# 2010
# ANNUAL REPORT

文化中國傳播集團有限公司
CHINAVISION MEDIA GROUP LIMITED

Stock Code: 1060

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Dong Ping *(Chairman)*
Mr. Ng Qing Hai *(President)*
Mr. Zhao Chao

### Non-Executive Director

Mr. Kong Muk Yin

### Independent Non-Executive Directors

Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

## EXECUTIVE COMMITTEE

Mr. Dong Ping *(Chairman)*
Mr. Ng Qing Hai
Mr. Zhao Chao

## REMUNERATION COMMITTEE

Mr. Chen Ching *(Chairman)*
Mr. Jin Hui Zhi
Mr. Li Chak Hung

## AUDIT COMMITTEE

Mr. Li Chak Hung *(Chairman)*
Mr. Chen Ching
Mr. Jin Hui Zhi

## COMPANY SECRETARY

Ms. Fung Ching Man, Ada

## SOLICITORS

Fred Kan & Co.
Robertsons

## AUDITOR

Deloitte Touche Tohmatsu

## STOCK CODE

Stock Code on The Stock Exchange of Hong Kong Limited: 1060

## WEBSITE

http://www.chinavision.hk

## BANKERS

Bank of Beijing Co., Ltd.
Bank of China Limited
Bank of Communications Co., Ltd.
Beijing Rural Commercial Bank Co., Ltd.
China Construction Bank Corporation
China Everbright Bank Corporation Limited
China Minsheng Banking Corp., Ltd.
CITIC Bank International Limited
Industrial and Commercial Bank of China Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Shenzhen Development Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
Bank of Xian

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3302, 33rd Floor, Far East Finance Centre
16 Harcourt Road, Admiralty, Hong Kong
Telephone : (852) 3971 8888
Facsimile : (852) 3971 8800
Email : info@chinavision.hk

## BEIJING OFFICE

12/F., Tower A & B, Ping An International Finance Center
Nos. 1-3 Xinyuan Nanlu, Chaoyang District, Beijing, China
Post Code : 100027
Telephone : (86) 10 5911 5566
Facsimile : (86) 10 5911 5599

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## SINGAPORE SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place, #32-01 Singapore Land Tower
Singapore 048623

# CHAIRMAN'S STATEMENT

To the Shareholders,

I am pleased to share with you our progress in developing our businesses in print media, mobile new media and television and film operations in 2010, the major revolutions and the results of the Company as well as our strategic focus and business planning in the future.

The economy and cultural industry in the PRC have experienced rapid growth. In its Twelfth Five-Year Plan, the Chinese Government has also declared that the cultural industry is becoming one of the pillars of the PRC economy. In fact, the cultural industry's rocketing expansion in recent years is making it one of the most dynamic sectors offering outstanding potential. At this initial stage of the Twelfth Five-Year Plan, the cultural industry is set to enter a new era growing even more rapidly while undergoing sweeping changes and greater achievements. Against the backdrop of supportive Government policies for the cultural and creative industry, the Group intends to continue expanding all its core businesses.

## PRINT MEDIA BUSINESS

In first-tier cities within the PRC such as Beijing and Shanghai, JingHua Culture, our print media business, continued to show strong growth momentum thanks to the continuous expansion of the use of advertisements. In the newspaper market in Beijing, advertisers tend to gravitate to the leading newspapers such as Beijing Times. Branding advertisements need print media to reflect its value while property and motor vehicle advertisements tend to rely even more heavily on newspaper advertisements in their marketing efforts. Growth in the higher end of advertisements shows the competitiveness of our newspaper advertising business and the growth potential of the newspaper industry.

Advertisements in the Beijing Times are principally for motor vehicles, fast moving consumer products, home appliances and new generation digital products. Stunning growth was recorded in the operating results of our advertising business in 2010, which was at the front of the overall growth trend exhibited by the newspaper industry in Beijing. Motor vehicle advertisements increased twofold, while property advertising underwent notable growth and is expected to further increase during 2011. Beijing Times has established a stylish business division which will help it expand its share in the high-end advertisement market.

2011 marks the 10th anniversary of Beijing Times. The newspaper is planning to launch a series of brand promotion activities based on its core strength in "credibility, influence and communication". One such noteworthy event includes invitations to more than 30 of the most influential TV and film stars, celebrities in the cultural industry and business leaders in the PRC to film a charitable brand advertisement "A Brilliant Decade for Beijing Times（京華時報華彩十年）" which will be broadcast across the country. This specialty promotion will also enhance the leading influence of Beijing Times as a popular mainstream media brand.

# CHAIRMAN'S STATEMENT

## PRINT MEDIA BUSINESS *(Continued)*

The JingHua Website of Beijing Times has been revamped and has established a new online version with an aim to build a new comprehensive digital media platform. To achieve this aim, a new "Siheyuan" concept is being created to build up a Beijing community forum. JingHua mobile new media is to offer e-book reader, mobile newspaper, e-newspaper, Hyun reading, and reading materials for both iPad and iPhone users.

As announced on 30th December, 2010, the Group has started the preparatory efforts for the A-share listing of JingHua Culture in Mainland China. The listing of JingHua Culture is expected to bring in new capital and enhance its shareholding structure, which will pave the way to enrich its media resources. This will provide a solid foundation for JingHua Culture to develop into a multi-media company that encompasses print media, mobile new media and film and TV media. This will be Beijing Times the most favorable in the years after the founding of the major events.

The Group will continue to expand its print media business while enhancing the synergies among the operations and businesses of its various publications, and consolidate its media resources with the aim of providing comprehensive advertising and marketing services to its customers.

## MOBILE NEW MEDIA BUSINESS

Following the rapid development of the mobile internet in the PRC, the Group is leveraging its strength in media resources as well as sales and marketing to actively develop new media business with an aim to satisfy the entertainment needs in the digital media era. Mobile TV, mobile game and mobile value-added services are regarded as new and innovative business in the mobile new media sector. The Group managed to develop these new businesses within a short period of time and gained a huge number of subscribers laying down the foundation for future satisfactory results. For the year ended 2010, the Group has satisfactorily met the budgets for operating mobile TV, mobile games and mobile value-added services. Currently, it is working on strengthening the partnership with telecommunications operators, while further developing the mobile TV, mobile game and mobile value-added services and promoting mobile reading business.

# CHAIRMAN'S STATEMENT

## MOBILE NEW MEDIA BUSINESS *(Continued)*

In recent years, mobile TV has been developing rapidly along with the continuous upgrading and optimisation of mobile network functionality and mobile terminals. China's three largest telecom operators have devoted significant resources in developing mobile TV since 2010. China Mobile's revenue derived from mobile TV services recorded a year-on-year increase of 200% in 2010, and is expected to grow a further 100% during 2011. The Group's mobile TV applications have been provided to the three largest telecom operators and are now available on the mobile platforms of mainstream players including Symbian, Android and iPhone, among others. Currently, this mobile TV segment has established a strong platform for content generation, technological development, operational maintenance and marketing and promotion. Three major indicators have recorded encouraging growth in December 2010 over June of the same year. Total income is up nearly 200%, the number of monthly subscribers has also expanded by 200% and the number of users is over 200% higher. Stepping into 2011, strong growth momentum has been maintained, with television film and drama and entertainment programmes particularly well received by users. The Group also tendered for China Unicom's vertical column of mobile TV and obtained the operating rights to provide TV drama and live programming.

The development of 3G has improved the operational environment of mobile games as is shown in the enormous and still expanding user base. As at the fourth quarter of 2010, the number of mobile game users in the PRC reached 135 million and the market scale grew to RMB3.3 billion. To enrich the content and improve the quality of games, the Group is developing exciting new mobile games including "Twin Castle 2" and "玄境OL". "玄境OL" is a multiplayer online role-playing game that offers users a unique interactive experience via its user-friendly touchscreen application. Current plans are to begin marketing "玄境OL" in June 2011.

Leading-edge mobile digital reading devices such as smartphones, tablet PCs and e-book readers are gaining popularity, as people are changing their reading habits, leading the numbers of digital readers growing rapidly. Mobile reading presents a brand new publication model, which allows users to download the content directly so they can read anywhere and anytime. The Group has integrated a wide variety of reading content and is formatting it into China Mobile's e-reading base to meet different reading preferences of users.

The collaboration between the Group's film and television drama business and mobile new media business units has generated positive synergies in operations. Television dramas have become popular mobile viewing content. Mobile games have been developed based on the story adaptation of the television dramas of the same name. Television drama contents have also become popular broadcast programmes on mobile TV. Such synergies are expanding and will bring more benefits to the Group.

# CHAIRMAN'S STATEMENT

## TELEVISION AND FILM BUSINESS

The television and film business has enjoyed a very handsome return on investment contributing substantial income to the Group. Riding on the motto of "Building a strong brand; Producing outstanding dramas", in 2011, the Group will pursue further excellence in terms of screenwriter, director and artist selection and will invest in two to three new television drama series. "智者無敵", a series of "英雄無敵系列" produced by the Group in 2010, has been selected as a major drama presentation to be broadcasted during the period commemorating the anniversary of founding of the Communist Party of China in July this year. Several mainstream satellite television and popular online TV channels have signed contracts with the Group for the broadcast of this television series even before actual production. "智者無敵" will be available for viewing on traditional TV channels, new multi-media network and mobile TV while its content will be published through print media in order to maximize the synergies effect. "智者無敵" will be the first television drama that can be viewed in four different media channels.

## PROSPECT

Looking at 2011, the Group will enhance the marketing and resources consolidation of the mobile new media businesses and leverage its core competitiveness in mobile TV, mobile games and other new media businesses in order to reinforce synergies among its television and film, print media and new media businesses. Through the close cooperation between the teams of each business division, we are set to develop cohesion within the Group and flourish economies of scale in a bid to boost the rapid growth of its digital mobile new media business.

## FINANCIAL RESULTS

For the year ended 31st December, 2010, the Group recorded a turnover of HK$405,986,000 and achieved a net profit attributable to the shareholders of the Company of HK$13,662,000, as compared to a turnover and net loss of HK$388,935,000 and HK$225,296,000 respectively primarily resulted from the distribution and manufacturing of cement and clinker in 2009. Excluding the non-cash effective interest expense on convertible notes and share options expense of HK$48,143,000 for the year ended 31st December, 2010, the net profit attributable to the shareholders of the Company for the year ended 31st December, 2010 is HK$61,805,000.

Earnings per share (basic) of the Group for the year ended 31st December, 2010 is HK0.78 cents (2009: loss per share was HK16.73 cents) and the net asset value attributable to owners of the Company per share is HK$0.38 (2009: HK$0.24).

# CHAIRMAN'S STATEMENT

## DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2010 (2009: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations

The "Cultural Industry Promotion Plan" (文化產業振興規劃) of the State Council and "The Guidance re Financial Support of Cultural Industries and Revitalisation and Development and Prosperity" (關於金融支持文化產業振興和發展繁榮的指導意見) pronouncement jointly issued by nine ministries and commissions demonstrates the strategic importance the state placed on the cultural industry. In a session "Push Forward the Reform of the Cultural System" (深入推進文化體制改革) held in July 2010, the Central Government advanced four major strategies: "Guidance to quicken innovation and reform of the cultural system, establish a public cultural service system, quicken the development of the cultural industry, and strengthen the creation and production of cultural products" for attainment of the mission.

With the supportive policy direction reiterated in the Twelfth Five-Year Plan by the Chinese Government, the cultural industry in the PRC has experienced rapid growth. The Group has managed to successfully seize the opportunity and achieved significant progress in print media business, mobile new media business and the television and film business during the year under review. A majority of these businesses were carried out in the PRC. Apart from these media related businesses, the Group was also engaged in the securities trading and investments, and distribution of cement business.

In addition to the favourable Government policies towards the cultural industry, the Group also gained support from the financial and film industries. In June 2010, the Group secured a RMB1 billion credit facility from the Bank of Beijing for the development of its core cultural businesses covering the television drama and film production, newspaper media as well as operation of new media businesses. This is by far the largest credit facility granted to a privately held listed company in the cultural industry by a local bank. In the same month, China Film Group Corporation ("CFGC") and the Group established a strategic alliance, under which various audio and visual programming materials will be broadcasted via the Group's mobile TV business and new media platform. These medium contents include worldwide films for which CFGC owns the copyrights, as well as other audio and visual clips, images and pictures and related new media audio and visual programmes.

# CHAIRMAN'S STATEMENT

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Media Related Businesses

For the year ended 31st December, 2010, the film, television programme and television drama series production, distribution and licensing business brought the Group revenue of HK$186,173,000 (2009: HK$45,752,000), accounted for approximately 45.9% of the Group's consolidated turnover with segment profit of HK$72,056,000 (2009: HK$5,032,000). The revenue was derived principally from distributing and licensing several television programme and drama series, and films. In December 2010, in order to streamline and rationalise this business segment, the Group disposed of a subsidiary involved in the television programme and television drama series production business and derived a gain of HK$25,302,000.

