by Mr. Wilton Timothy Carr Ingram and the other members of the 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 Internal Audit Department of the Group's holding company, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

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

Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

The Audit Committee held two meetings in 2005 and one meeting to date 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

The Audit Committee held two meetings in 2005 during the year ended 31st December 2005, 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 with Management 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 Committee reviews and discusses the management's report and representations with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with accounting principles general 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 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 Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

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

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

Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

External Auditors *(Continued)*

- Taxation 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 and the Internal Auditors of the Group's holding company 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 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. The Committee discusses with the Internal Auditors of the Group's holding company the work plan for their audits on the Group together with their resource requirements and considers the Internal Auditors' reports to the Committee on the effectiveness of the internal controls in the Group business operations.

In reliance on these reviews and reports, the Committee makes a recommendation to the Board for approval of the consolidated financial statements for the year.

REMUNERATION COMMITTEE

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

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

Corporate Governance Report

REMUNERATION COMMITTEE *(Continued)*

Prior to the establishment of the Committee in 2005, for 2004, consistent with the principles applied in the past, the remuneration of Directors and senior executives was determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

The Remuneration Committee held one meeting in 2005.

Name of Member	Attended/Eligible to attend
Ko Chun Shun, Johnson	1/1
Wilton Timothy Carr Ingram	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 2005 are as below:

Name	Basis Salaries, Allowances and Benefits- in-kind		Discretionary Bonuses	Provident Fund Contributions	Total Emoluments
	Fees HK\$'000	HK\$'000			
Ko Chun Shun, Johnson (2)	—	2,053	79	12	2,144
Dong Ping	—	660	—	—	660
Shen Ka Yip Timothy	—	880	—	11	891
Tsoi Tong Hoo, Tony (1)	120	600	75	12	807
Cheong Chow Yin (1)	144	—	—	—	144
Wilton Timothy Carr Ingram (2), (3)	144	—	—	—	144
Dr. Wong Yau Kar, David (2), (3)	144	—	—	—	144
Yuen Kin (2), (3)	144	—	—	—	144

Notes:

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

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

Corporate Governance Report

INTERNAL CONTROL AND GROUP RISK MANAGEMENT

Introduction

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of the risk.

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 of Executive Directors and the Board and approval 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 Committees of the Board, the ongoing work of the Internal Audit and Risk Management Departments of the Group's holding company, as well as the regular business reviews by Executive Directors and the executive management team of each core business division.

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.

Internal Control Environment

The Board is overall responsible for monitoring the operations of the businesses within the Group. Executive 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 executive management team of each core business division is accountable for the conduct performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

The Group's internal control procedures include the comprehensive system for reporting information to the executive management teams of each core business and the Executive Directors.

Business plans and budgets are prepared annually by the management of individual business and the subject to review and approval by both the executive management teams and the Executive Directors as part of the Group's five-year corporate planning cycle. Budgets and forecasts on a quarterly basis and reviewed for differences to the budget and approval. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and the key operating statistics of each business and hold monthly meetings with executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, each month the finance managers of business operations attend meetings with the Chief Executive Officer and the members of the Group Finance team to review monthly performance and to address accounting and finance related matters.

Corporate Governance Report

INTERNAL CONTROL AND GROUP RISK MANAGEMENT *(Continued)*

Internal Control Environment *(Continued)*

The Group maintains a centralised cash management system for its subsidiary operations and the Group's Finance Department oversees the Group's investment and leading activities. A treasury report is distributed monthly to report on the Group's cash and liquid investments, borrowings and movements thereof.

The Chief Executive Officer has established guidelines and procedures for the approval and control of the expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels for such expenditures being set by reference to each executives and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process and, more specific control and approval prior to commitment by the Executive Director (Finance) or other Executive Directors reports are reviewed comparing actual against budgets and approved expenditures.

The Financial Controller of the Group's holding 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, internal audit derives its yearly 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. Internal Audit Department of the Group's holding company is responsible for the assessing the Group's internal control system, formulating the impartial opinion of the system, and to report its finding to the Audit Committee, the Chief Executive Officer and the senior management concerned and also to follow up on all reports to ensure that all issues have been satisfactorily resolved. 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.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews

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

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Group actively promotes investor relations and communications by setting up regular briefing meetings with the investment community when the interim and year end financial results are announced. The Group, through the Chief Executive Officer, responds to request for information and queries from the investment community.

Corporate Governance Report

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS *(Continued)*

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, financial reports to shareholders, additional information is also available to shareholders through Corporate Information 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 welcome.

By Order of the Board

Ko Chun Shun, Johnson

Chairman

Hong Kong, 26th April 2006

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2005.

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 40 to the accounts.

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

RESULTS AND DIVIDENDS

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

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2005.

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 100.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 30 to the accounts.

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 recognise and acknowledge the contributions of the Qualified Persons (as defined in the Option Scheme, including but not limited 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 both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of options shares can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

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 2005.

Details of the share options outstanding as at 31st December 2005 which have been granted under the scheme are as follows:

		Number of share options outstanding as at 1st January 2005	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 2005	Exercise period	Exercise price per share HK\$
Qualified person (excluding directors)	1/12/2004	277,400,000	—	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
		<u>277,400,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>277,400,000</u>		

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 31 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2005, 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\$322,946,000 (2004: HK\$24,482,000), representing the amount standing to the credit of the share premium of HK\$447,208,000 (2004: HK\$172,353,000) plus the capital reserve of HK\$29,984,000 (2004: NIL) less the accumulated losses as at the date of HK\$154,246,000 (2004: HK\$147,871,000). 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

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	70%
— five largest suppliers combined	90%

Sales

— the largest customer	48%
— five largest customers combined	85%

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 suppliers or customers noted above.

DIRECTORS

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

Executive directors

Mr. Ko Chun Shun, Johnson (<i>Chairman</i>)	
Mr. Dong Ping	(appointed on 31st May 2005)
Mr. Shen Ka Yip, Timothy	(appointed on 14th March 2005)

Non-executive directors

Mr. Cheong Chow Yin	
Mr. Tsoi Tong Hoo, Tony*	

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram	
Dr. Wong Yau Kar, David	
Mr. Yuen Kin	

* Mr. Tsoi was the Executive Director and Group Managing Director from 12th October 2004 to 14th March 2005.

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Mr. Dong Ping, Mr. Cheong Chow Yin and Dr. Wong Yau Kar, David will retire, and being eligible, offers themselves for re-election at the forthcoming annual general meeting. To comply with the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), Mr. Ko Chun Shun, Johnson as the Chairman will also retire and offer himself for reelection at the forthcoming annual general meeting.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Ko Chun Shun, Johnson	54	Chairman and Executive Director	12	Media, direct investment, and financial services
Mr. Dong Ping	45	Executive Director	1	Media
Mr. Shen Ka Yip, Timothy	44	Acting Chief Executive Officer and Executive Director	2	Corporate finance, investment, accounting
Mr. Tsoi Tong Hoo, Tony	41	Non-executive Director	2	Media and corporate finance
Mr. Cheong Chow Yin	50	Non-executive Director	6	Manufacturing
Mr. Wilton Timothy Carr Ingram	58	Independent Non-executive Director	10	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	48	Independent Non-executive Director	6	Manufacturing, international trade and corporate finance
Mr. Yuen Kin	51	Independent Non-executive Director	2	Finance and accounting

Senior management staff

Mr. Wang Yi	44	Vice President of Anglo Alliance Group	1	Media
Mr. Zhang Bin	40	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	11	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	45	Group Financial Controller	12	Finance and accounting
Mr. Chan Kam Kwan, Jason	33	Company Secretary	6	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 2005, 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 Part XV of SFO were as follows:

(A) Ordinary shares of HK\$0.01 each in the Company at 31st December 2005

Names	Note	Number of shares held			Total	% of the Issued Share Capital of the Company
		Personal interests	Family interests	Corporate interests		
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	Long positions (i)	3,065,210,871	—	1,000,437,150	4,065,648,021	40.99
Mr. Dong Ping	Long positions	2,700,000,000	—	—	2,700,000,000	27.23

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) Ordinary shares of HK\$0.10 in DVN (Holdings) Limited ("DVN") at 31st December 2005

Names	Note	Number of shares held			Total	% of the Issued Share Capital of DVN	
		Personal interests	Family interests	Corporate interests			
Mr. Ko	Long positions	(ii)	343,000	2,040,816	158,357,940	160,741,756	27.55

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.

(ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagoda Incorporated ("Gold Pagoda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagoda is a wholly-owned subsidiary of the Company which in turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which wholly owned by the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is indirectly wholly owned by the Company.

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly-owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

(iii) Million Way Enterprises Limited, a wholly-owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of DVN. These preference shares are exchangeable to approximately 28,147,700 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.13 per share and are subject to adjustment.

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)*

(C) Rights to acquire ordinary shares of DVN

Movements of the share options of DVN granted to a director of the Company are as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2005	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 2005	Exercise period	Exercise price per share <i>HK\$</i>
Mr. Ko	23/7/2002	3,000,000	—	—	—	3,000,000	24/7/2002 — 23/7/2008	1.470
	10/12/2003	450,000	—	—	—	450,000	1/1/2004 — 31/12/2006	0.824
		<u>3,450,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,450,000</u>		

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 2005, 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 2005, 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.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$29.7 million (2004: HK\$34 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. The total interest payable to the fellow subsidiary for the year ended 31st December 2005 on the advances amounted to HK\$517,000 (2004: HK\$2,167,000).

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

The following transactions were carried out with related parties:

(i) Year-end balances arising from advancement of funds

(a)	2005	2004
	HK\$'000	HK\$'000
Payables to a fellow subsidiary — non-current	—	5,000
Payables to a fellow subsidiary — current	18	24,705
Amount due to an associated company	470	335
Amount due to a related company	6,237	—

- (1) During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$29 million (2004: HK\$34 million).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances for the year ended 31st December 2005 amounted to HK\$517,000 (2004: HK\$2,563,000).

- (2) The amounts due to an associated company is unsecured, interest free and has no fixed repayment term.
- (3) The amounts due to a related company is unsecured, interest free and has no fixed repayment term.

Report of the Directors

RELATED PARTY TRANSACTIONS *(Continued)*

(i) Year-end balances arising from advancement of funds *(Continued)*

<i>(b)</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amount due from a related party — current	4,742	—

The amounts due from a related party is interest free, unsecured and has no fixed repayment term.

(ii) Related party transactions

During the year, the Group entered into the following related party transactions with a jointly controlled entity:

	2005 <i>HK\$'000</i>
Purchase of programs and film rights	34,574
Purchase of revenue receivable rights of certain programs and films	17,252
Purchase of investment in a film	12,561

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, REDEMPTION OR SALE OF SECURITIES

The Company has not redeemed any of its shares during the year.

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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.

Report of the Directors

POST BALANCE SHEET EVENT

On 1st January 2006, a subsidiary of the Company acquired 100% interests of Beijing HuaYi Qian Si Advertising Company Limited ("Qian Si") for a consideration of RMB2,750,000. Qian Si was originally a 55% owned subsidiary of AUFM, a jointly controlled entity of the Group. Qian Si is principally engaged in the advertising agency business.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this annual report under the Listing Rules.

AUDITORS

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

On behalf of the Board

Ko Chun Shun, Johnson

Chairman

Hong Kong, 26th April 2006

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF UNIVERSAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 31 to 99 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th April 2006

Consolidated Income Statement

For the year ended 31st December 2005

		2005	2004
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	5	33,691	38,630
Cost of sales		(29,531)	(31,091)
Gross profit		4,160	7,539
Other revenues	5	10,531	6,280
Marketing, selling and distribution costs		(1,570)	(1,007)
Administration expenses		(23,963)	(16,564)
Net gain on dilution of interests in an associated company		10,637	14,289
Net other operating income/(expenses)		3,905	(1,944)
		3,700	8,593
Finance costs	7	(3,634)	(2,563)
Share of loss of a jointly controlled entity		(13,700)	—
Share of losses of associated companies		(8,223)	(14,869)
Loss before taxation	8	(21,857)	(8,839)
Taxation	9	(330)	(1,092)
Loss for the year		(22,187)	(9,931)
Attributable to:			
Equity holders of the Company		(22,187)	(9,931)
Minority interests		—	—
		(22,187)	(9,931)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
— basic and dilutive	11	(0.30)	(0.30)

Consolidated Balance Sheet

As at 31st December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	622	2,520
Intangible assets	14	247,957	—
Interests in associated companies	16	19,663	15,683
Interests in a jointly controlled entity	17	56,130	—
Available for sale financial asset	18	360	—
Preference dividends receivable — non-current portion	19	14,896	—
Investment in preference shares	19	63,578	—
Investment securities	20	—	36,000
Other assets	21	—	2,065
		403,206	56,268
CURRENT ASSETS			
Inventories	22	10	105
Trade receivables	23	1,177	1,687
Due from a jointly controlled entity	17	67,691	—
Preference dividends receivable — current portion	19	7,680	21,797
Financial asset at fair value through profit or loss	24	12,000	—
Prepayments, deposits and other receivables	25	25,706	305
Cash and cash equivalents		15,548	14,152
		129,812	38,046
CURRENT LIABILITIES			
Trade payables	26	34	338
Current income tax liabilities		1,968	1,092
Other payables and accrued liabilities	27	12,340	33,975
Loans	28	14,758	—
		29,100	35,405
NET CURRENT ASSETS			
		100,712	2,641
TOTAL ASSETS LESS CURRENT LIABILITIES			
		503,918	58,909
NON-CURRENT LIABILITIES			
Amount due to a fellow subsidiary	36(i)	—	5,000
Convertible note	29	77,070	—
		77,070	5,000
NET ASSETS			
		426,848	53,909
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Issued capital	30	99,165	35,151
Reserves	31	327,683	18,758
		426,848	53,909
Minority interests		—	—
TOTAL EQUITY			
		426,848	53,909

Ko Chun Shun, Johnson
Director

Wilton Timothy Carr Ingram
Director

Balance Sheet

As at 31st December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non current assets			
Investments in subsidiaries	15	425,637	53,018
Current assets			
Prepayments, deposits and other receivables	25	1	1
Amount due from subsidiaries — current		98,789	31,883
Cash and cash equivalents		1,476	547
		100,266	32,431
Current liabilities			
Amount due to subsidiaries — current		25,661	25,661
Other payables and accrued liabilities	27	1,061	155
		26,722	25,816
Net current assets		73,544	6,615
Total assets less current liabilities		499,181	59,633
Non current liabilities			
Convertible note	29	77,070	—
NET ASSETS		422,111	59,633
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	99,165	35,151
Reserves	31	322,946	24,482
TOTAL EQUITY		422,111	59,633

Ko Chun Shun, Johnson
Director

Wilton Timothy Carr Ingram
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Cash flows from operating activities			
Cash (used in)/generated from operations	<i>32(a)</i>	(168,768)	17,573
Interest paid		(565)	(2,563)
Tax paid		449	—
Net cash (used in)/from operating activities		(168,884)	15,010
Cash flows from investing activities			
Interest received		3,098	36
Purchases of fixed assets		(245)	(517)
Acquisition of subsidiaries net of cash		(3,675)	—
Loan to a jointly controlled entity		93,135	—
Purchase of intangible assets		(5,436)	—
Receipt of preference dividend		2,000	—
Purchases of financial assets		(10,000)	—
Disposal of subsidiaries net of cash	<i>32(b)</i>	3,901	(19)
Net cash generated from/(used in) investing activities		82,778	(500)
Cash flows from financing activities			
Proceeds on issue of shares, net of expenses		76,188	—
(Decrease)/increase in amounts due to fellow subsidiaries		(5,000)	3,217
Advancement/(repayment) of short-term loans		14,758	(20,000)
Net cash generated from/(used in) from financing activities		85,946	(16,783)
Net decrease in cash and cash equivalents		(160)	(2,273)
Cash and cash equivalents at 1st January		14,152	16,425
Effect of changes in foreign exchange rates		1,556	—
Cash and cash equivalents at 31st December		15,548	14,152
Analysis of balances of cash and cash equivalents			
Cash and bank balances		15,548	14,152

Note:

Major non-cash transactions

During the year, ordinary shares and convertible notes were issued to acquire 100% equity interest in Anglo Alliance Co., Ltd and its subsidiaries. The details of the transactions have been set out in Note 35 "Business Combinations".

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Attributable to equity holders of the Company				Total equity
	Share Capital	Other Reserves	Accumulated Losses	Minority interests	
Balance at 1st January 2004	35,151	1,032,822	(1,004,133)	—	63,840
Loss for the year	—	—	(9,931)	—	(9,931)
Balance at 31st December 2004	<u>35,151</u>	<u>1,032,822</u>	<u>(1,014,064)</u>	<u>—</u>	<u>53,909</u>
Balance at 1st January 2005, as per above	35,151	1,032,822	(1,014,064)	—	53,909
Opening adjustment for the adoption of HKAS 39 for available-for-sale financial assets	—	120	—	—	120
Opening adjustment for the adoption of HKAS 39 for Preference Dividend Receivable	—	—	(2,081)	—	(2,081)
Opening adjustment for the adoption of HKAS 39 for Investment in preference shares	—	—	25,139	—	25,139
Balance at 1st January 2005, as restated	35,151	1,032,942	(991,006)	—	77,087
Loss for the year	—	—	(22,187)	—	(22,187)
Issue of shares — placing Issue of share capital — business combination	6,549 57,465	69,639 205,216	— —	— —	76,188 262,681
Convertible note — equity component, net of tax	—	29,984	—	—	29,984
Translation exchange	—	1,529	—	—	1,529
Movement in reserves of associated companies	—	1,566	—	—	1,566
Balance at 31st December 2005	<u>99,165</u>	<u>1,340,876</u>	<u>(1,013,193)</u>	<u>—</u>	<u>426,848</u>

Notes to the Accounts

1. CORPORATE INFORMATION

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 Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, 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 accounts are set out below. These policies have been applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The consolidated accounts of Universal Holdings Limited 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 accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and financial assets at fair value through profit or loss, which are carried at fair value.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 31, 33 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies, jointly controlled entities and other disclosures.
- HKASs 2, 7, 8, 10, 16, 17, 23, 27, 28, 31, 33 and 38 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. Since the adoption of the share option scheme, the Company had issued a total of 277,400,000 share options, all of which were granted on 1st December 2004 and had vested before 1st January 2005. The Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the new recognition and measurement policies have not been applied to this 277,400,000 share options.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial asset. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was amortised on a straight line basis over a period of 20 years.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January 2005;
- From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

- HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKFRS 3 — prospectively after 1st January 2005.

The adoption of HKAS 39 resulted in an increase in opening reserves at 1st January 2005 by HK\$23,178,000 and the details of the adjustments to the balance sheet at 31st December 2005 and for the year then ended are as follows:

	2005
	HK\$'000
Decrease in preference share receivable	176
Increase in available for sale financial asset	360
Decrease in other assets	240
Increase in investment in preference shares	63,578
Decrease in investment securities	36,000
Decrease in preference dividends receivable — non-current	2,081
Increase in accumulated losses	27,441
Increase in other revenue	(2,000)
Decrease in administration expenses	(2,263)
Decrease in basic and dilutive earnings per share	0.06

No early adoption of the following new Standards in Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKFRS 7 Amendment	Financial Instruments Disclosures
HKAS 39 Amendment	Cashflow Hedge Accounting for Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting

(i) Consolidation

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

(ii) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 recognised directly in the income statement.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related accumulated foreign currency translation reserve.

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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

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

Unrealised 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. Unrealised 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 cost less accumulated depreciation and accumulated impairment losses.

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

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) **Property, plant and equipment** *(Continued)*

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

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 profit and loss account on a straight-line basis over the lease periods.

Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance 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 recognised 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangibles

(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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associated companies is included in 'investments in associated companies'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(ii) Programmes and film rights

Programmes and films rights acquired from outsiders are stated at acquisition costs plus film enhancement costs less amortisation and accumulated 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 realisable 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 is charged to the profit and loss account proportionately to the estimated projected revenues over their expected economic beneficial period ranging from 2 years to 10 years. Additional amortisation 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) **Intangibles** *(Continued)*

(ii) **Programmes and film rights** *(Continued)*

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

(iii) **Programmes and films production 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 impairment in value. 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 or films under production will be reclassified as programmes or film rights.

(f) **Financial Assets**

From 1st January 2004 to 31st December 2004:

The Group classified its investment securities, other than subsidiaries and associated companies, as non-trading securities and trading securities.

(i) **Investment securities**

Investment securities, represent investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long-term purposes, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) **Financial Assets** *(Continued)*

(ii) **Short-term investments**

Short-term investments are carried at their fair values as at the balance sheet date. Unrealised gains or losses arising from the changes in fair values of Short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st January 2005 onwards:

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 categorised 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 realised 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 Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) **Financial Assets** *(Continued)*

Purchases and sales of investments are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised 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. Unrealised gains and losses arising from changes in the fair value of available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are carried at cost less accumulated impairment.

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 recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised 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 realisable value. Cost, calculated on the first-in, first-out basis, comprises software solutions. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Notes to the Accounts

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 recognised 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 recognised 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 recognised as a separate component of equity.

Notes to the Accounts

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 investments, are taken to shareholders' equity. When a foreign operation is sold, the exchange differences that were recorded in equity are recognised 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 receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for investment. A provision for impairment of trade and other receivables is established when 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 recognised 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 recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Contingent liabilities and contingent assets

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

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **Contingent liabilities and contingent assets** *(Continued)*

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) **Deferred taxation**

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, 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.

(n) **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.

Revenue from the sale of goods is recognised 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.

Management fee income is recognised on an accrual basis when the related services are rendered.

Securities trading income is recognised when the title has passed.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

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

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

Media revenue include revenue from sale of television programmes, advertising and commission income as well as income from licensing and sub-licensing of programmes and film rights.

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

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

Income from licensing and sub-licensing of programs and film rights is recognised 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 recognised when it is probable that the licensing fee will be received, which is normally when the event has occurred.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised 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 recognised until the time of leave.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) **Employee benefits** *(Continued)*

(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 profit and loss account 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 profit and loss account 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 recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) **Employee benefits** *(Continued)*

(iii) Share-based compensation (Continued)

In the current period, the Group has applied HKFRS 2 "Share-based payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

(p) **Borrowing**

Borrowings are recognised 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 asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised 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 note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion portion. This is recognised and included in shareholder's equity, net of income tax effects.

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

(q) **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 Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) **Segment reporting** *(Continued)*

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(r) **Impairment of assets**

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

(s) **Share capital**

Ordinary shares are classified as equity.

Preference shares are classified as equity as it does not represent a contractual obligation to deliver cash or another financial assets, nor to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to 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.

Notes to the Accounts

3. FINANCIAL RISK MANAGEMENT

(i) Financial Risk Factors

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

(a) 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. The group manages its cash flow interest-rate risk by issuing borrowings at fixed rates.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade receivables, 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 of products 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 dollar.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The currencies used by the Group are mainly Renminbi and Hong Kong dollars which both had relatively stable exchange rates during the year.

(d) Liquidity risk

The Group manages its liquidity position by maintaining sufficient cash for its operations and draws on bank loans as necessary.

Notes to the Accounts

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying amounts of the Group's financial assets which mainly include bank and cash balances, trade receivables, other receivables; and financial liabilities, which mainly include trade payables, short-term loans, approximate their fair values due to their short maturities.

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

4. CRITICAL ACCOUNTING ESTIMATES

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

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

(i) Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment, and test intangible assets that are subject to amortisation when there is indicator for impairment in accordance with the accounting policy stated in note 2e(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) Recoverability of preference dividends receivable

The recoverable amount of preference dividends receivable is assessed by taking into account the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to it.

Notes to the Accounts

5. TURNOVER AND REVENUES

The Group is principally engaged in the media related businesses, the trading of home audio and video equipment and components, securities trading, and provision of computer telephony integration engineering and IP related services. Revenues recognised during the year are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Media	10,359	—
Sales of goods	19,384	18,180
Share trading	1,387	16,561
Provision of computer telephony integration engineering and IP related services	2,561	3,889
	33,691	38,630
Other revenues:		
Preference dividend income from an associated company	5,036	5,813
Unrealised gain on financial assets at fair value through profit or loss	2,000	—
Income from maintenance services	381	—
Commission income	—	65
Interest income	3,098	36
Management fee income from:		
Associated companies	—	144
Others	—	212
Miscellaneous	16	10
	10,531	6,280
Total revenues	44,222	44,910

Notes to the Accounts

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into four main business segments:

- (i) Media related business — production of television dramas, investment in movie production, advertising agency and advertisement production;
- (ii) Home Audio — trading of home audio and video equipment and components;
- (iii) Telecommunications — provision of computer telephony integration engineering and IP related services; and
- (iv) Share Trading — securities trading.