In late March 2010, the Group transformed the mobile value-added businesses it had taken over in February 2010. Mobile value-added businesses mainly refers to the provision of personalised information and entertainment services to mobile handset users in the PRC via the internet and other modern telecom technologies in the form of SMS, MMS, WAP, interactive voice response and the like. For the year ended 31st December, 2010, this line of business brought the Group net revenues of HK$10,416,000, accounted for approximately 2.6% of the Group's consolidated turnover with segment profit of HK$2,002,000 (after netting off amortisation of license upon acquisition of HK$2,266,000).

The mobile TV business was another new business operated by the Group through establishment of a jointly controlled entity, namely 人民視訊文化有限公司 (in English, RenMinShiXun Culture Company Limited, "RenMinShiXun"), with RenMinWang in April 2010. The net revenue recognised since April 2010 amounted to HK$4,487,000 (being the 49% share of RenMinShiXun's results), accounted for approximately 1.1% of the Group's consolidated turnover and this segment recorded a loss of HK$4,240,000, which was primarily resulted from the amortization of the broadcasting right of HK$3,636,000.

During the year ended 31st December, 2010, the mobile games business brought the Group revenue of HK$1,687,000 (2009: HK$113,000), accounted for approximately 0.4% of the Group's consolidated turnover with segment loss of HK$5,541,000 (2009: HK$838,000), which was mainly due to the amortisation of the mobile game intangibles acquired upon acquisition of HK$4,211,000.

In May 2010, the Group completed the acquisition of a jointly controlled entity and started its newspaper advertising agency and distribution of Beijing Times. Beijing Times covers more than a 75% share of the morning post retail market in Beijing and has the largest circulation among all morning posts in Beijing. For the period since the completion of the acquisition, the newspaper advertising agency and distribution businesses contributed to the Group revenue and segment profit of HK$171,484,000 (being the 50% share of results of the jointly controlled entity) and HK$30,579,000 respectively, accounted for approximately 42.2% of the Group's consolidated turnover.

# CHAIRMAN'S STATEMENT

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Media Related Businesses *(Continued)*

During the year, the Group also carried out advertising intermediary and other agency services embodying the organisation of cultural and artistic exchange activities. These businesses contributed to the Group revenue and segment profit of HK$19,424,000 and HK$15,518,000 respectively for the year ended 31st December, 2010, accounted for approximately 4.8% of the Group's consolidated turnover.

### Securities Trading and Investment

For the year ended 31st December, 2010, the Group's trading and investment recorded a segment loss of HK$10,273,000 (2009: profit HK$4,684,000), mainly due to loss from change in fair value of held for trading investments.

### Distribution of Cement Business

For the year ended 31st December, 2010, the segment revenue and segment profit from distribution of cement were HK$1,990,000 (2009: HK$343,070,000) and HK$43,000 (2009: HK$12,364,000) respectively, representing a decrease of 99.4% and 99.7% respectively and accounted for approximately 0.5% of the Group's consolidated turnover.

The decline in segment revenue and profit was primarily resulted from the Group's disposal of the manufacturing business of cement and clinker during 2009. Moreover, competition among industry players seeking to increase market share become intensified, causing the price of cement to remain low and a thin margin, together with the gradual implementation of the PRC government's measures to eliminate obsolete capacities and the implementation of power cuts to high energy consumption enterprises.

### Other Business

Revenues and profit from other segments including the sales and distribution of magazines and newspapers other than Beijing Times, sales of bottled water, TV programme packaging services and others in the PRC amounted to HK$10,325,000 (2009: nil) and HK$4,874,000 (2009: nil) respectively during the year, accounted for approximately 2.5% of the Group's consolidated turnover.

# CHAIRMAN'S STATEMENT

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Termination of a Discloseable Transaction and Other Transactions

As announced on 28th April 2009, the Company entered into a conditional agreement with an independent third party to acquire the entire issued share capital and a shareholder's loan relating to the 25% registered capital of a Guangxi hotel at an aggregate consideration of RMB26 million (or approximately HK$30 million).

As at 30th August, 2010, being the long stop date as previously extended, certain conditions precedent were still yet to be fulfilled. For the interest of the Group, the Group has reached an agreement with the independent third party that the transaction be ceased and the conditional agreement be terminated. On the same day, the independent third party has repaid the Company RMB12 million (approximately HK$14 million), being the refundable deposit previously paid by the Company for the proposed acquisition.

As announced on 30th July. 2010, the Company received from an independent third party a confirmation in relation to a non-binding letter of intent issued by the Group in respect of the Company's offer to acquire 50% equity interest in a company that is principally engaged in internet-related business at a consideration of approximately US$100 million. As at 31st December, 2010, no legally binding document has been executed and the Group has terminated the negotiation with the independent third party.

As announced on 23rd August, 2010, the Company and a placing agent entered into a placing agreement pursuant to which the placing agent agreed to place, on a fully underwritten basis, the convertible bonds in an aggregate principal amount of HK$1,000 million which will be used for investments as opportunities arise and/or for general working capital of the Group. As at 28th February, 2011, certain conditions precedent were not fulfilled and the placing agreement was terminated.

The Board considers that the termination of the above transactions will not affect the businesses and cashflow position of the Group.

# CHAIRMAN'S STATEMENT

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations, loans from principal bankers and financial institutions and equity financing. As at 31st December 2010, the Group maintained cash reserves of HK$141,342,000 (2009: HK$126,671,000). As at 31st December, 2010, the equity attributable to equity holders of the Company amounted to HK$727,369,000 (2009: HK$359,589,000) with total borrowings of HK$32,618,000 (2009: HK$17,081,000).

On 11th February, 2010, the Company issued 40,000,000 shares of the Company to the vendor, an independent third party to settle part of the consideration for the acquisition of the entire issued share capital of Year Wealth Limited ("Year Wealth"), which indirectly owns 51% equity interests in 西安金鼎影視文化有限公司 (in English, Xian Jinding Film, Television and Culture Company Limited) ("Xian Jinding"). As at 31st December, 2010, Year wealth indirectly owns 56% equity interests in Xian Jinding.

The Group conducted a placing activity during the year under review in order to further strengthen its capital base and to expand the Group's media related business and investment. On 18th May 2010, the Group announced to place 296,000,000 placing shares to independent investors at a price of HK$0.55 per placing share. The net proceeds of approximately HK$157,901,000 from the placing were used for settlement of acquisitions in the media related businesses and for general working capital of the Group. The placing was completed in May 2010.

On 3rd June, 2010, the Company issued to the vendor, an independent third party convertible note in a principal amount of HK$350 million with a conversion price of HK$1.2 per share of the Company to settle part of the consideration for the acquisition of the entire issued share capital of Prefect Strategy International Limited, which indirectly owns 70% equity interests in Beida Culture Development Company Limited ("Beida Culture"). None of this convertible note has been converted as of this announcement.

On the same day, the Company issued to the vendor, an independent third party convertible note in a principal amount of HK$120 million with a conversion price of HK$1 per share of the Company to settle part of the consideration for the acquisition of the entire issued share capital of Main City Limited, which indirectly owns 30% equity interests of Beida Culture. On 6th August, 2010, such convertible notes were fully converted into shares of the Company. On 30th March, 2011, the Company issued to the same vendor an additional amount of convertible note in a principal amount of HK$30,000,000 with a conversion price of HK$1 per share of the Company, upon the vendor's fulfillment of the indemnity that Beida Culture's profit after taxation in the year 2010 exceeded HK$50 million.

# CHAIRMAN'S STATEMENT

## FINANCIAL REVIEW *(Continued)*

### Foreign Exchange Fluctuation

The Group's operations are mainly located in mainland China and its transactions, related working capital and borrowing are primarily denominated in Renminbi and Hong Kong Dollars. The Group monitors its foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

### Charges on Assets

As of 31st December, 2010, held for trading investments with respective carrying value of HK$49,959,000 (2009: HK$57,822,000) was pledged to financial institution as collateral mainly to secure short term credit facilities granted to the Group.

## EMPLOYEES AND REMUNERATION POLICIES

As of 31st December, 2010, the Group, including its subsidiaries and jointly controlled entities but excluding its associates, employed 1,695 (2009: 92) employees. The remuneration policies of the Group are based on the prevailing market levels and the performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

## RISK MANAGEMENT

During the year, the Group constantly reviewed the risk and credit control systems of its profit centres to improve the overall control system and mitigate the credit risk.

**Dong Ping**
*Chairman*

Hong Kong, 30th March, 2011

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS & SENIOR MANAGEMENT

## Executive Director

**Mr. Dong Ping**, aged 49, appointed on 23rd April, 2009, is the Chairman of the Company. Mr. Dong graduated from 首都師範大學, the People's Republic of China. He was the founder of Asian Union Film and Media(北京保利華億傳媒文化有限公司), which was among the first group of Chinese corporations that engage in film investment. Mr. Dong has been the producer and co-producer of various international renowned films, including Crouching Tiger Hidden Dragon 《臥虎藏龍》, Devils on the Doorstep 《鬼子來了》, Breaking the Silence 《漂亮媽媽》, Jasmine Women 《茉莉花開》, Keep Cool 《有話好好説》, Peacock 《孔雀》, Mei Wan Mei Liao 《沒完沒了》 and The Emperor and The Assassin 《荊軻刺秦王》. All these films have won numerous major prizes in both domestic and overseas film festivals. From August 2003 to April 2005, he was the president of Asian Union Film and Media. In between 31st May, 2005 and 11th January, 2008, he was appointed as an executive director of Media China Corporation Limited (華億媒體有限公司), and was named as the chairman of the board of directors from 12th May, 2006 to 11th January, 2008. Mr. Dong has extensive experience, knowledge and connection in investment and operation of Chinese media, advertisement, satellite TV, film productions and media fields. Mr. Dong is the brother-in-law of Mr. Zhao Chao.

**Mr. Ng Qing Hai**, aged 54, appointed on 15th May, 2001, is the President of the Company. He had been the Chief Executive Officer of the Company up to 20th April, 2010. Mr. Ng is also the deputy managing director of Tian An China Investments Company Limited. He graduated from the Accounting Department of Shanghai Institute of Building Materials in 1983. Mr. Ng became a member of the Association of Registered Accountants of the People's Republic of China in 1994. He was admitted as Management Consultant by GROUPE ESSEC of France in 1988, and became the vice chairman of China Building Materials Enterprises Management Association in 2004 and a fellow of Asian Knowledge Management Association in 2006 and also became the vice chairman of Shanghai Cement Industrials Association in 2008. Mr. Ng has extensive experience in managing enterprises.

**Mr. Zhao Chao**, aged 46, appointed on 23rd April, 2009, is an Executive Director of the Company. Mr. Zhao was graduated from Renmin University of China majoring in photography between 1987 and 1990. He worked as a journalist at 《環球企業資訊》 in China Enterprise Management Association between 1990 and 1993. From 1993 to 1995, he took the position of general manager (PRC) at 香港華億集團有限公司. Subsequently from 1995 to 2003, he acted as the vice president of 北大華億影視文化有限責任公司. From 2003 to 21st April, 2009, he was the vice president of Asian Union Film and Media. Mr. Dong Ping is the brother-in-law of Mr. Zhao.

During his time in Asian Union Film and Media, Mr. Zhao participated in the planning and distribution of a number of films such as The Emperor and The Assassin 《荊軻刺秦王》, Mei Wan Mei Liao 《沒完沒了》, Breaking the Silence 《漂亮媽媽》, Crouching Tiger Hidden Dragon 《臥虎藏龍》, Devils on the Doorstep 《鬼子來了》, And the Spring Comes 《立春》, Letter from an Unknown Woman 《一個陌生女人的來信》, Jasmine Women 《茉莉花開》 and Peacock 《孔雀》. Moreover, he engaged in the marketing and distribution of a hundred of classic Chinese films and animation films, including Yellow Earth 《黃土地》, The Big Parade 《大閱兵》, The River Flows Eastwards 《一江春水向東流》, Two Stars 《銀漢雙星》, Red Sorghum 《紅高粱》, Jigong Versus Cricket 《濟公鬥蟋蟀》 and Baby Tadpoles Look for Their Mother 《小蝌蚪找媽媽》 to the overseas market.