There are no sales between the business segments.

Notes to the Accounts

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2005				
	Media related business HK\$'000	Home audio HK\$'000	Tele-communications HK\$'000	Share trading HK\$'000	Total HK\$'000
Turnover	10,359	19,384	2,561	1,387	33,691
Segment results	4,747	(3,700)	60	(48)	1,059
Write off of trade receivables					(30)
Net gain on dilution of interests in an associated company					10,637
Gain on exchange difference					2,205
Unallocated costs					(10,171)
					3,700
Finance costs					(3,634)
Share of loss of a jointly controlled entity	(13,700)	–	–	–	(13,700)
Unallocated share of losses of associated companies					(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	4,665	4,433	12,000	298,950
Interests in associated companies					19,663
Interests in a jointly controlled entity					67,692
— current					56,130
— non-current					90,583
Unallocated assets					
Total assets					533,018
Segment liabilities	23,440	255	472	–	24,167
Unallocated liabilities					82,003
					106,170
Capital expenditure					
Allocated	63,453	–	–	–	63,453
Unallocated	–	–	–	–	245
Depreciation					
Allocated	–	181	72	–	253
Unallocated	–	–	–	–	23
Amortisation					–

Notes to the Accounts

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2004			
	Home Audio <i>HK\$'000</i>	Tele- communications <i>HK\$'000</i>	Share Trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>18,180</u>	<u>3,889</u>	<u>16,561</u>	<u>38,630</u>
Segment results	<u>(3,092)</u>	<u>(354)</u>	<u>1,249</u>	(2,197)
Write back unrealised loss of short-term investments				3,946
Write off of bad debts				(1,589)
Net gain on dilution of interests in an associated company				14,289
Loss on sale of subsidiaries				(836)
Impairment of investment in joint venture				(2,468)
Unallocated costs				<u>(2,552)</u>
				8,593
Finance costs				(2,563)
Unallocated share of losses of associated companies				<u>(14,869)</u>
Loss before taxation				(8,839)
Taxation				<u>(1,092)</u>
Loss for the year				(9,931)
Minority interests				<u>—</u>
Loss attributable to equity holders of the Company				<u>(9,931)</u>
Segment assets	21,168	5,229	535	26,932
Investment in associated companies				15,683
Unallocated assets				<u>51,699</u>
Total assets				<u>94,314</u>
Segment liabilities	32,313	755	1,534	34,602
Unallocated liabilities				<u>5,803</u>
				<u>40,405</u>
Capital expenditure				
Allocated				0
Unallocated				517
Depreciation				
Allocated	262	29	0	291
Unallocated				134
Amortisation				<u>52</u>

Notes to the Accounts

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The Group operates in two geographical areas:

- (i) Hong Kong Trading of home audio and video equipment and components and securities trading; and
- (ii) Mainland China Media businesses and provision of computer telephone integration engineering and IP related services.

There are no sales between the geographical segments.

2005				
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	20,771	(1,098)	107,249	245
Mainland China	12,920	4,798	406,106	253,251
	<u>33,691</u>	<u>3,700</u>	513,355	<u>253,496</u>
Interest in associated companies			<u>19,663</u>	
			<u>533,018</u>	

Notes to the Accounts

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

	2004			
	Turnover	Segment	Total	Capital
	<i>HK\$'000</i>	results	assets	expenditure
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	34,741	8,947	71,766	517
Mainland China	3,889	(354)	6,865	—
	<u>38,630</u>	<u>8,593</u>	78,631	<u>517</u>
Interest in associated companies			<u>15,683</u>	
			<u>94,314</u>	

7. FINANCE COSTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Bank loan	48	—
Other loans	—	—
Interest accretion on convertible note	3,069	—
Amount due to a fellow subsidiary		
— repayable within one year	517	396
— wholly repayable within one to five years	—	2,167
	<u>3,634</u>	<u>2,563</u>

Notes to the Accounts

8. LOSS BEFORE TAXATION

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Crediting		
Net other operating expenses including:		
Write-back of provision for inventory	—	116
Write-back of unrealised loss of short-term investments	—	3,946
VAT refund	—	323
	<u> </u>	<u> </u>
Charging		
Cost of inventories sold	26,233	18,049
Cost of services provided	826	2,407
Depreciation	295	425
Auditors' remuneration	2,316	495
Operating lease rentals — land and buildings	1,518	703
Loss on sale of subsidiaries	—	836
Staff costs (excluding directors' remuneration, <i>note 12(a)</i>):		
Wages and salaries	3,293	2,099
Unutilised annual leave	—	19
Termination benefits	—	58
Long service payment	344	—
Contributions to defined Contribution Mandatory Provident fund:		
Current year	102	73
Underprovided in prior year	—	57
Amortisation of intangibles:		
Goodwill	—	52
Programmes and film rights	5,265	—
Write-off of inventories	—	112
Provision for impairment of trade receivables	626	—
Write-off of trade receivables	30	1,589
Loss on disposal of property, plant and equipment	—	47
Provision for deposit for investment in joint venture	—	2,468
Exchange (loss)/gain, net	(2,205)	124
	<u> </u>	<u> </u>

9. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit of the year (2004: 17.5%). 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.

Notes to the Accounts

9. TAXATION *(Continued)*

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before taxation	(21,857)	(8,839)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(3,825)	(1,547)
Effect of different rates in other countries	(1,544)	1,342
Income not subject to taxation	(4,607)	(3,550)
Expenses not deductible for taxation purposes	5,833	4,490
Unrecognised tax losses	4,473	357
Taxation charge	330	1,092

Deferred income tax assets are not unrecognised for tax losses carry forward to the extent that the realisation of the related tax benefit through the future taxable profits is not probable. As at 31st December 2005, the Group had unrecognised tax losses of approximately HK\$277,959,000 (2004: HK\$274,321,000) to carry forward against future taxable income of which HK\$16,452,000 tax losses will expire in 2009. The rest are eligible for carrying forward indefinitely, subject to Inland Revenue Department approval.

10. LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK\$6,375,000 (2004: loss of HK\$1,827,000).

11. LOSS PER SHARE

Basic

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

	2005	2004
Loss attributable to equity holders of the Company (<i>HK\$'000</i>)	22,187	9,931
Weighted average number of ordinary shares in issue (<i>thousands</i>)	7,355,352	3,274,293
Basic loss per share (<i>HK cents per share</i>)	0.30	0.30

Notes to the Accounts

11. LOSS PER SHARE *(Continued)*

Diluted

Diluted loss per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible note and share options. The convertible note is assumed to have been converted into ordinary shares. For the share options, a calculation is done 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 options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

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:

	2005 HK\$'000	2004 HK\$'000
Fees:		
Non-executive directors:	696	471
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	4,347	2,305
Contributions to Mandatory Provident Fund	35	15
	5,078	2,791

Notes to the Accounts

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
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

* Appointed in 2005

The remuneration of each Director for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Others benefits	Employer's contribution to pension scheme	Total
Mr. Ko Chun Shun, Johnson	—	1,776	79	—	12	1,867
Mr. Tsoi Tong Hoo, Tony	—	450	—	—	3	453
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

Notes to the Accounts

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

(a) Other than as presented above, for 2004 and 2005 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 inducements 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.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the two (2004: three) individuals during the year are as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	615	862
Contributions to Mandatory Provident Fund	24	36
	<u>639</u>	<u>898</u>

The emoluments fell within the following bands:

	Group	
	2005	2004
Emolument bands		
HK\$NIL— HK\$1,500,000	2	3
HK\$1,500,001 — HK\$2,000,000	—	—
	<u>2</u>	<u>3</u>

Notes to the Accounts

13. PROPERTY, PLANT AND EQUIPMENT

	Group		
	Buildings outside HK <i>HK\$'000</i>	Plant, equipment and other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2005	2,907	8,318	11,225
Additions	—	245	245
Write-offs	—	(76)	(76)
Disposal of subsidiaries (<i>note 32(b)</i>)	(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 (<i>note 32(b)</i>)	(829)	—	(829)
At 31st December 2005	—	7,865	7,865
Net book value:			
At 31st December 2005	—	622	622

Notes to the Accounts

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Group		
	Buildings outside HK <i>HK\$'000</i>	Plant, equipment and other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2004	2,907	8,518	11,425
Additions	—	517	517
Write-offs	—	(367)	(367)
Disposals	—	(250)	(250)
Disposal of subsidiaries <i>(note 32(b))</i>	—	(100)	(100)
At 31st December 2004	<u>2,907</u>	<u>8,318</u>	<u>11,225</u>
Accumulated depreciation			
At 1st January 2004	696	8,169	8,865
Charge for the year	114	311	425
Write-offs	—	(367)	(367)
Disposals	—	(203)	(203)
Disposal of subsidiaries <i>(note 32(b))</i>	—	(15)	(15)
At 31st December 2004	<u>810</u>	<u>7,895</u>	<u>8,705</u>
Net book value:			
At 31st December 2004	<u><u>2,097</u></u>	<u><u>423</u></u>	<u><u>2,520</u></u>

Depreciation expense of HK\$295,000 (2004: HK\$425,000) has been expensed in administration expenses.

Notes to the Accounts

14. INTANGIBLE ASSETS

	Goodwill <i>HK\$'000</i>	Programmes and film rights <i>HK\$'000</i>	Programmes and film production in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004				
Cost	2,075	—	—	2,075
Accumulated amortisation	(390)	—	—	(390)
Net book amount	1,685	—	—	1,685
Year ended 31st December 2004				
Opening net book amount	1,685	—	—	1,685
Disposal of subsidiaries	(1,633)	—	—	(1,633)
Amortisation expense (<i>Note 8</i>)	(52)	—	—	(52)
Closing net book amount	—	—	—	—
At 31st December 2004				
Cost	2,075	—	—	2,075
Accumulated amortisation	(442)	—	—	(442)
Disposal of subsidiaries	(1,633)	—	—	(1,633)
Net book amount	—	—	—	—
Year ended 31st December 2005				
Opening net book amount	—	—	—	—
Acquisition of subsidiary (<i>Note 32(c)</i>)	189,798	—	—	189,798
Additions (<i>Note 36(iii)</i>)	—	50,591	12,862	63,453
Adjustment to translation reserve	—	(29)	—	(29)
Amortisation expense	—	(5,265)	—	(5,265)
Closing net book amount	<u>189,798</u>	<u>45,297</u>	<u>12,862</u>	<u>247,957</u>

Notes to the Accounts

14. INTANGIBLE ASSETS (Continued)

	Goodwill <i>HK\$'000</i>	Programmes and film rights <i>HK\$'000</i>	Programmes and film production in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December 2005				
Cost	189,798	50,562	12,862	253,222
Accumulated amortisation	—	(5,265)	—	(5,265)
Net book amount	<u>189,798</u>	<u>45,297</u>	<u>12,862</u>	<u>247,957</u>

In 2004, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over twenty years. The amortisation of positive goodwill for the year ended 31st December 2004 was included in "other operating expenses" in the consolidated income statement.

As explained further in note 2e(i), with effect from 1st January 2005 the Group no longer amortises goodwill. In accordance with the transitional provision set out in HKFRS 3, the accumulated amortisation of goodwill as at 1st January 2005 has been eliminated against the cost of goodwill as at that date.

Amortisation of HK\$5,265,000 (2004: nil) is included in the cost of sales.

Impairment tests for cash-generating units containing goodwill

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Media related businesses — Mainland China	<u>189,798</u>	<u>—</u>

Media related businesses — Mainland China

The recoverable amount of the CGU is determined on value in use basis. 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.

Notes to the Accounts

14. INTANGIBLE ASSETS (Continued)

Media related businesses — Mainland China (Continued)

Key assumptions used for value in use basis:

	2005	2004
	%	%
— Gross margin	27	N/A
— Growth rate	0	N/A
— Discount rate	15	N/A

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average 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	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares at cost	193,018	193,018
Provision for impairment loss	(140,000)	(140,000)
	53,018	53,018
Amount due from subsidiaries — non-current	372,619	—
	425,637	53,018

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

Particulars of the principal operating subsidiaries are set out in note 40 to the accounts.

Notes to the Accounts

16. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Beginning of the year	7,660	8,240
Share of losses of associated companies	(8,223)	(14,869)
Net gain on dilution of interests in an associated companies	10,637	14,289
Share of proceed from employee share option scheme	1,566	—
Share of net assets	11,640	7,660
Goodwill on acquisition of associated companies less amortisation	8,023	8,023
	19,663	15,683
Market value of listed investments	173,378	164,312
Investments at cost:		
Listed shares, in Hong Kong	276,514	276,514
Unlisted shares, in the PRC	1,636	1,636
	278,150	278,150

Notes to the Accounts

16. INTERESTS IN ASSOCIATED COMPANIES (Continued)

The principal associated companies at 31st December 2005 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
			2005	2004	
(i) DVN GROUP					
DVN (Holdings) Limited	Bermuda, limited company	HK\$58,283,849 ordinary	19.45%	21.95%	Investment holding
DVN (Group) Limited	British Virgin Islands, limited company	US\$10 ordinary US\$15,000,000 preference	19.45%	21.95%	Investment holding
DVN (Management) Limited	Hong Kong, limited company	HK\$2 ordinary	19.45%	21.95%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong, limited company	HK\$2 ordinary	19.45%	21.95%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
Telequote Date International Limited	Hong Kong, limited company	HK\$10,000 ordinary	19.42%	21.95%	Provision of International financial market information and selective consumer date in Hong Kong
DVN Technology (Shenzhen) Co. Limited	People's Republic of China, wholly-owned foreign investment enterprise	HK\$3,000,000	19.42%	21.95%	Development of hardware and software in relation to digital broadcasting in PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China, equity joint venture	RMB100,000,000	13.59%	15.37%	Trading of digital broadcasting equipment and related products in products in PRC

Notes to the Accounts

16. INTERESTS IN ASSOCIATED COMPANIES (Continued)

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
			2005	2004	
(i) DVN GROUP (Continued)					
Digital Video Networks Company Limited	People's Republic of China, wholly-owned foreign investment enterprise	US\$7,000,000	19.42%	21.95%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
(ii) 北京電發網博科技有限公司					
北京電發網博科技有限公司	People's Republic of China, co-operative joint venture	US\$5,000,000	35.00%	21.95%	Provision of IP Telephone services co-operative joint venture

(*) Chinese name translated to English is for identification purpose only

Extracts of the operating results and financial position of the DVN Group, a major associated company of the Group, which are based on their audited accounts for the year ended 31st December 2005, are as follows:

Operating results for the year

	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	304,618	169,236
Loss for the year	39,734	61,569

Notes to the Accounts

16. INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Summary of consolidated balance sheet as at 31st December

	2005	2004
	HK\$'000	HK\$'000
		(restated)
Fixed assets	20,404	36,343
Intangible assets	30,880	28,075
Investment in a jointly controlled entity	6,410	6,685
Minority interests	(117,761)	(117,761)
Shareholders' equity	173,543	146,651
Interest in associated companies	6,682	—
Available-for-sale financial assets	956	956
Current assets	339,576	210,426
Current liabilities	(231,321)	(135,754)
Non current liability	(44)	(80)
Minority interests	(117,761)	(117,761)
Shareholders' equity	55,782	28,890

Notes to the Accounts

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

The Company has a 50% interest in a jointly controlled entity, Asia Union Film and Media, an unlisted company incorporated in the PRC, which provides investment in television drama and film production and advertising production in the PRC.

	Group	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Share of net assets	(11,672)	—
Loan to a jointly controlled entity	67,802	—
	56,130	—

The non-current portion of the amount due from jointly controlled entity is unsecured, interest bearing at prevailing market rates and not repayable in the coming twelve months.

The consolidated accounts of the jointly controlled entity at 31st December 2005 were as follows.