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS & SENIOR MANAGEMENT

## Non-Executive Director

**Mr. Kong Muk Yin**, aged 45, was appointed as an Executive Director of the Company on 4th July, 2007 and has been re-designated as a Non-Executive Director of the Company since 30th December, 2010. Mr. Kong was graduated from City University of Hong Kong with a Bachelor's degree in business studies. He is a fellow member of The Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and has extensive experience in corporate finance, financial management, accounting and auditing. Mr. Kong is currently the executive director of COL Capital Limited and APAC Resources Limited (both listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and a director of Interport Resources Corporation and Mabuhay Holdings Corporation (both listed on The Philippine Stock Exchange, Inc.). He was an executive director of Greenfield Chemical Holdings Limited (listed on the Stock Exchange) from 13th October, 2009 to 21st January, 2010.

## Independent Non-Executive Director

**Mr. Chen Ching**, aged 62, appointed on 27th September, 2004, is an Independent Non-Executive Director of the Company. Mr. Chen is currently a director of China Ocean Management Limited. He was a director of Genesis Energy Holdings Limited from 1999 to 2001. He served as a senior executive in various companies within the food sector and metal sector in the People's Republic of China. Mr. Chen has over twenty six years of experience in financial management.

**Mr. Jin Hui Zhi**, aged 51, appointed on 14th December, 2004, is an Independent Non-Executive Director of the Company. Mr. Jin is currently an independent non-executive director of Tian An China Investments Company Limited, the chairman of Shanghai Horizon Investment Co. Ltd. ("Shanghai Horizon") and the honorary deputy president of the Youth Entrepreneur Association of Shanghai. Shanghai Horizon is a company principally engaged in the investment of energy saving and healthcare businesses. During the period from 1996 to 2000, he was the general manager and chairman of Shanghai Huaihai Commerce Group. Mr. Jin was formerly chief member of Youth Work Ministry, chief member and deputy director of Research Department, member of Standing Committee and minister of Youth Work Ministry of China Communist Youth League Shanghai Committee. He has extensive experience in the business market. Mr. Jin holds a MBA degree.

**Mr. Li Chak Hung**, aged 46, appointed on 27th September, 2004, is an Independent Non-Executive Director of the Company. He holds a Bachelor's Degree of Business Administration and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants in the United Kingdom. He has over twenty one years of experience in auditing, accounting and financial management. Mr. Li is also an independent non-executive director of Allied Overseas Limited (formerly known as "Quality HealthCare Asia Limited"), a company listed on the Stock Exchange.

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS & SENIOR MANAGEMENT

## Senior Management

**Mr. Cui Bin**, aged 36, joined the Company on 20th April, 2010 and is the Chief Executive Officer of the Company. He graduated from China Europe International Business School with a degree of MBA. Mr. Cui joined the People's Daily in 1997 for the management of the overseas edition of the advertising business. Since then, He has been active in the Chinese media market in the forefront of the operation. Founded the Beijing Times in 2001 in Beijing in cooperation with the People's Daily and social capital, Mr. Cui served as the deputy general manager of the advertising center of the Beijing Times. In 2003, he became the general manager of the Youth Daily in Shanghai and led the transformation of the newspaper. He took up the roles of executive director, chief marketing officer and executive vice president of Towona Media Holding Company Limited, a new media group invested by Baring Private Equity Asia, CDH Investments, Cathay Capital Group, Chengwei Ventures and Walden International, in 2006. Mr. Cui had been a committee member of the Shanghai Youth Federation and Department of Academic Committee of China Advertising Association. Not only did Mr. Cui accomplish outstanding performance in business, but he also achieved success in academia. He published many books such as "Advertising Practices in China", and was awarded "China's Top 10 Media Figures", "China's Top 10 Innovative Media Figures", "China's Top 10 Media Modern Figures", "New Media Leaders in China" and "China 100 Most Influential Media" and so on.

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board of directors of the Company (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2010 except for certain deviations as specified with considered reasons for such deviations as explained below. The Board will review the current practices at least annually and make appropriate changes if considered necessary.

## THE BOARD

The Board currently comprises seven Directors in total, with three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors ("INEDs"). The composition of the Board during the year and up to the date of this report is set out as follows:–

### Executive Directors

Mr. Dong Ping *(Chairman)*
Mr. Ng Qing Hai *(President)*
Mr. Zhao Chao

### Non-Executive Director

Mr. Kong Muk Yin *(Re-designated on 30th December, 2010)*

### INEDs

Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 13 to 15. Other than that Mr. Dong Ping, the Chairman of the Company, is a brother-in-law of Mr. Zhao Chao, an Executive Director of the Company, there are no family or other material relationships among members of the Board.

# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

During the year, the Non-Executive Directors (a majority of whom are independent) provided the Group with a wide range of expertise and experience. Their active participation in the Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

Throughout the year and up to the date of this report, the Company had three INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, four Board meetings were held and attendance of each Director at the Board meetings is set out as follows:–

| Director | | Number of Board meetings attended/eligible to attend |
|---|---|---|
| **Executive Directors** | | |
| Mr. Dong Ping *(Chairman)* | | 4/4 |
| Mr. Ng Qing Hai *(President)* | | 3/4 |
| Mr. Zhao Chao | | 4/4 |
| **Non-Executive Director** | | |
| Mr. Kong Muk Yin | *(Re-designated on 30th December, 2010* | 4/4 |
| **INEDs** | | |
| Mr. Chen Ching | | 4/4 |
| Mr. Jin Hui Zhi | | 4/4 |
| Mr. Li Chak Hung | | 4/4 |

# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management under the instruction/ supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in June 2005. The Board will review the same from time to time to ensure that they are consistent with the existing rules and regulations.

Board meetings each year are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept in the Company Secretarial Department of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

According to current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material, will be dealt with by the Board at a duly convened Board meeting. The Bye-laws of the Company also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a materially interest therein.

Each Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in June 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

# CORPORATE GOVERNANCE REPORT

## ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive officer ("CEO") shall be separated and shall not be performed by the same individual. Under the current organisational structure of the Company, Mr. Dong Ping, the Chairman of the Company, is primarily responsible for the leadership of the Board, ensuring that (i) all significant policy issues are discussed by the Board in a timely and constructive manner; (ii) all Directors are properly briefed on issues arising at Board meetings; and (iii) the Directors receive accurate, timely and clear information. The functions of the CEO are performed by Mr. Cui Bin who was appointed in place of Mr. Ng Qing Hai to take up the role of the CEO of the Company on 20th April, 2010 and is responsible for the day-to-day management of the Group's business. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board in June 2005.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Executive Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's businesses and activities.

Each of the INEDs was appointed for a specific term but subject to the relevant provisions of the Bye-laws of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. Such term for each of INEDs has been renewed for further two years to 31st December, 2012.

The code provision A.4.2 of the CG Code requires all Directors, including all Non-Executive Directors, to be subject to retirement by rotation at least once every three years. The Company has fully complied with code provision A.4.2 of the CG Code.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept in the Company Secretarial Department of the Company, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 18 in the section headed "The Board" above, have been adopted for the committee meetings so far as practicable.

### Remuneration Committee

The Remuneration Committee has been established since June 2005 and currently consists of three members, including Messrs. Chen Ching (Chairman), Jin Hui Zhi and Li Chak Hung, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:–

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman (if any) and/or CEO about the committee's proposals relating to the remuneration of other Executive Directors;

(ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the code provision B.1.3 of the CG Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:–

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) the Remuneration Committee members only consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

(iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are available on the Company's website.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2010 and the attendance of each member is set out as follows:–

| Committee member | Number of Committee meeting attended/eligible to attend |
|---|---|
| Mr. Chen Ching *(Chairman)* | 1/1 |
| Mr. Jin Hui Zhi | 1/1 |
| Mr. Li Chak Hung | 1/1 |

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

Apart from the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2010. In 2010 and up to the date of this report, the Remuneration Committee had reviewed the existing remuneration packages of all the Executive Directors and Non-Executive Directors (including the INEDs) for the year ended 31st December, 2009, including the existing policy and structure for the remuneration of Directors, and approved the payment of bonus and granting of the share options of the Company to the Directors.

Each Director will be entitled to a Director's fee which is to be proposed for the shareholders' approval at the Annual General Meeting of the Company ("AGM") each year. Further remuneration payable to Directors (including any service fees to the INEDs) for their additional responsibilities and services will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the Chairman's Statement on page 12.

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. Details of the share option scheme of the Company, the granting of the share options to the Directors of the Company during the year ended 31st December, 2010 and the outstanding share options as at 31st December, 2010 are set out in the Directors' Report on page 32 and note 35 to the consolidated financial statements.

### Audit Committee

The Audit Committee has been established since August 2001 and currently consists of three INEDs. To retain independence and objectivity, the Audit Committee is chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise). The current members of the Audit Committee are Messrs. Li Chak Hung (Chairman), Chen Ching and Jin Hui Zhi. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The major roles and functions of the Audit Committee are:–

(i) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of those auditors;

(ii) to consider and discuss with the external auditor the nature and scope of each year's audit;

(iii) to review and monitor the external auditor's independence and objectivity;

(iv) to review the interim and annual consolidated financial statements before submission to the Board;

(v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditor may wish to discuss;

(vi) to review the external auditor's management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems; and

(viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised from time to time to comply with the code provision C.3.3 of the CG Code, but with the deviations from the code provision of the audit committee's responsibility to:–

(i) implement policy on the engagement of the external auditors to supply non-audit services;

(ii) ensure the management has discharged its duty to have an effective internal control system; and

(iii) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the listed company.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The Board considers that the Audit Committee of the Company should recommend (as opposed to implement) the policy on the engagement of the external auditor to supply non-audit services for the following reasons:–

(i) it is proper, and appropriate for the Board and its committees to develop policy and make appropriate recommendations;

(ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and

(iii) INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee of the Company only possesses the effective ability to scrutinise (as opposed to ensure) whether management has discharged its duty to have an effective internal control system. The Audit Committee is not equipped to ensure that the same is in place as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position either to ensure coordination between the internal and external auditors but it can promote the same. Similarly, the Committee cannot ensure that the internal audit function is adequately resourced but it can check whether it is adequately resourced.

The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee shall meet at least twice a year. Two committee meetings were held in 2010 and the attendance of each member is set out as follows:–

| Committee member | Number of Committee meetings attended/eligible to attend |
|---|---|
| Mr. Li Chak Hung *(Chairman)* | 2/2 |
| Mr. Chen Ching | 2/2 |
| Mr. Jin Hui Zhi | 2/2 |

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

Apart from the Committee meetings, the Audit Committee also dealt with matters by way of circulation during 2010. In 2010 and up to the date of this report, the Audit Committee had performed the work summarised as below:–

(i) reviewed and approved the audit scope and fees proposed by the external auditor in respect of the final audit of the Group for the year ended 31st December, 2009 (the "2009 Final Audit") and for the interim results review for the six months ended 30th June, 2010 (the "2010 Interim Review");

(ii) reviewed the external auditor's report of findings in relation to the 2009 Final Audit;

(iii) reviewed the external auditor's independent review report in relation to the 2010 Interim Review; and

(iv) reviewed the financial reports for the year ended 31st December, 2009 and for the six months ended 30th June, 2010 and recommended the same to the Board for approval.

### Executive Committee

The Executive Committee has been established since December 2004 and currently consists of three Executive Directors, being Mr. Dong Ping (Chairman), Mr. Ng Qing Hai and Mr. Zhao Chao. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee meets periodically to discuss the operating affairs of the Group and also deals with matters by way of circulation. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:–

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group within the overall strategy of the Group as determined by the Board.

# CORPORATE GOVERNANCE REPORT

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provision A.5.4 of the CG Code, the Company has also adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from the finance department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31st December, 2010, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The reporting responsibilities of the Company's external auditor, Deloitte Touche Tohmatsu, are set out in the Independent Auditor's Report on pages 38 to 39.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### Internal Control

The purpose of the internal control systems is to keep the Group on course towards achieving its performance and profitability goals and its overall mission. The immediate aim of internal control is to help to provide a reasonable level of assurance that the Group will meet the agreed objectives and goals. It has a key role in the management of risks that are significant to the fulfilment of business objectives. It is the Board's responsibility to review the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the shareholders' investment and the Group's assets at all times.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT *(Continued)*

### External Auditor's Remuneration

During the year, the remuneration paid/payable to the Company's external auditor, Deloitte Touche Tohmatsu, is set out as follows:–

| Services rendered for the Group | Fee paid/payable |
|---|---|
| | *HK$'000* |
| Audit services | 1,550 |
| Non-audit services | 950 |
| Total | 2,500 |

## COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. The chairmen of the Audit Committee and the Remuneration Committee or in their absence, another member of the respective committees, are also available to answer questions at the AGM. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM.

The Company's last AGM was held on 9th June, 2010 and the AGM circular was distributed to shareholders at least 21 clear days prior to the AGM, setting out details of each proposed resolution, voting procedures and other relevant information. The Chairman explained the procedures for demanding and conducting a poll again at the beginning of the last AGM.

The next AGM will be held on 8th June, 2011, the notice of which will be sent to shareholders at least 20 clear business days before the meeting. An explanation of the detailed procedures for conducting a poll will be provided to the shareholders at the commencement of the meeting. The Chairman will answer any questions from shareholders regarding voting by way of a poll. The poll results will be published in accordance with the requirements of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders to promote and improve our transparency are also welcome.

On behalf of the Board
**Dong Ping**
*Chairman*

Hong Kong, 30th March, 2011

# DIRECTORS' REPORT

The directors of the Company (the "Directors") present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31st December, 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries as at 31st December, 2010 are set out in note 46 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated income statement on page 40.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2010 (2009: nil).

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

## CONVERTIBLE NOTES

Details of the convertible notes of the Company are set out in note 33 to the consolidated financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 44 and in note 45(c) to the consolidated financial statements respectively.

## DONATIONS

The Group made charitable donations of HK$1,276,000 during the year.

# DIRECTORS' REPORT

## 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 154.

## BORROWINGS

Bank loans and other borrowings repayable within one year or on demand are classified under current liabilities. Details of bank loans and other borrowings are set out in note 30 to the consolidated financial statements.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:–

**Executive Directors**
Mr. Dong Ping *(Chairman)*
Mr. Ng Qing Hai *(President)*
Mr. Zhao Chao

**Non-Executive Director**
Mr. Kong Muk Yin *(Re-designated on 30th December, 2010)*

**Independent Non-Executive Directors**
Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

In accordance with bye-law 87(2) of the Company's Bye-laws, Messrs. Zhao Chao, Jin Hui Zhi and Li Chak Hung will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 13 and 14.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 31st December, 2010, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:–

### Long positions in the shares and underlying shares of the Company

| | Number of ordinary shares/underlying shares held | | | |
|---|---|---|---|---|
| Name of Director | Interests in shares | Interests in underlying shares[2] | Total interests | Approximate percentage of issued shares[1] |
| Dong Ping | 15,530,000[3] | 14,100,000 | 29,630,000 | 1.53% |
| Zhao Chao | 331,288,020[4] | 8,910,000 | 340,198,020 | 17.56% |
| Kong Muk Yin | 500,000[3] | 3,000,000 | 3,500,000 | 0.18% |
| Chen Ching | – | 1,050,000 | 1,050,000 | 0.05% |
| Jin Hui Zhi | – | 1,050,000 | 1,050,000 | 0.05% |
| Li Chak Hung | – | 1,050,000 | 1,050,000 | 0.05% |

Notes:

1. The percentage of shareholding has been complied based on the total number of issued ordinary shares of the Company of 1,937,592,564 as at 31st December, 2010.

2. The relevant interests are share options (the "Share Options") granted pursuant to the Company's share option scheme adopted on 23rd May, 2002 (the "Share Option Scheme"). Upon exercise of the Share Options in accordance with the Share Option Scheme, the shares in the capital of the Company are issuable.

3. This represents the interests held by the relevant Director as beneficial owner.

4. As at 31st December, 2010, Basic Charm Investment Limited ("Basic Charm"), a wholly-owned subsidiary of Rainstone International Limited ("Rainstone"), held 331,288,020 ordinary shares of the Company. Mr. Zhao Chao maintained 100% beneficial interest in Rainstone. Accordingly, Mr. Zhao Chao was deemed to have corporate interest in 331,288,020 ordinary shares of the Company.

Details of the Share Options, duly granted to the Directors pursuant to the Share Option Scheme, which constitute interests in underlying ordinary shares of equity derivatives of the Company under the SFO are set out in the section headed "Share Options" of this report.

# DIRECTORS' REPORT

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES *(Continued)*

Save as disclosed above, as at 31st December, 2010, none of the Directors, chief executives of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTIONS

The Share Option Scheme was adopted by the Company pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. Details of the Share Option Scheme are set out in note 35 to the consolidated financial statements.

Movement of the Share Options granted by the Company pursuant to the Share Option Scheme during the year ended 31st December, 2010 are as follows:–

| | | | Number of Share Options | | | |
|---|---|---|---|---|---|---|
| Category | Date of grant | Exercise price per share | Outstanding as at 1st January, 2010 | Granted during the year | Exercised during the year | Outstanding as at 31st December, 2010 |
| | | *HK$* | | | | |
| **1. Directors** | | | | | | |
| Dong Ping | 04/05/2010 | 0.560 | – | 14,100,000 | – | 14,100,000 |
| Zhao Chao | 04/05/2010 | 0.560 | – | 8,910,000 | – | 8,910,000 |
| Kong Muk Yin | 04/05/2010 | 0.560 | – | 3,000,000 | – | 3,000,000 |
| Chen Ching | 04/05/2010 | 0.560 | – | 1,050,000 | – | 1,050,000 |
| Jin Hui Zhi | 04/05/2010 | 0.560 | – | 1,050,000 | – | 1,050,000 |
| Li Chak Hung | 04/05/2010 | 0.560 | – | 1,050,000 | – | 1,050,000 |
| **2. Employees** | 18/03/2010 | 0.475 | – | 82,250,000 | – | 82,250,000 |
| | 04/05/2010 | 0.560 | – | 7,200,000 | – | 7,200,000 |
| **3. Consultants** | 18/03/2010 | 0.475 | – | 29,300,000 | – | 29,300,000 |
| **Total:** | | | – | 147,910,000 | – | 147,910,000 |

# DIRECTORS' REPORT

## SHARE OPTIONS *(Continued)*

Notes:

1. The Share Options are exercisable as follows:–

| Exercise criteria | Amount of Share Options that can be exercised |
|---|---|
| (i) On completion of the continuous employment/service of the grantee with the Group for 1 year commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to one-third of the Share Options granted |
| (ii) On completion of the continuous employment/service of the grantee with the Group for 2 years commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to two-thirds of the Share Options granted |
| (iii) On completion of the continuous employment/service of the grantee with the Group for 3 years commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to all of the Share Options granted |

2. The period within which the Share Options must be exercised shall not be more than 10 years from the date of grant.

3. Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

4. During the year, no Share Options were exercised, cancelled or lapsed.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" above, at no time during the year was the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

# DIRECTORS' REPORT

## DIRECTORS' SERVICE CONTRACTS

No Directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 20% and the largest customer accounted for approximately 5% of the Group's total turnover during the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 7% and the largest supplier accounted for approximately 2% of the Group's total purchases during the year.

None of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and five largest suppliers.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2010, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:–

### Long positions in the shares and underlying shares of the Company

| Name of Shareholder | Capacity in which interests are held | Number of ordinary shares/underlying shares held | Approximate percentage of issued shares[1] |
|---|---|---|---|
| Lee and Lee Trust | Held by controlled corporation[2&5] | 1,000,000,000 | 51.61% |
| Allied Group Limited ("AGL") | Held by controlled corporation[3&5] | 1,000,000,000 | 51.61% |
| Allied Properties (H.K.) Limited ("APL") | Held by controlled corporation[4&5] | 1,000,000,000 | 51.61% |
| Sun Hung Kai & Co. Limited ("SHK") | Held by controlled corporation[4&5] | 1,000,000,000[6] | 51.61% |

# DIRECTORS' REPORT

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

### Long positions in the shares and underlying shares of the Company *(Continued)*

| Name of Shareholder | Capacity in which interests are held | Number of ordinary shares/underlying shares held | Approximate percentage of issued shares[1] |
|---|---|---|---|
| Zhao Chao | Held by controlled corporation[7] and beneficial owner[8] | 340,198,020 | 17.56% |
| Rainstone | Held by controlled corporation[7] | 331,288,020 | 17.10% |
| Basic Charm | Beneficial owner[7] | 331,288,020 | 17.10% |
| Chen Huiwen | Held by controlled corporation[9] | 291,666,666 | 15.05% |
| Ideal Growth Investments Limited ("Ideal Growth") | Beneficial owner[9] | 291,666,666 | 15.05% |
| Yuen Hoi Po | Held by controlled corporation[10] | 120,000,000 | 6.19% |
| Time Zone Investments Limited ("Time Zone") | Beneficial owner[10] | 120,000,000 | 6.19% |

Notes:

1. The percentage of shareholding has been complied based on the total number of issued ordinary shares of the Company of 1,937,592,564 as at 31st December, 2010.

2. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. As at 31st December, 2010, they together own approximately 53.32% interest in the issued share capital of AGL and are therefore deemed to have the same interest held by AGL under the SFO.

3. APL is a non wholly-owned subsidiary of AGL. Accordingly, AGL is deemed to have the same interest held by APL under the SFO.

4. SHK is a non wholly-owned subsidiary of AP Emerald Limited ("APE"). APE is a wholly-owned subsidiary of AP Jade Limited ("APJ") which in turn is a wholly-owned subsidiary of APL. Accordingly, APL, APJ and APE are deemed to have the same interest held by SHK under the SFO.

5. By the announcement dated 23rd August, 2010 issued by the Company, it was announced that on 23rd August, 2010, the Company and Sun Hung Kai Investment Services Limited ("SHKISL") as placing agent entered into a placing agreement pursuant to which SHKISL agreed to place, on a fully underwritten basis, the convertible bonds in an aggregate principal amount of HK$1,000 million convertible into shares of the Company at HK$1 each (subject to adjustment).

# DIRECTORS' REPORT

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

### Long positions in the shares and underlying shares of the Company *(Continued)*

6. This represents security interest held by SHKISL, a wholly-owned subsidiary of Sun Hung Kai Securities Limited ("SHKSL") which in turn is a wholly-owned subsidiary of SHK. Accordingly, SHK and SHKSL are deemed to have the same interest held by SHKISL under the SFO.

7. As at 31st December, 2010, Basic Charm, a wholly-owned subsidiary of Rainstone, held 331,288,020 ordinary shares of the Company. Mr. Zhao Chao maintained 100% beneficial interest in Rainstone. Accordingly, Mr. Zhao Chao is deemed to have corporate interest in 331,288,020 ordinary shares of the Company.

8. The interest in 8,910,000 Share Options granted to Mr. Zhao Chao pursuant to the Share Option Scheme.

9. The interest in HK$350,000,000 convertible note of the Company held by Ideal Growth giving rise to an interest in 291,666,666 underlying shares of the Company. Ms. Chen Huiwen maintained 100% beneficial interest in Ideal Growth.

10. As at 31st December, 2010, Time Zone held 120,000,000 ordinary shares of the Company. Mr. Yuen Hoi Po maintained 100% beneficial interest in Time Zone and therefore is deemed to have corporate interest in 120,000,000 ordinary shares of the Company.

Save as disclosed above, as at 31st December, 2010, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## DIRECTORS' INTEREST IN COMPETING BUSINESSES

None of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2010.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 16 to 28.

# DIRECTORS' REPORT

## PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

## EVENT AFTER THE REPORTING PERIOD

Details of significant event occurring after the reporting period are set out in note 44 to the consolidated financial statements.