	Group
	2005
	HK\$'000
Assets:	
Non-current assets	280,444
Current assets	66,541
	346,985
Liabilities:	
Current liabilities	(303,935)
Long-term liabilities	(143,329)
	(447,264)
Net liabilities	(100,279)

Notes to the Accounts

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(Continued)*

	Period from 1st June 2005 to 31st December 2005
	<i>HK\$'000</i>
Income	58,343
Expenses	(117,141)
Loss for the period	<u>(58,798)</u>

The principal jointly controlled entity companies at 31st December 2005 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
			2005	2004	
(i) AUFM GROUP					
Asia Union Film and Media (*)	People's Republic of China, limited liability company	RMB120,000,000	49%	—	Investment in television drama and film production and advertising production, in the PRC
Hai Nan Haishi Tourist Satellite TV Media Co., Ltd (*)	People's Republic of China, limited liability company	RMB115,963,100	24.01%	—	Production and editing of television programs for the Travel Channel, in the PRC
Beijing Ying Shi Film & Television Art Limited Liability Company (*)	People's Republic of China, limited liability company	RMB500,000	29.40%	—	Television Drama production in the PRC
Beijing Hua Yi Qian Si Advertising Company Limited (*)	People's Republic of China, limited liability company	RMB5,000,000	26.95%	—	Advertisement production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	People's Republic of China, limited liability company	RMB1,020,000	24.99%	—	Advertisement production in the PRC

* Chinese name translated to english is for identification purpose only.

Notes to the Accounts

18. AVAILABLE FOR SALE FINANCIAL ASSET

	Group
	2005
	HK\$'000
Beginning of the year — reclassified from other assets	2,065
Opening adjustment on adoption of HKAS 39	120
	<u>2,185</u>
Less: Disposal on sale of subsidiary	<u>(1,825)</u>
End of year	<u><u>360</u></u>

19. INVESTMENT IN PREFERENCE SHARES AND PREFERENCE DIVIDEND RECEIVABLE

	Group
	2005
	HK\$'000
Investment in preference shares represent:	
Beginning of the year — reclassified from investment securities	36,000
Opening adjustment due to the adoption of HKAS 39	25,139
	<u>61,139</u>
Split into:	
— Available-for-sale portion	48,750
— Derivative portion	12,389
	<u>61,139</u>
Changes in fair value of derivative portion	2,439
End of year	<u><u>63,578</u></u>

Notes to the Accounts

19. INVESTMENT IN PREFERENCE SHARES AND PREFERENCE DIVIDEND RECEIVABLE

(Continued)

Investment represents 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company. These preference shares are exchangeable, after current year adjustment, to approximately 28,147,700 ordinary shares of DVN, a listed associated company, at an adjusted conversion price of HK\$4.13 per share, and are subject to adjustment. Fixed cumulative cash dividend on preference shares is receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year.

	Group
	2005
	HK\$'000
Preference dividend receivable represents:	
Preference shares receivable	21,797
Opening adjustment due to adoption of HKAS 39	(2,081)
	19,716
Additions	5,036
Repayments	(2,000)
Fair value loss	(176)
	22,576
Less: current portion	(7,680)
Non-current portion	14,896

Dividend income receivable represents cumulative dividend from DVN (Group) Limited Preference shares, calculated based on the discounted cashflow on the expected date of receipt of payment.

Notes to the Accounts

20. INVESTMENT SECURITIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Listed shares, at costs		
— outside Hong Kong	—	23,414
Unlisted shares, at costs		
— outside Hong Kong	—	143,508
	—	166,922
Less: Provision for impairment loss		
— listed shares	—	23,414
— unlisted shares	—	107,508
	—	130,922
	—	36,000
Market value of listed investment	—	1,287

Pursuant to the adoption of HKAS 39, the above equity securities were reclassified from "Investment Securities" to "Investment in Preference Shares" splitted between available-for-sale portion and derivative portion, with effect from 1st January 2005 (*note 19*).

21. OTHER ASSETS

	Group	
	2005 HK\$'000	2004 HK\$'000
Club debentures	—	2,065

Pursuant to the adoption of HKAS 39, the above equity securities were reclassified from "Other Assets" to "Available-for-sale financial assets" with effect from 1st January 2005 (*note 18*).

Notes to the Accounts

22. INVENTORIES

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	<u>10</u>	<u>105</u>

At 31st December 2005, the carrying amount of inventories that are stated at net realised value amounted to HK\$10,000 (2004: HK\$105,000).

23. TRADE RECEIVABLES

At 31st December 2005, the aging analysis of trade receivables is as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 3 months	1,091	1,125
4 — 6 months	86	85
Over 6 months	—	477
	<u>1,177</u>	<u>1,687</u>

The majority of the Group's sales are on credit with credit terms of 30-90 days. The balance is with one customer, who has demonstrated good credit history in the past years.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS/SHORT-TERM INVESTMENTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities:		
Listed in Hong Kong	<u>12,000</u>	<u>—</u>

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other gain/(losses) in the financial statements.

Notes to the Accounts

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Prepayment, deposits and other receivables	20,964	305	1	1
Amounts due from subsidiaries of the jointly controlled entity (<i>note a</i>)	4,742	—	—	—
	<u>25,706</u>	<u>305</u>	<u>1</u>	<u>1</u>

Note:

- a. Amounts due from subsidiaries of the jointly controlled entity is interest free, unsecured and repayable on demand.

26. TRADE PAYABLES

At 31st December 2005, the aging analysis of trade payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 — 3 months	—	18
4 — 6 months	1	—
Over 6 months	33	320
	<u>34</u>	<u>338</u>

Notes to the Accounts

27. OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Deposits received, accrued charges and other payables	5,615	2,178	1,061	155
Amount due to a fellow subsidiary (note (i))	18	24,705	—	—
Amount due to an associated company (note (ii))	470	335	—	—
Amount due to a subsidiary of the jointly controlled entity (note (iii))	6,237	—	—	—
Provision for legal fees and settlement of legal dispute	—	6,757	—	—
	12,340	33,975	1,061	155

(i) The amount due to a fellow subsidiary at 31st December 2005 bears interest at Hong Kong dollar prime rate plus 2.5% per annum, unsecured and is repayable on demand.

(ii) The amount due to an associated company is unsecured, interest-free and has no fixed repayment term.

(iii) The amount due to a related company is unsecured, interest free and repayable on demand.

28. LOANS

	Group	
	2005 HK\$'000	2004 HK\$'000
Wholly repayable within one year:		
Bank loan	8,621	—
Other loan	6,137	—
	14,758	—

The bank loan is interest bearing at 4.698% per annum, unsecured and repayable on 30th April 2006.

The other loan is interest bearing at 6% per annum, unsecured and repayable on demand.

Notes to the Accounts

29. CONVERTIBLE NOTE

On 31st May 2005, the Company issued a convertible note of HK\$104.0 million ("First Tranche Convertible Note") which can be converted into 2,122,136,612 ordinary shares at a conversion price of HK\$0.049 per share, as part of the consideration to acquire 100% equity interest in Anglo Alliance Co., Ltd. The terms of the First Tranche Convertible Note are disclosed in Note 35.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity portion, as follows:

	Group and the Company	
	2005 HK\$'000	2004 HK\$'000
Nominal value of convertible note issued during the year	103,985	—
Equity portion	(29,984)	—
Liability portion at the issuance date	74,001	—
Interest accretion	3,069	—
Liability portion at 31st December	<u>77,070</u>	<u>—</u>

The fair value of the liability portion of the convertible note at 31st December 2005 approximates to their fair values. The fair value is calculated using cash flows discounted at a rate of 7.04% per annum, based on the yield of bonds issued in US dollar with a rating of B, whose maturity is 4 to 6 years.

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

Notes to the Accounts

30. SHARE CAPITAL

	Authorised				
	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 2004 and 31st December 2004	<u>240,760</u>	<u>2,408</u>	<u>5,000,000</u>	<u>50,000</u>	<u>52,408</u>
At 1st January 2005 and 31st December 2005	<u>240,760</u>	<u>2,408</u>	<u>30,000,000</u>	<u>300,000</u>	<u>302,408</u>
	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 2004 and 31st December 2004	<u>240,760</u>	<u>2,408</u>	<u>3,274,293</u>	<u>32,743</u>
At 1st January 2005	240,760	2,408	3,274,293	32,743	35,151
Issue of shares on placing (i)	—	—	654,850	6,549	6,549
Issue of shares on acquisition of a subsidiary company (ii)	—	—	5,746,571	57,465	57,465
Conversion of preference shares	<u>(240,760)</u>	<u>(2,408)</u>	<u>240,760</u>	<u>2,408</u>	<u>—</u>
At 31st December 2005	<u>—</u>	<u>—</u>	<u>9,916,474</u>	<u>99,165</u>	<u>99,165</u>

Notes to the Accounts

30. SHARE CAPITAL *(Continued)*

Ordinary shares

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

- (i) On 22nd February 2005, the Company entered into a placing and subscription agreement where a total of 654,850,000 ordinary shares were issued at an issue price of HK\$0.12 per share raising net proceeds of about HK\$76 million.
- (ii) On 31st May 2005, the Company completed the acquisition of 100% equity interest in Anglo Alliance Co., Ltd and its subsidiaries ("Anglo Alliance Group"), for an initial consideration of HK\$262.7 million which was satisfied by the issuance of 3,046,570,871 ordinary shares and 2,700,000,000 ordinary shares at an issue price of HK\$0.049 and HK\$0.042 per share respectively, *(note 35)*.