## AUDITOR

The consolidated financial statements for the year ended 31st December, 2010 were audited by Deloitte Touche Tohmatsu. A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
**Dong Ping**
*Chairman*

Hong Kong, 30th March, 2011

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

**TO THE MEMBERS OF CHINAVISION MEDIA GROUP LIMITED**
**文化中國傳播集團有限公司**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of ChinaVision Media Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 153, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30th March, 2011

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Revenue | 8 | **405,986** | 388,935 |
| Cost of sales | | **(185,424)** | (350,614) |
| Gross profit | | **220,562** | 38,321 |
| Other income | 9 | **9,182** | 36,081 |
| Other gains and losses | 10 | **(607)** | 6,522 |
| Gain (loss) on disposal of subsidiaries | 42 | **26,406** | (202,425) |
| Distribution and selling expenses | | **(45,308)** | (12,220) |
| Administrative expenses | | | |
| – share options expense | | **(28,266)** | – |
| – other administrative expenses | | **(104,817)** | (49,778) |
| | | **(133,083)** | (49,778) |
| Other expenses | | **(4,903)** | – |
| Finance costs | | | |
| – effective interest expense on convertible notes | | **(19,877)** | – |
| – other finance costs | | **(4,011)** | (35,158) |
| | 11 | **(23,888)** | (35,158) |
| Profit (loss) before taxation | | **48,361** | (218,657) |
| Taxation charge | 13 | **(24,633)** | (400) |
| **Profit (loss) for the year** | 14 | **23,728** | (219,057) |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **13,662** | (225,296) |
| Non-controlling interests | | **10,066** | 6,239 |
| | | **23,728** | (219,057) |
| | | **HK cents** | HK cents |
| **Earnings (loss) per share** | 15 | | |
| Basic | | **0.78** | (16.73) |
| Diluted | | **0.78** | (16.73) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Profit (loss) for the year | **23,728** | (219,057) |
| Other comprehensive income and expense: | | |
| Exchange difference arising on translation to presentation currency | **32,135** | (72) |
| Total comprehensive income and expense for the year | **55,863** | (219,129) |
| Total comprehensive income and expense attributable to: | | |
| Owners of the Company | **44,026** | (225,368) |
| Non-controlling interests | **11,837** | 6,239 |
| | **55,863** | (219,129) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

| | NOTES | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **29,764** | 19,050 |
| Goodwill | 18 | **213,378** | 39,781 |
| Intangible assets | 20 | **493,848** | 8,001 |
| Club debenture | 21 | **2,692** | 2,591 |
| Art work | 22 | **51,565** | 8,780 |
| Deposit paid for acquisition of property, plant and equipment | | **–** | 268 |
| Deposit paid for acquisition of an associate | 38 | **–** | 6,818 |
| Other receivables | 26 | **3,165** | 2,856 |
| Other financial asset | 27 | **–** | 34,091 |
| Deferred tax assets | 34 | **1,818** | – |
| | | **796,230** | 122,236 |
| **Current assets** | | | |
| Inventories | 23 | **1,015** | – |
| Film rights | 24 | **16,309** | 59,114 |
| Held for trading investments | 25 | **49,959** | 57,822 |
| Trade and other receivables, deposits and prepayments | 26 | **398,948** | 100,289 |
| Amounts due from non-controlling interests | 43 | **786** | 756 |
| Bank balances and cash | 28 | **141,342** | 126,671 |
| | | **608,359** | 344,652 |
| **Current liabilities** | | | |
| Trade and other payables and deposits received | 29 | **159,170** | 32,241 |
| Amount due to a non-controlling interest | 43 | **741** | 682 |
| Amount due to a joint venture partner | | **2,082** | – |
| Tax liabilities | | **31,756** | 7,891 |
| Borrowings due within one year | 30 | **32,618** | 17,081 |
| | | **226,367** | 57,895 |
| **Net current assets** | | **381,992** | 286,757 |
| **Total assets less current liabilities** | | **1,178,222** | 408,993 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 32 | **484,398** | 370,398 |
| Reserves | | **242,971** | (10,809) |
| Equity attributable to owners of the Company | | **727,369** | 359,589 |
| Non-controlling interests | | **38,182** | 45,737 |
| **Total equity** | | **765,551** | 405,326 |
| **Non-current liabilities** | | | |
| Convertible notes issuable | 31 | **30,000** | – |
| Convertible notes | 33 | **280,362** | – |
| Deferred tax liabilities | 34 | **102,309** | 3,667 |
| | | **412,671** | 3,667 |
| | | **1,178,222** | 408,993 |

The consolidated financial statements on pages 40 to 153 were approved and authorised for issue by the Board of Directors on 30th March, 2011 and are signed on its behalf by:

| | |
|---|---|
| **Dong Ping** | **Zhao Chao** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

| | Attributable to owners of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Convertible notes equity reserve HK$'000 | Capital redemption reserve HK$'000 | Contributed surplus HK$'000 | Translation reserve HK$'000 | Merger reserve HK$'000 (Note a) | Capital reserve HK$'000 | Other reserves HK$'000 (Note b) | Shares issuable reserve HK$'000 (Note c) | Retained profits (accumulated losses) HK$'000 (Note d) | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1st January, 2009 | 182,349 | – | – | – | 918 | 44,203 | 42,091 | 1,799 | 824 | 15,125 | – | 25,765 | 313,074 | 192,882 | 505,956 |
| Exchange difference arising on translations to presentation currency | – | – | – | – | – | – | (72) | – | – | – | – | – | (72) | – | (72) |
| (Loss) profit for the year | – | – | – | – | – | – | – | – | – | – | – | (225,296) | (225,296) | 6,239 | (219,057) |
| Total comprehensive income and expense for the year | – | – | – | – | – | – | (72) | – | – | – | – | (225,296) | (225,368) | 6,239 | (219,129) |
| Transfer to retained profits (accumulated losses) upon disposal of subsidiaries | – | – | – | – | – | – | (32,060) | – | (824) | (16,037) | – | 48,921 | – | – | – |
| Transfer to other reserves | – | – | – | – | – | – | – | – | – | 912 | – | (912) | – | – | – |
| Recognition of shares to be issued for acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | 22,500 | – | 22,500 | – | 22,500 |
| Dividend paid to a non-controlling interest | – | – | – | – | – | – | – | – | – | – | – | – | – | (8,815) | (8,815) |
| Shares issued | 188,049 | 70,661 | – | – | – | – | – | – | – | – | – | – | 258,710 | – | 258,710 |
| Transaction costs attributable to issue of shares | – | (9,327) | – | – | – | – | – | – | – | – | – | – | (9,327) | – | (9,327) |
| Capital contribution from a non-controlling interest of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | – | 556 | 556 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | – | 40,097 | 40,097 |
| Disposal of subsidiaries (note 42(c)) | – | – | – | – | – | – | – | – | – | – | – | – | – | (185,222) | (185,222) |
| At 31st December, 2009 | 370,398 | 61,334 | – | – | 918 | 44,203 | 9,959 | 1,799 | – | – | 22,500 | (151,522) | 359,589 | 45,737 | 405,326 |
| Exchange difference arising on translations to presentation currency | – | – | – | – | – | – | 30,364 | – | – | – | – | – | 30,364 | 1,771 | 32,135 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | – | 13,662 | 13,662 | 10,066 | 23,728 |
| Total comprehensive income and expense for the year | – | – | – | – | – | – | 30,364 | – | – | – | – | 13,662 | 44,026 | 11,837 | 55,863 |
| Dividend paid to a non-controlling interest | – | – | – | – | – | – | – | – | – | – | – | – | – | (16,623) | (16,623) |
| Issue of shares for acquisition of subsidiaries (note 39(d)) | 10,000 | 5,000 | – | – | – | – | – | – | – | – | (15,000) | – | – | – | – |
| Shares issued | 74,000 | 88,800 | – | – | – | – | – | – | – | – | – | – | 162,800 | – | 162,800 |
| Transaction costs attributable to issue of shares | – | (4,921) | – | – | – | – | – | – | – | – | – | – | (4,921) | – | (4,921) |
| Acquisition of additional interest in a subsidiary (note 40) | – | – | – | – | – | – | – | – | (5,288) | – | – | – | (5,288) | (4,157) | (9,445) |
| Capital contribution from a non-controlling interest of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | – | 562 | 562 |
| Disposal of a subsidiary | – | – | – | – | – | – | 115 | – | – | – | – | – | 115 | 826 | 941 |
| Recognition of equity component of convertible notes | – | – | – | 69,476 | – | – | – | – | – | – | – | – | 69,476 | – | 69,476 |
| Issue of shares upon conversion of convertible notes | 30,000 | 73,765 | – | (30,459) | – | – | – | – | – | – | – | – | 73,306 | – | 73,306 |
| Recognition of equity-settled share-based payments | – | – | 28,266 | – | – | – | – | – | – | – | – | – | 28,266 | – | 28,266 |
| **At 31st December, 2010** | **484,398** | **223,978** | **28,266** | **39,017** | **918** | **44,203** | **40,438** | **1,799** | **(5,288)** | **–** | **7,500** | **(137,860)** | **727,369** | **38,182** | **765,551** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

Notes:

(a) The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the reorganisation.

(b) Other reserves comprise reserve fund and enterprise expansion fund of some subsidiaries established in the People's Republic of China (the "PRC") and the effect of fair value adjustment at initial recognition of interest-free amount due to former ultimate holding company. The reserve fund is to be used to expand the enterprise's working capital. When the enterprise suffers losses, the reserve fund may be used to make up unrecovered losses under special circumstances. The enterprise expansion fund is to be used for business expansion and, if approved, can also be used to increase capital. Other reserves were all transferred to retained profits (accumulated losses) upon disposal of those PRC subsidiaries during the year ended 31st December, 2009.

(c) Share issuable reserve represents 40,000,000 ordinary shares of the Company with par value of HK$0.25 each to be issued after the year ended 31st December, 2009 and 20,000,000 ordinary shares of the Company with par value of HK$0.25 each to be issued after the year ended 31st December, 2010. On 11th February, 2010, the Company issued 40,000,000 ordinary shares of the Company with par value of HK$0.25 each. On 30th March, 2011, the Company issued 20,000,000 ordinary Shares of the Company with par value of HK$0.25 each. The details of the arrangement are set out in note 39(d).

(d) Remittance outside the PRC of retained profits of the subsidiaries established in the PRC is subject to approval of the local authorities and the availability of foreign currencies generated and retained by these subsidiaries.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit (loss) before taxation | | **48,361** | (218,657) |
| Adjustments for: | | | |
| Allowance for bad and doubtful debts | | **90** | 233 |
| Bad and doubtful debts recovered | | **–** | (381) |
| Depreciation and amortisation | | **17,823** | 21,506 |
| Release of prepaid lease payments on land use rights | | **–** | 311 |
| Loss on disposal of property, plant and equipment | | **36** | 198 |
| Finance costs | | **23,888** | 35,158 |
| Unrealised loss (gain) on change in fair value of held for trading investments | | **9,894** | (3,642) |
| Change in fair value of convertible notes issuable | | **4,582** | – |
| Interest income | | **(2,751)** | (22,551) |
| (Gain) loss on disposal of subsidiaries | | **(26,406)** | 202,425 |
| Gain on disposal of other financial asset | | **(9,007)** | – |
| Share option expenses | | **28,266** | – |
| Operating cash inflow before movements in working capital | | **94,776** | 14,600 |
| Change in inventories | | **194** | (2,175) |
| Change in film rights | | **11,571** | 10,276 |
| Change in trade and other receivables, deposits and prepayments | | **(113,352)** | (12,642) |
| Change in held for trading investments | | **(2,031)** | (54,180) |
| Change in trade and other payables and deposits received | | **76,893** | (25,476) |
| Change in amount due to a non-controlling interest | | **–** | (3,182) |
| Change in amounts due to related companies | | **(5,715)** | (28,231) |
| Cash generated from (used in) operations | | **62,336** | (101,010) |
| Income tax (paid) refund | | **(9,344)** | 2,617 |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | | **52,992** | (98,393) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(13,960)** | (32,445) |
| Purchase of intangible assets | | **(56,231)** | – |
| Purchase of art work | | **(42,281)** | (8,780) |
| Purchase of club debenture | | **–** | (2,591) |
| Decrease in pledged bank deposits | | **–** | 2,272 |
| Proceeds from disposal of property, plant and equipment | | **881** | 2,197 |
| Proceeds from disposal of other financial asset | | **7,084** | – |
| Acquisition of subsidiaries, net of cash and cash equivalent acquired | 39 | **(88,818)** | (18,564) |
| Acquisition of other financial asset | | **–** | (34,091) |
| Advance to a third party | 26 | **–** | (30,000) |
| Advance to a jointly venture partner | | **(5,734)** | – |
| Repayment from a non-controlling interest | | **19** | – |
| Deposit paid for acquisition of property, plant and equipment | | **–** | (268) |
| Refund of (deposit paid) for acquisition of an associate | | **6,818** | (6,818) |
| Disposal of subsidiaries, net of cash and cash equivalents | 42 | **7,262** | 139,220 |
| Interest received | | **2,751** | 20,799 |
| Repayment of refundable deposit and loan receivable | | **–** | 241,219 |
| **NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES** | | **(182,209)** | 272,150 |
| **FINANCING ACTIVITIES** | | | |
| Repayments of loans | | **(145,973)** | (404,761) |
| Interest paid | | **(4,011)** | (11,454) |
| Dividends paid to a non-controlling interest | | **(16,623)** | (1,883) |
| Advance from (repayment to) a non-controlling interest | | **59** | (7,163) |
| Advance from a joint venture partner | | **2,082** | – |
| Acquisition of additional interest in a subsidiary | | **(9,445)** | – |
| Capital contribution from a non-controlling interest | | **562** | – |
| New loans raised | | **161,510** | 68,217 |
| Proceeds from issue of shares | | **162,800** | 258,710 |
| Expenses on issue of shares | | **(4,921)** | (9,327) |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | | **146,040** | (107,661) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **16,823** | 66,096 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **126,671** | 60,647 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(2,152)** | (72) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR,** represented by bank balances and cash | | **141,342** | 126,671 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and The Singapore Exchange Securities Trading Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 46.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is different from the functional currency of the Company, Renminbi ("RMB"), as the directors of the Company consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of first listing, which is Hong Kong.