Convertible notes

On 31st May 2005, the Company issued HK\$104.0 million First Tranche Convertible Note (as defined in note 35) which can be converted into 2,122,136,612 ordinary shares of the Company at a conversion price of HK\$0.049 per share *(note 29 and 35)*.

Preference shares

Preference shareholders were entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders were also entitled to receive a non-cumulative cash dividend which would be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

All preference shares were converted into ordinary shares in February 2005.

Share option

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 both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of share options that can be granted 277,429,315 shares, representing 10% of the total number of shares in issue at the time the option scheme was adopted.

Notes to the Accounts

30. SHARE CAPITAL *(Continued)*

Share option *(Continued)*

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

Movement of share options during the year:

Date of Share Options Granted	Number of share options outstanding as at 1st January 2005	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 2005	Exercise period	Exercise price per share HK\$
1/12/2004	277,400,000	—	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
	<u>277,400,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>277,400,000</u>		

Notes to the Accounts

31. RESERVES

Group

	Share Premium	Merger Reserve	Fair Value	Capital Reserve	Currency	Interests in Associated Companies	Accumulated Losses	Total	Minority interests	Total equity
			Revaluation Reserve		Translation Reserve					
Balance at 1st January 2004	172,353	860,640	—	—	(171)	—	(1,004,133)	28,689	—	28,689
Loss for the year	—	—	—	—	—	—	(9,931)	(9,931)	—	(9,931)
Balance at 31st December 2004	<u>172,353</u>	<u>860,640</u>	<u>—</u>	<u>—</u>	<u>(171)</u>	<u>—</u>	<u>(1,014,064)</u>	<u>18,758</u>	<u>—</u>	<u>18,758</u>
Balance at 1st January 2005, as per above	172,353	860,640	—	—	(171)	—	(1,014,064)	18,758	—	18,758
Opening adjustment for the adoption of HKAS 39 for Available-for-sale financial assets	—	—	120	—	—	—	—	120	—	120
Opening adjustment for the adoption of HKAS 39 for Preference Dividend Receivable	—	—	—	—	—	—	(2,081)	(2,081)	—	(2,081)
Opening adjustment for the adoption of HKAS 39 for Preference Shares	—	—	—	—	—	—	25,139	25,139	—	25,139
Balance at 1st January 2005, as restated	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 share capital — business combination	205,216	—	—	—	—	—	—	205,216	—	205,216
Convertible note — equity component, net of tax	—	—	—	29,984	—	—	—	29,984	—	29,984
Translation exchange	—	—	—	—	1,529	—	—	1,529	—	1,529
Movement in reserves of an associated companies	—	—	—	—	—	1,566	—	1,566	—	1,566
Balance at 31st December 2005	<u>447,208</u>	<u>860,640</u>	<u>120</u>	<u>29,984</u>	<u>1,358</u>	<u>1,566</u>	<u>(1,013,193)</u>	<u>327,683</u>	<u>—</u>	<u>327,683</u>

Notes to the Accounts

31. RESERVES (Continued)

Company

	Share premium (ii) <i>HK\$'000</i>	Convertible note <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004	172,353	—	(146,044)	26,309
Loss for the year	—	—	(1,827)	(1,827)
At 31st December 2004	<u>172,353</u>	<u>—</u>	<u>(147,871)</u>	<u>24,482</u>
At 1st January 2005	172,353	—	(147,871)	24,482
Issue of shares on placing	69,639	—	—	69,639
Acquisition of an associated company	205,216	—	—	205,216
Convertible note — equity component, net of taxes	—	29,984	—	29,984
Loss for the year	—	—	(6,375)	(6,375)
At 31st December 2005	<u>447,208</u>	<u>29,984</u>	<u>(154,246)</u>	<u>322,946</u>

Notes:

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

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) from ordinary activities to net cash inflow/(outflow) from operations

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before taxation	(21,857)	(8,839)
Share of loss of jointly controlled entity	13,700	—
Share of loss of associated companies	8,223	14,869
Interest income	(104)	(36)
Depreciation	295	425
Provision for the deposit for investment in joint venture	—	2,468
Amortisation of intangible assets	5,265	52
Unrealised gain on financial assets at fair value through profit or loss	(2,000)	—
Disposal of fixed assets	—	47
Loss on disposal of subsidiaries	—	836
Preference dividend income	(5,036)	—
Finance costs	3,634	2,563
Changes in fair value of preference shares	(2,439)	—
Write-back on fixed asset disposal	(230)	—
Net gain on dilution of interest in an associated company	(10,637)	(14,289)
Operating loss before working capital changes	(11,186)	(1,904)
Decrease in amounts due to associated companies	—	(91)
Decrease in short-term investments	—	4,605
Decrease in inventories	95	796
Increase in amount due from a jointly controlled entity	(113,003)	—
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	(22,738)	26,772
Decrease in trade payables, other payables and accrued liabilities	(21,936)	(12,605)
Net cash (outflow)/inflow from operations	(168,768)	17,573

Notes to the Accounts

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Sale of subsidiaries

Details of disposal of subsidiaries:

	2005	2004
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	2,078	85
Other assets	1,825	—
Deposits, prepayments and other receivables	1	161
Cash and bank balances	3	20
Accrued liabilities and other payables	(3)	(1,062)
	3,904	(796)
Write-off of unamortised goodwill	—	1,633
Loss on disposal	—	(836)
	3,904	1
Represented by:		
Cash consideration	3,904	1
Cash and cash equivalents disposed of cash inflow/(outflow) from disposal of subsidiaries	(3)	(20)
	3,901	(19)

Notes to the Accounts

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of interests in subsidiaries

Details of acquisition of interests in subsidiaries:

	2005 HK\$'000
Net assets acquired:	
Investment in a jointly controlled entity	17,549
Amount due from a jointly controlled entity	160,937
Deposits, prepayments and other receivables	2,154
Cash and bank balances	2,000
Tax liabilities	(97)
	<u>182,543</u>
Goodwill	189,798
	<u>372,341</u>
Satisfied by:	
Consideration payable	
Issue of shares	(262,681)
Convertible note	(103,985)
	<u>5,675</u>
Cash	5,675
Cash and cash equivalents in subsidiaries acquired	(2,000)
Cash outflow on acquisition	<u>3,675</u>

Notes to the Accounts

33. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liability as at 31st December 2005 (2004: HK\$nil).

34. COMMITMENTS

(a) Commitments under operating leases

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2005	2004
	HK\$'000	HK\$'000
Not later than one year	577	313
Later than one year and not later than five years	50	—
	<u>627</u>	<u>313</u>

	Equipment	
	2005	2004
	HK\$'000	HK\$'000
Not later than one year	14	—
Later than one year and not later than five years	56	—
	<u>70</u>	<u>—</u>

(b) The Group and the Company had no material capital commitments at 31st December 2005 (2004: HK\$Nil).

(c) The Group and the Company entered into an agreement dated 31st May 2005 to acquire 100% equity interest in Anglo Alliance Co., Ltd. and its subsidiaries ("Anglo Alliance Group"). As part of the consideration for the acquisition of Anglo Alliance Group, the Company will issue, under certain conditions, the Second Tranche Convertible Note of up to HK\$183.3 million to the vendor (*note 35 (2b)*).

Notes to the Accounts

35. BUSINESS COMBINATIONS

On 31st May 2005, the Company completed the acquisition of 100% equity interest in Anglo Alliance Co., Ltd and its subsidiaries ("Anglo Alliance Group"), which in turn holds 50% interest of Asia Union Film and Media and its subsidiaries ("AUFM Group"), for a maximum consideration of HK\$550 million, of which:

- (1) HK\$262.7 million was satisfied by the issuance of 3,046,570,871 ordinary shares and 2,700,000,000 shares at an issue price of HK\$0.049 and HK\$0.042 per share respectively, and
- (2) the remaining of HK\$287.3 million, was and will be satisfied as follows:
 - a. HK\$104.0 million was satisfied by issuing a convertible note ("First Tranche Convertible Note") which can be converted into 2,122,136,612 ordinary shares at a conversion price of HK\$0.049 per share on the date of issue, and
 - b. HK\$183.3 million may be satisfied by issuing a convertible note ("Second Tranche Convertible Note") which could be converted into 3,741,496,591 ordinary shares at a conversion price of HK\$0.049 per share on the date of issue.