## 2. CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders at a special general meeting of the Company held on 9th September, 2009, the name of the Company was changed from Shanghai Allied Cement Limited to ChinaVision Media Group Limited, and 文化中國傳播集團有限公司 has been adopted by the Company as its new Chinese name. The change of name became effective on 14th October, 2009.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKFRS 2 (Amendments) | Group cash-settled share-based payment transactions |
| HKFRS 3 (as revised in 2008) | Business combinations |
| HKAS 27 (as revised in 2008) | Consolidated and separate financial statements |
| HKAS 39 (Amendments) | Eligible hedged items |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HK(IFRIC) – INT 17 | Distributions of non-cash assets to owners |
| HK – INT 5 | Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Except as described below, the application of the new and revised standards and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

**HKFRS 3 (as revised in 2008) Business combinations**

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for the acquisitions of 北京永聯信通科技有限責任公司 (in English, Youline Technology Company Limited) ("Youline Technology"), Prefect Strategy International Limited ("Prefect Strategy") and Main City Limited ("Main City") in the current year.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in the consolidated income statement. There has had no material effect on the consolidated financial statements for the above changes.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, as a result, the Group has recognised HK$4,903,000 of such costs as an expense in the consolidated income statement as incurred, whereas previously they were accounted for as part of the cost of the acquisition. The change in policy has resulted in a decrease of goodwill of HK$4,903,000 and decrease in profit for the year of HK$4,903,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKAS 27 (as revised in 2008) Consolidated and separate financial statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, the excess or deficit of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill or a bargain purchase gain for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the net assets of the non-controlling interests disposed was recognised in the consolidated income statement. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or consolidated income statement.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the day control is lost. The resulting difference is recognised as a gain or loss in the consolidated income statement.

These changes have been applied prospectively from 1st January, 2010 in accordance with the relevant transitional provisions.

The application of the revised standard has affected the accounting for the Group's acquisition of additional interest in 西安金鼎影視文化有限公司 (in English, Xian Jinding Film, Television and Culture Company Limited) ("Xian Jinding") in the current year. The change in policy has resulted in the difference of HK$5,288,000 between the consideration paid of HK$9,445,000 and the non-controlling interests derecognised of HK$4,157,000 being recognised directly in equity, instead of being capitalised as goodwill. Therefore, the change in accounting policy has resulted in a decrease in goodwill of HK$5,288,000. There has had no impact on the consolidated income statement for the current and prior years.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of financial assets[3] |
| HKFRS 9 | Financial instruments[4] |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[5] |
| HKAS 24 (as revised in 2009) | Related party disclosures[6] |
| HKAS 32 (Amendments) | Classification of rights issues[7] |
| HK(IFRIC) – INT 14 (Amendments) | Prepayments of a minimum funding requirement[6] |
| HK(IFRIC) – INT 19 | Extinguishing financial liabilities with equity instruments[2] |

1 Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.
2 Effective for annual periods beginning on or after 1st July, 2010.
3 Effective for annual periods beginning on or after 1st July, 2011.
4 Effective for annual periods beginning on or after 1st January, 2013.
5 Effective for annual periods beginning on or after 1st January, 2012.
6 Effective for annual periods beginning on or after 1st January, 2011.
7 Effective for annual periods beginning on or after 1st February, 2010.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in the consolidated income statement. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to the consolidated income statement. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in the consolidated income statement.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013 and the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (A) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (A) Basis of consolidation *(Continued)*

***Changes in the Group's ownership interests in existing subsidiaries***

*Changes in the Group's ownership interests in existing subsidiaries on or after 1st January, 2010*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to the consolidated income statement or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (A) Basis of consolidation *(Continued)*

***Changes in the Group's ownership interests in existing subsidiaries*** *(Continued)*

*Changes in the Group's ownership interests in existing subsidiaries prior to 1st January, 2010*

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in the consolidated income statement.

### (B) Business combinations

***Business combinations that took place on or after 1st January, 2010***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (B) Business combinations *(Continued)*

***Business combinations that took place on or after 1st January, 2010*** *(Continued)*

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (B) Business combinations *(Continued)*

***Business combinations that took place on or after 1st January, 2010*** *(Continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the consolidated income statement.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the consolidated income statement where such treatment would be appropriate if that interest were disposed of.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (B) Business combinations *(Continued)*

***Business combinations that took place on or after 1st January, 2010*** *(Continued)*

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to the consolidated income statement when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

***Business combinations that took place prior to 1st January, 2010***

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in the consolidated income statement.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (B) Business combinations *(Continued)*

***Business combinations that took place prior to 1st January, 2010*** *(Continued)*

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

### (C) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (D) Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements. Transactions and balances between the Group and the jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities and of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill.

### (E) Intangible assets

***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement in the period when the asset is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (E) Intangible assets *(Continued)*

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

### (F) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

* the technical feasibility of completing the intangible asset so that it will be available for use or sale;
* the intention to complete the intangible asset and use or sell it;
* the ability to use or sell the intangible assets;
* how the intangible asset will generate probable future economic benefits;
* the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
* the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (F) Research and development expenditure *(Continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to the consolidated income statement in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### (G) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the production and distribution of film rights is recognised when the production of films, television programmes and television drama series are completed, the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers and the collectability of proceeds is reasonably assured.

Revenue from mobile game subscription is recognised upon the purchase of virtual money in the game by the users.

Revenue from mobile value-added services is recognised upon the provision of the services.

Mobile TV subscription income is recognised upon the provision of the services.

Revenue from newspapers distribution is recognised based on the date of delivery of the newspapers.

Revenue from advertising agency is recognised when services are provided.

Other agency services income from acting as advertising intermediary and organising cultural and artistic exchange activities is recognised when services are provided.

Revenue from sales of cement and clinker are recognised when the goods are delivered and title has passed to customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (G) Revenue recognition *(Continued)*

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### (H) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (I) Mining right

On initial recognition, mining right acquired separately is recognised at cost. After initial recognition, mining right is carried at costs less accumulated amortisation and any accumulated impairment losses.

The mining right is amortised on a straight-line basis over its estimated useful life of 50 years.

Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the consolidated income statement when the asset is derecognised.

### (J) Club debenture

Club debenture is stated at cost less any identified impairment loss.

### (K) Art work

Art work is stated at cost less any identified impairment loss.

### (L) Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (M) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### (N) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### (O) Film rights

Film rights represent films, television programmes and television drama series produced by the Group or acquired by the Group.

Film rights are stated at cost less any identified impairment loss. The costs of film rights are allocated to the master copies or materials sold and are recognised as an expense in the consolidated income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

### (P) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (P) Taxation *(Continued)*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (Q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1st January, 2009 are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

### (R) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in the consolidated statement of comprehensive income, in which cases, the exchange differences are also recognised directly in the consolidated statement of comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities which are stated at functional currency other than HK$ are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (R) Foreign currencies *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

### (S) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the consolidated income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to subsidy income from government, refund of value added tax and business tax from tax authorities that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the consolidated income statement in the period in which they become receivable.

### (T) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

### (U) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(i) Financial assets*

The Group's financial assets are classified into one of the two categories, including held for trading investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Held for trading investments*

A financial asset is classified as held for trading if:

* it has been acquired principally for the purpose of selling in the near future; or
* it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
* it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at held for trading investments are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement excludes any dividend or interest earned in the financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(i) Financial assets* *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and deposits, amounts due from non-controlling interests, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

#### *(ii) Impairment of financial assets*

Financial assets, other than held for trading investments, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all other financial costs, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year, observable changes in national or local economic conditions that correlate with default on receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(ii) Impairment of financial assets* *(Continued)*

An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables and deposits, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When trade and other receivables and deposits are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *(iii) Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(iii) Financial liabilities and equity instruments* *(Continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities at fair value through profit or loss*

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities designated at FVTPL on initial recognition are measured at fair value, with changes in fair value arising on remeasurement recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement excludes any interest paid on the financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(iii) Financial liabilities and equity instruments* *(Continued)*

*Convertible notes which contain liability and equity components, and conversion option*

Convertible notes issued by the Company that contain liability (together with the conversion option which is closely related to the host liability component) and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts and the fair value of the conversion option for the note holders to convert the notes into equity which is included in equity (convertible notes equity reserve) is determined using the Binomial Model.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to retained profits (accumulated losses). No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(iii) Financial liabilities and equity instruments* (Continued)

*Other financial liabilities*

Other financial liabilities (including trade and other payables, amounts due to a non-controlling interest/a joint venture partner and borrowings) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *(iv) Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the consolidated income statement.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the consolidated income statement. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (U) Financial instruments *(Continued)*

#### *(iv) Derecognition (Continued)*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

### (V) Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in the consolidated income statement, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits (accumulated losses).

*Share options granted to consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Cost of film rights recognised as an expense

The cost of film rights are recognised as an expense in the consolidated income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

During the year ended 31st December, 2010, the cost of film rights recognised as an expense included in cost of sales is HK$82,060,000 (2009: HK$29,620,000).

### Estimated impairment of film rights

At the end of the reporting period, the management of the Group assesses the impairment on film rights with reference to its recoverable amount. The assessment was made on a film-by-film basis. The recoverable amount of the film rights was determined based on the present value of the expected future revenue generated from the film and future cost of sales. The cash flow forecast calculation requires the management to estimate the future revenue expected to arise. If the recoverable amount is lower than the carrying amount, the carrying amount of the film rights will be written down to its recoverable amount. As at 31st December, 2010, the carrying amount of the film rights was approximately HK$16,309,000 (2009: HK$59,114,000). Details of the film rights are disclosed in note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Allowances for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### Deferred taxation

At 31st December, 2010, the Group had unused tax losses of HK$183,720,000 (2009: HK$183,706,000) available for offset against future profits. No deferred tax asset in relation to these unused tax losses has been recognised in the consolidated statement of financial position due to uncertainty of future profit streams. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such future profits are recorded.

### Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2010, the carrying amount of goodwill was HK$213,378,000 (2009: HK$39,781,000). Details of the recoverable amount calculation are disclosed in note 18.

### Intangible assets

The estimated useful life of intangible assets, being licenses, mobile game platform, mobile game and broadcasting right is based on the management's best estimate of the expected life of these intangible assets according to its understanding of mobile related business and broadcasting right industry. If there is any change on the management's estimation, indication of impairment of intangible assets may arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Intangible assets *(Continued)*

The Group determines whether indefinite life of intangible assets, being advertising and distribution rights, are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31st December, 2010, the carrying amount of indefinite intangible was HK$421,851,000 (2009: nil). Based on the discounted cash flow analysis, the directors consider that there was no impairment for these intangible assets.

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt, which includes borrowings disclosed in note 30 and equity attributable to owners of the Company, comprising issued share capital and reserves. As at 31st December, 2010, the Group's capital structure also include convertible notes, as disclosed in note 33. The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 7. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets | | |
| Held for trading investments | **49,959** | 57,822 |
| Loans and receivables (including cash and cash equivalents) | **486,462** | 260,096 |
| Financial liabilities | | |
| Amortised cost | **408,048** | 42,865 |
| Financial liabilities designated as FVTPL – Convertible notes issuable | **30,000** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial instruments include other financial asset, held for trading investments, trade and other receivables and deposits, amounts due from non-controlling interests, bank balances and cash, trade and other payables, amounts due to a non-controlling interest, a joint venture partner, borrowings, convertible notes issuable and convertible notes. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

***Market risks***

*Interest rate risk*

The Group's fair value interest rate risk relates primarily to certain fixed-rate loan receivable and borrowings (see notes 26 and 30 for details of these loan receivable and borrowings respectively). The Group has not used any derivative contracts to hedge these exposure to interest rate risk.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances. The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

The management considers that the Group's exposure to future cash flow risk on variable-rate bank balances as a result of the change of market interest rate is insignificant and thus no sensitivity analysis is presented.

*Foreign currency risk*

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The directors considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions were denominated in the functional currency of the respective group entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Market risks*** *(Continued)*

*Foreign currency risk (Continued)*

At the end of the reporting period, the Group had certain bank balances denominated in HK$ amounting to approximately HK$15,426,000 (2009: HK$104,182,000), trade receivables denominated in United States dollars ("USD") amounting to HK$11,193,000 (2009: nil), other receivable denominated in HK$ amounting to HK$757,000 (2009: HK$31,792,000) and borrowings denominated in HK$ amounting to HK$32,618,000 (2009: HK$17,081,000), which are the currencies other than the functional currency of the respective group entities.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The Group is mainly exposed to the currency risk for bank balances and borrowings which are denominated in HK$ in both years.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against USD and 5% (2009: 5%) increase and decrease in RMB against HK$. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD and HK$ denominated monetary items and adjusts their translation at the year end for a 5% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit (increase in post-tax loss) for the year where RMB strengthen 5% (2009: 5%) against the relevant currency. A negative number below indicates a decrease in post-tax profit for the year where RMB strengthen 5% against the relevant currency. For a 5% (2009: 5%) weakening of RMB against the USD and HK$, there would be an equal and opposite impact on the result for the year.

| | **HK$** | | **USD** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Increase (decrease) in post-tax profit for the year | **686** | – | **(467)** | – |
| Increase in post-tax loss for the year | **–** | 4,964 | **–** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Market risks*** *(Continued)*

*Equity price risk on held for trading investments*

The Group is exposed to equity price risk through its held for trading investments. The Group's held for trading investments has significant concentration of price risk on a particular equity stock trade in Hong Kong stock market. Management monitors the equity price exposure by regularly reviewing and maintaining a portfolio of equity investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2009: 10%) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2010 would have increased/decreased by approximately HK$4,172,000 (2009: post-tax loss would have decreased/increased by approximately HK$4,828,000) as a result of the changes in fair value of held for trading investments.

*Equity price risk on convertible notes issuable*

The Group was required to estimate the fair value of the contingent consideration as at 31st December, 2010 with changes in fair value to be recognised in the consolidated income statement as long as the contingent consideration was outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility. As at 31st December, 2009, the Group was not exposed to the price risk on convertible notes issuable as the Company has no convertible notes issuable.

Since the conversion price is much higher than market price as at 31st December, 2010, the directors of the Company consider that the sensitivity of fair value of the convertible notes issuable to reasonably possible changes in equity price of the Company is not significant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at 31st December, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual debt receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

The Group's bank balances are deposited with banks of high credit ratings in Hong Kong and the PRC.

At 31st December, 2010, the Group had significant concentration of credit risk on other receivables as the credit risk was mainly attributable from three counterparties regarding receivable in relation to disposal of a subsidiary, amount receivable from a former subsidiary, receivable for disposal of other financial asset and amount due from a joint venture partner amounted to HK$17,420,000, HK$45,538,000, HK$40,142,000 and HK$29,456,000 respectively. As the other receivables have been fully settled after the end of the reporting period, in the opinion of the directors of the Company, the credit risk is significantly reduced.

At 31st December, 2009, the Group had significant concentration of credit risk on other receivables as the credit risk was mainly attributable from two counterparties. As the other receivables have been fully settled after the end of the reporting period, in the opinion of the directors of the Company, the credit risk is significantly reduced.

Other than this, there is no significant concentration of credit risk on trade and other receivables as the exposure spread over a number of counterparties and customers in both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition to issuance of new shares, the Group also relies on bank and other borrowings as a significant source of liquidity. The management monitors the utilisation of bank and other borrowings.

The following table details the Group's contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

*Liquidity and interest risk tables*

| | Weighted average effective interest rate | Repayable on demand | Less than 1 month | 1 – 3 months | 3 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2010** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowings – fixed rate | 12 | 35,391 | – | – | – | – | 35,391 | 32,618 |
| Trade and other payables | – | – | 50,320 | 12,780 | 29,145 | – | 92,245 | 92,245 |
| Amount due to a non-controlling interest | – | 741 | – | – | – | – | 741 | 741 |
| Amount due to a joint venture partner | – | 2,082 | – | – | – | – | 2,082 | 2,082 |
| Convertible notes | 10.03 | – | – | – | – | 350,000 | 350,000 | 280,362 |
| Convertible notes issuable | – | – | – | – | – | 30,000 | 30,000 | 30,000 |
| | | 38,214 | 50,320 | 12,780 | 29,145 | 380,000 | 510,459 | 438,048 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity and interest risk tables (Continued)*

| | Weighted average effective interest rate % | Repayable on demand HK$'000 | Less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | Over 1 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2009 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Borrowings – fixed rate | 12 | 18,533 | – | – | – | – | 18,533 | 17,081 |
| Trade and other payables | – | – | 23,238 | 1,806 | 58 | – | 25,102 | 25,102 |
| Amount due to a non-controlling interest | – | 682 | – | – | – | – | 682 | 682 |
| | | 19,215 | 23,238 | 1,806 | 58 | – | 44,317 | 42,865 |

### Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair values of other financial assets and convertible notes issuable are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying values of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their corresponding fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### Fair values *(Continued)*

***Fair value measurements recognised in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements of held for trading investments. Such fair value measurement is grouped into Level 1 based on the degree to which the fair value is observable.

As at 31st December, 2010, the convertible notes issuable amounting to HK$30,000,000 is grouped into Level 3.

*Reconciliation of Level 3 fair value measurements of convertible notes issuable*

| | HK$'000 |
|---|---|
| At 1st January, 2010 | – |
| Recognise on initial recognition (note) | 25,418 |
| Changes in fair value included in other gains and losses | 4,582 |
| At 31st December, 2010 | 30,000 |

HK$4,582,000 relates to convertible notes issuable held at the end of the reporting period (2009: nil).

Note: The balance represented the estimated fair value of contingent consideration at the end of the reporting period arising from the acquisition of Prefect Strategy and Main City. For details, please refer to note 39(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold or services rendered by the Group to outside customers, less discount and related taxes for the year, and is analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Production and distribution of film rights | **186,173** | 45,752 |
| Mobile game subscription income | **1,687** | 113 |
| Income from mobile value-added services | **10,416** | – |
| Mobile TV subscription income | **4,487** | – |
| Newspaper distribution | **28,332** | – |
| Advertising agency | **143,152** | – |
| Other agency services income | **19,424** | – |
| Sales of cement | **1,990** | 272,017 |
| Sales of clinker | **–** | 71,053 |
| Others | **10,325** | – |
| | **405,986** | 388,935 |

Information reported to the board of directors of the Group, being the chief operating decision makers ("CODM"), for the purpose of resource allocation and assessment of segment performance focuses on business natures because the CODM has chosen to organize the Group around differences in business activities. The Group has eight operating and reportable segments of (i) to (viii) and are as follows:

(i) Production and distribution of film rights – production and distribution of film rights over films and television programmes

(ii) Mobile game subscription – development and distribution of mobile games in the PRC

(iii) Mobile value-added services – provision of personalised information and entertainment services to mobile handset users in the PRC

(iv) Mobile TV subscription – development and distribution of mobile television in the PRC

(v) Advertising agency and newspaper distribution – circulation and subscription of newspapers of Beijing Times and newspaper advertising agency on Beijing Times in the PRC

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

(vi) Other agency services – acting as advertising intermediary and organising cultural and artistic exchange activities

(vii) Sales of cement – sales of cement in the PRC

(viii) Securities trading and investments – trading of securities in Hong Kong

(ix) All other segments – sales and distribution of newspapers and magazines other than Beijing Times, sales of bottled water, TV programmes packaging services income and others in the PRC. None of these segments has even met any of the quantitative thresholds for determining reportable segments

The segments under (iii), (iv), (v), (vi) and (ix) above are the new operating segments upon completion of acquisitions of subsidiaries during the year ended 31st December, 2010. The segment under (v) above is operated through a jointly controlled entity. For details, please refer to note 17. The segment under (iv) above is the new operating segment engaged by the Group through establishment of a jointly controlled entity during the year ended 31st December, 2010.

### (1) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Mobile value-added services HK$'000 | Mobile TV subscription HK$'000 | Advertising agency and newspaper distribution HK$'000 | Other agency services HK$'000 | Sales of cement HK$'000 | Securities trading and investments HK$'000 | Operating segment total HK$'000 | All other segments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| For the year ended 31st December, 2010 | | | | | | | | | | | |
| Segment revenue | 186,173 | 1,687 | 10,416 | 4,487 | 171,484 | 19,424 | 1,990 | – | 395,661 | 10,325 | 405,986 |
| Segment results | 72,056 | (5,541) | 2,002 | (4,240) | 30,579 | 15,518 | 43 | (10,273) | 100,144 | 4,874 | 105,018 |
| Unallocated interest income and net exchange gains | | | | | | | | | | | 7,370 |
| Corporate administrative expenses and share option expenses | | | | | | | | | | | (62,768) |
| Change in fair value of convertible notes issuable | | | | | | | | | | | (4,582) |
| Gain on disposal of subsidiaries | | | | | | | | | | | 26,406 |
| Finance costs | | | | | | | | | | | (23,083) |
| Profit before taxation | | | | | | | | | | | 48,361 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (1) Segment revenue and results *(Continued)*

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Sales of cement and clinker HK$'000 | Securities trading and investments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| For the year ended 31st December, 2009 | | | | | |
| Segment revenue | 45,752 | 113 | 343,070 | – | 388,935 |
| Segment results | 5,032 | (838) | 12,364 | 4,684 | 21,242 |
| Unallocated interest income and net exchange gains | | | | | 23,421 |
| Loss on disposal of subsidiaries | | | | | (202,425) |
| Corporate administrative expenses | | | | | (26,539) |
| Finance costs | | | | | (34,356) |
| Loss before taxation | | | | | (218,657) |

All of the segment revenue reported above is from external customers.

Segment results represent the profit (loss) generated or incurred by each segment without allocation of interest income, net exchange gains, corporate administrative expenses, share option expense, finance costs other than margin loan, change in fair value of convertible notes issuable and gain (loss) on disposal of subsidiaries. This is the measure reported to the board of directors for the purpose of resource allocation and performance assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (2) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment.

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Mobile value-added services HK$'000 | Mobile TV subscription HK$'000 | Advertising agency and newspaper distribution HK$'000 | Other agency services HK$'000 | Sales of cement HK$'000 | Securities trading and investments HK$'000 | Operating segment total HK$'000 | All other segments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 31st December, 2010** | | | | | | | | | | | |
| Segment assets | 347,815 | 10,691 | 35,271 | 67,767 | 668,229 | 16,892 | 1,125 | 49,959 | 1,197,749 | 3,391 | 1,201,140 |
| Property, plant and equipment – corporate | | | | | | | | | | | 4,311 |
| Art work | | | | | | | | | | | 51,565 |
| Other receivables and deposits | | | | | | | | | | | 3,964 |
| Bank balances and cash | | | | | | | | | | | 141,342 |
| Prepayments | | | | | | | | | | | 449 |
| Deferred tax assets | | | | | | | | | | | 1,818 |
| Consolidated assets | | | | | | | | | | | 1,404,589 |
| Segment liabilities | 35,872 | 259 | 3,948 | 22,739 | 73,160 | 5,213 | 1,070 | 32,618 | 174,879 | 2,762 | 177,641 |
| Other payables and deposits received | | | | | | | | | | | 14,147 |
| Amount due to a non-controlling interest | | | | | | | | | | | 741 |
| Amount due to a joint venture partner | | | | | | | | | | | 2,082 |
| Tax liabilities | | | | | | | | | | | 31,756 |
| Convertible notes issuable | | | | | | | | | | | 30,000 |
| Convertible notes | | | | | | | | | | | 280,362 |
| Deferred tax liabilities | | | | | | | | | | | 102,309 |
| Consolidated liabilities | | | | | | | | | | | 639,038 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (2) Segment assets and liabilities *(Continued)*

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Sales of cement and clinker HK$'000 | Securities trading and investments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| At 31st December, 2009 | | | | | |
| Segment assets | 216,175 | 12,254 | 1,631 | 57,822 | 287,882 |
| Property, plant and equipment – corporate | | | | | 3,113 |
| Deposit paid for acquisition of an associate | | | | | 6,818 |
| Other receivables and deposits | | | | | 41,794 |
| Bank balances and cash | | | | | 126,671 |
| Prepayments | | | | | 610 |
| Consolidated assets | | | | | 466,888 |
| Segment liabilities | 20,245 | 170 | 1,607 | 17,081 | 39,103 |
| Other payables and deposits received | | | | | 10,219 |
| Amount due to a non-controlling interest | | | | | 682 |
| Tax liabilities | | | | | 7,891 |
| Deferred tax liabilities | | | | | 3,667 |
| Consolidated liabilities | | | | | 61,562 |

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than property, plant and equipment for corporate use, art work, deposit paid for acquisition of an associate, certain other receivables and deposits, certain prepayments, bank balances and cash and deferred tax assets, for which the Group's management monitored and managed all these assets on a group basis; and

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (2) Segment assets and liabilities *(Continued)*

- all liabilities are allocated to operating segments other than certain other payables and deposits received, amount due to a non-controlling interest, amount due to a joint venture partner, tax liabilities, convertible notes issuable, convertible notes and deferred tax liabilities, which for the Group's management monitored and managed all these liabilities on a group basis.