The issuance of Second Tranche Convertible Note is conditional and will only be issued, subject to adjustments, if the audited net profit of the Anglo Alliance Group for 12 months period commencing from the completion date (i.e. 31st May 2005) is more than HK\$40 million. The amount of the Second Tranche Convertible Note to be issued will be calculated on a prorata basis of the maximum amount of HK\$183.3 million of the note that can be issued, times the difference between the excess of the actual audited net profit earning during the 12 months period greater than HK\$40 million (up to the maximum of HK\$60 million) over HK\$20 million (being the difference between the maximum and minimum audited net profit of HK\$60 million and HK\$40 million, respectively).

Maturity date:

The First Tranche Convertible Note and the Second Tranche Convertible Note will mature on 31st May 2010, being the fifth anniversary of the date of completion of the acquisition of Anglo Alliance Group provided that the accumulated net profit after tax and extraordinary items of the Anglo Alliance Group from 31st May 2005, the date of completion up to the fifth anniversary of the date of completion shall not be less than the aggregate of approximately HK\$366.7 million (*see above note (1) and note (2)(a) above*) ("Basic Consideration") and HK\$183.3 million (*see note (2)(b) above*) ("Further Consideration"), assuming the maximum amount of the Second Tranche Convertible Note is issued in full.

Notes to the Accounts

35. BUSINESS COMBINATIONS *(Continued)*

- (2) the remaining of HK\$287.3 million, was and will be satisfied as follows: *(Continued)*

Maturity date: *(Continued)*

In the event that the above proviso is not fulfilled, the maturity date shall be the date falling on the fifth business day after the issuance of the financial statements for a financial year in which the accumulated net profit after tax and extraordinary items of the Anglo Alliance Group from the date of completion up to that financial year shall be more than or equal to aggregate amount of the Basic Consideration and the Further Consideration.

Both convertible notes can be converted into new shares in whole or in part at any time after issue of the convertible note.

Interest:

Both the First Tranche Convertible Note and the Second Tranche Convertible Notes are interest free up to the fifth anniversary of the date of completion of the UHL SP agreement and thereafter bear interest at a rate equal to the prime rate quoted by the Hongkong and Shanghai Banking Corporation.

Transferability:

Both the First Tranche Convertible Note and the Second Tranche Convertible Notes will not be listed on any stock exchange but will be freely transferable in whole or in part.

The acquired business contributed revenues of HK\$10,359,233 and net profit of HK\$9,334,863 to the Group for the period from 1st March 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, Group revenue would have been HK\$33,691,000 and loss before allocations would have been HK\$22,181,000.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
— Consideration payable	
Issue of shares	262,681
Convertible note	103,985
— Direct costs relating to the acquisition	5,675
Total purchase consideration	372,341
Fair value of net assets acquired — shown below	182,543
Goodwill <i>(Note 14)</i>	189,798

Notes to the Accounts

35. BUSINESS COMBINATIONS *(Continued)*

The goodwill is attributable to the future expected profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the media business in Beijing.

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

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

	Aggregated fair value <i>HK\$'000</i>	Acquirees' aggregated carrying amount <i>HK\$'000</i>
Cash and cash equivalents	2,000	2,000
Amount due from a jointly controlled entity	160,937	160,937
Investment in a jointly controlled entity	17,549	17,549
Trade receivables, deposits, prepayment and other receivables	2,154	2,154
Taxation	(97)	(97)
Net assets acquired	<u>182,543</u>	<u>182,543</u>
Purchase consideration paid up to 31st December 2005	(5,675)	
Cash and cash equivalents of acquisition of subsidiaries	<u>2,000</u>	
Net cash outflow in respect of acquisition of subsidiaries	<u>(3,675)</u>	

There were no acquisitions during the year ended 31st December 2004.

Notes to the Accounts

36. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(i) Year-end balances arising from advancement of funds

(a)	2005 HK\$'000	2004 HK\$'000
Payables to a fellow subsidiary — non-current	—	5,000
Payables to a fellow subsidiary — current	18	24,705
Amount due to an associated company (<i>note 27</i>)	470	335
Amount due to a subsidiary of the jointly controlled entity (<i>note 27</i>)	6,237	—

(1) During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$29 million (2004: HK\$34 million) (*note 27*).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances for the year ended 31st December 2005 amounted to HK\$517,000 (2004: HK\$2,563,000).

(2) The amounts due to an associated company is unsecured, interest free and has no fixed repayment term (*note 27*).

(3) The amounts due to a subsidiary of the jointly controlled entity is unsecured, interest free and has no fixed repayment term (*note 27*).

(b)	2005 HK\$'000	2004 HK\$'000
Amount due from a related party - current	4,742	—

The amounts due from a related party is interest free, unsecured and has no fixed repayment term.

(ii) Related party transactions

During the year, the Group entered into the following related party transactions with a jointly controlled entity:

	2005 HK\$'000
Purchase of programs and film rights	34,574
Purchase of revenue receivable rights of certain programs and films	17,252
Purchases of investment in a film	12,561

(iii) Amount due from a jointly controlled entity is unsecured, interest bearing at prevailing market rates and repayable on demand.

(iv) 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).

Notes to the Accounts

37. POST BALANCE SHEET EVENT

On 1st January 2006, a subsidiary of the Company acquired 100% interests of Beijing HuaYi Qian Si Advertising Company Limited ("Qian Si") for a consideration of RMB2,750,000. Qian Si was originally a 55% owned subsidiary of AUFM, a jointly controlled entity of the Group. Qian Si is principally engaged in the advertising agency business.

38. ULTIMATE HOLDING COMPANY

The directors of the Company consider Kwan Wing Holdings Limited, incorporated in British Virgin Islands, as being the ultimate holding company.

39. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th April 2006.

40. 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 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
Barnwell Enterprises Limited	Hong Kong, limited company	HK\$2 ordinary	100%	Administrative services in Hong Kong
Beijing Hua Yi Hao Ge Media Culture Co., Ltd.(*)	PRC, co-operative joint venture	RMB30,000,000	98%	Investment holding

Notes to the Accounts

40. 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 trading of audio and video equipments and components 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%	Design, manufacturing and marketing of telecommunication products — 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

* Chinese name translated to English is for identification purpose only.

Except for Barnwell Enterprises Limited and Global Assets Limited, all other statutory accounts for year ended 31st December 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 accounts and restated/reclassified as appropriate, are summarised below.

RESULTS

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover					
Continuing operations	33,691	38,630	30,011	51,791	128,875
Loss before tax	(21,857)	(8,839)	(69,851)	(171,355)	(165,710)
Taxation	(330)	(1,092)	(195)	—	—
Minority interests	—	—	—	76,252	27,306
Loss attributable to shareholders	(22,187)	(9,931)	(70,046)	(95,103)	(138,404)

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Property, plant and equipment	622	2,520	2,560	6,030	83,520
Intangible assets	247,957	—	1,685	2,249	59,453
Interests in a jointly controlled entity	56,130	—	—	—	10,901
Interests in associated companies	19,663	15,348	15,837	39,742	—
Preference dividend receivable — non-current portion	14,896	—	—	—	—
Available for sale financial assets	360	—	—	—	—
Investment in preference shares	63,578	—	—	—	—
Investment securities	—	36,000	36,000	80,508	55,662
Other assets	—	2,065	4,533	6,169	64,353
Current assets	129,812	38,046	72,653	38,643	304,180
Total assets	533,018	93,979	133,268	173,341	578,069
Current liabilities	29,100	35,070	59,428	32,803	190,851
Long-term liabilities	77,070	5,000	10,000	21,216	50,715
Total liabilities	106,170	40,070	69,428	54,019	241,566
Minority interests	—	—	—	—	120,752
Net assets	426,848	53,909	63,840	119,322	215,751

Notes to the five year summary:

- (1) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods 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 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions. Earlier years have not been restated. The new accounting policies are not adopted retrospectively.