### (3) Other segment information

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Mobile value-added services HK$'000 | Mobile TV subscription HK$'000 | Advertising agency and newspaper distribution HK$'000 | Other agency services HK$'000 | Sales of cement HK$'000 | Securities trading and investments HK$'000 | Operating segments total HK$'000 | All other segment HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | | | | | |
| Amount included in the measure of segment profit or loss or segment assets: | | | | | | | | | | | | |
| Additions to goodwill and intangible assets | – | 1,233 | 28,563 | 60,000 | 554,231 | – | – | – | 644,207 | – | – | 644,027 |
| Additions to art work | – | – | – | – | – | – | – | – | – | – | 42,281 | 42,281 |
| Additions to property, plant and equipment | 5,848 | 340 | 475 | 1,686 | 1,121 | 2,252 | 10 | – | 11,732 | 107 | 2,389 | 14,228 |
| Additions to property, plant and equipment through acquisition of subsidiaries | – | – | 62 | – | 4,424 | – | – | – | 4,486 | – | – | 4,486 |
| Depreciation of property, plant and equipment | 5,230 | 113 | 115 | 182 | 925 | 177 | 1 | – | 6,743 | 125 | 842 | 7,710 |
| Amortisation of intangible assets | – | 4,211 | 2,266 | 3,636 | – | – | – | – | 10,113 | – | – | 10,113 |
| Film rights recognised as an expense included in cost of sales | 82,060 | – | – | – | – | – | – | – | 82,060 | – | – | 82,060 |
| Loss on disposal of property, plant and equipment | – | – | 20 | – | 16 | – | – | – | 36 | – | – | 36 |
| Change in fair value of held for trading investments | – | – | – | – | – | – | – | 9,525 | 9,525 | – | – | 9,525 |
| Finance costs | – | – | – | – | – | – | – | 805 | 805 | – | 23,083 | 23,888 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (3) Other segment information *(Continued)*

| | Production and distribution of film rights HK$'000 | Mobile game subscription HK$'000 | Sales of cement and clinker HK$'000 | Securities trading and investment HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| Amount included in the measure of segment profit or loss or segment assets: | | | | | | |
| Additions to goodwill and intangible assets | 35,898 | 11,884 | – | – | – | 47,782 |
| Additions to club debenture and art work | 11,371 | – | – | – | – | 11,371 |
| Additions to property, plant and equipment | 16,282 | 54 | 12,987 | – | 3,122 | 32,445 |
| Additions to property, plant and equipment through acquisition | 209 | 149 | – | – | – | 358 |
| Depreciation of property, plant and equipment and amortisation of mining right and release of prepaid lease payments in land use rights | 749 | 8 | 20,779 | – | 281 | 21,817 |
| Film rights recognised as an expense included in cost of sales | 29,620 | – | – | – | – | 29,620 |
| Bad and doubtful debt recovered | – | – | 381 | – | – | 381 |
| Loss on disposal of property, plant and equipment | – | – | 160 | – | 38 | 198 |
| Change in fair value of held for trading investments | – | – | – | 5,702 | – | 5,702 |
| Finance costs | – | – | – | 802 | 34,356 | 35,158 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (3) Other segment information *(Continued)*

Information separately reported to the CODM but not included in the measure of segment profit:

Gross proceeds from sale of held for trading investments is HK$1,380,000 (2009: HK$11,795,000).

### Geographical information

The Group's securities trading and investments are carried out in Hong Kong. All other segment revenues are derived from the business activities carried out in the PRC.

The Group's revenue from continuing operations from external customers by geographical locations of customers and distributors and information about non-current assets by geographical location of assets is detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **–** | – | **4,311** | 9,931 |
| The PRC | **405,986** | 388,935 | **786,936** | 75,358 |
| | **405,986** | 388,935 | **791,247** | 85,289 |

Note: Non-current assets excluded financial assets and deferred tax assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 8. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Production and distribution of film rights over films | **39,456** | 3,718 |
| Production and distribution of film rights over television programmes | **146,717** | 42,034 |
| Mobile game subscription | **1,687** | 113 |
| Mobile value-added services | **10,416** | – |
| Mobile TV subscription | **4,487** | – |
| Newspaper distribution – Beijing Times | **28,332** | – |
| Advertising agency – Beijing Times | **143,152** | – |
| Other agency services | **19,424** | – |
| Sales of cement | **1,990** | 272,017 |
| Sales of clinker | **–** | 71,053 |
| Others | **10,325** | – |
| | **405,986** | 388,935 |

### Information of major customers

There was no single external customer amounting to 10 percent or more of the Group's revenue for both years.

## 9. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income | **2,751** | 22,551 |
| Refund of value-added tax (note a) | **–** | 9,979 |
| Refund of business tax (note b) | **6,050** | 2,419 |
| Sundry income | **381** | 1,132 |
| | **9,182** | 36,081 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 9. OTHER INCOME *(Continued)*

Notes:

(a) The PRC government authorities granted a tax incentive to a subsidiary in the PRC by way of value-added tax refund for cement and clinker sold by the Group in the PRC.

(b) The PRC government authorities granted a tax incentive to a subsidiary in the PRC by way of business tax refund for film rights sold by the Group in the PRC.

## 10. OTHER GAINS AND LOSSES

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss on disposal of property, plant and equipment | **(36)** | (198) |
| Net foreign exchange gains | **4,619** | 870 |
| Bad and doubtful debts recovered | **–** | 381 |
| Allowance for bad and doubtful debts | **(90)** | (233) |
| Gain on disposal of other financial asset | **9,007** | – |
| Change in fair value of convertible notes issuable | **(4,582)** | – |
| Change in fair value of held for trading investments (note) | **(9,525)** | 5,702 |
| | **(607)** | 6,522 |

Note: The amount includes net realised gain of approximately HK$369,000 (2009: HK$2,060,000) on disposal of held for trading investments and unrealised loss of approximately HK$9,894,000 (2009: unrealised gain on HK$3,642,000) on change in fair value of held for trading investments.

## 11. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interests on: | | |
| Bank borrowings wholly repayable within five years | **4,011** | 7,926 |
| Effective interest expense on convertible notes (note 33) | **19,877** | – |
| Imputed interest on interest-free amount due to a non-controlling interest | **–** | 18 |
| Other borrowing costs | **–** | 27,214 |
| | **23,888** | 35,158 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of the directors and the five highest paid individuals are summarised as follows:

### Directors' emoluments

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Other emoluments | | | | | Other emoluments | | | |
| | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefits scheme contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefits scheme contributions HK$'000 | Share-based payment HK$'000 | Total HK$'000 |
| Dong Ping* | 1,600 | 1,693 | 12 | 2,857 | 6,162 | 1,458 | 1,140 | 8 | – | 2,606 |
| Ng Qing Hai | – | – | – | – | – | 10 | 1,124 | 54 | – | 1,188 |
| Zhao Chao* | 1,120 | – | 12 | 1,805 | 2,937 | 808 | – | 8 | – | 816 |
| Kong Muk Yin | 140 | 200 | – | 608 | 948 | 120 | 200 | – | – | 320 |
| Chen Ching | 10 | 70 | – | 213 | 293 | 10 | 70 | – | – | 80 |
| Jin Hui Zhi | 10 | 70 | – | 213 | 293 | 10 | 70 | – | – | 80 |
| Li Chak Hung | 10 | 90 | – | 213 | 313 | 10 | 90 | – | – | 100 |
| Chong Sok Un** | – | – | – | – | – | 38 | – | – | – | 38 |
| Dato' Wong Peng Chong*** | – | – | – | – | – | 120 | – | – | – | 120 |
| Total | 2,890 | 2,123 | 24 | 5,909 | 10,946 | 2,584 | 2,694 | 70 | – | 5,348 |

* The directors were appointed on 23rd April, 2009.
** The director resigned on 23rd April, 2009.
*** The director resigned on 9th December, 2009.

No directors waived any emoluments in both years.

### Employees' emoluments

The five highest paid individuals included three (2009: three) directors of the Company, whose emoluments are disclosed above. The emoluments of the remaining two (2009: two) highest paid individuals were as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Salaries and other benefits | 3,120 | 1,511 |
| Contributions to retirement benefit schemes | 92 | 8 |
| Share-based payment | 2,198 | – |
| | 5,410 | 1,519 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

**Employees' emoluments** *(Continued)*

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Their emoluments were within the following bands: | | |
| Less than HK$1,000,001 | **–** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$3,500,001 to HK$4,000,000 | **1** | – |
| | **2** | 2 |

During both years, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group.

## 13. TAXATION CHARGE

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Current tax | | |
| – PRC Enterprise Income Tax | **(29,116)** | (5,902) |
| – Overprovision in prior year | **–** | 3,736 |
| | **(29,116)** | (2,166) |
| Deferred tax (note 34) | | |
| – current year | **4,483** | 1,766 |
| Taxation charge | **(24,633)** | (400) |

No provision for Hong Kong Profits Tax has been made as the group companies operating in Hong Kong do not have any assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 13. TAXATION CHARGE *(Continued)*

The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries. In accordance with the tax legislations applicable to foreign investment enterprises, one of the subsidiaries in the PRC was entitled to exemption from the PRC Enterprise Income Tax for two years starting from its first profit making year, followed by a 50% relief from the PRC Enterprise Income Tax for the following three years. The subsidiary can continue to entitle such tax concession according to the EIT Law and the charge of the PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The first profit making year of this subsidiary was 2007. During the year ended 31st December, 2009, the subsidiary was disposed of.

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit (loss) before taxation: | **48,361** | (218,657) |
| Taxation at the domestic income tax rate of 25% (2009: 25%) | **(12,090)** | 54,664 |
| Tax effect of expenses not deductible for tax purpose | **(20,515)** | (56,165) |
| Tax effect of income not taxable for tax purpose | **13,283** | 4,358 |
| Tax effect of tax loss not recognised | **(2)** | (3,842) |
| Tax effect of utilisation of tax losses previously not recognised | **–** | 1,210 |
| Effect of tax concession granted to a PRC subsidiary | **–** | 417 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(5,338)** | (4,357) |
| Overprovision in prior year | **–** | 3,736 |
| Others | **29** | (421) |
| Taxation charge for the year | **(24,633)** | (400) |

Note: The domestic tax rate represents the statutory tax rate of the major group companies operating in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 14. PROFIT (LOSS) FOR THE YEAR

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit (loss) for the year has been arrived at after charging: | | |
| Auditor's remuneration | **1,916** | 2,047 |
| Film rights recognised as an expense included in cost of sales | **82,060** | 29,620 |
| Cost of inventories recognised as an expense | **38,218** | 320,994 |
| Amortisation of mining right (included in administrative expenses) | **–** | 122 |
| Amortisation of intangible assets (included in cost of sales) | **10,113** | – |
| Depreciation of property, plant and equipment | **7,710** | 21,384 |
| Total amortisation and depreciation | **17,823** | 21,506 |
| Release of prepaid lease payments on land use rights | **–** | 311 |
| Rental payments for premises under operating leases | **12,369** | 2,436 |
| Rental payments for plant and machinery under operating leases | **–** | 412 |
| Research and development costs recognised as an expense (included in administrative expenses) | **–** | 382 |
| Staff costs inclusive of directors' emoluments (excluded share options expense) | **72,631** | 33,823 |

## 15. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following information:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Earnings (loss)** | | |
| Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share | **13,662** | (225,296) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 15. EARNINGS (LOSS) PER SHARE *(Continued)*

| | **2010** | 2009 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **1,750,656,324** | 1,346,683,584 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company | **7,883,027** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,758,539,351** | 1,346,683,584 |

For the year ended 31st December, 2010, no adjustment is made in relation to the Company's outstanding convertible notes as their assumed conversion would increase the earnings per share after taking into account of the effect of effective interest. For the year ended 31st December, 2009, the Company has no convertible notes.

For the year ended 31st December, 2009, the computation of diluted loss per share does not assume the issue of contingent consideration shares for the acquisition of Xian Jinding as disclosed in note 39(d)(ii) since their issuance would result in a decrease in loss per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Construction in progress HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | |
| **COST** | | | | | | | |
| At 1st January, 2009 | 292,603 | 490 | 510,690 | – | 3,899 | 9,202 | 816,884 |
| Additions | 464 | 4,507 | 3,425 | 9,388 | 3,205 | 11,456 | 32,445 |
| Acquired on acquisition of subsidiaries | – | – | 120 | – | 238 | – | 358 |
| Disposals | (1,529) | – | – | – | (444) | (1,132) | (3,105) |
| Disposal of subsidiaries | (290,836) | (490) | (512,685) | (9,388) | (3,784) | (8,736) | (825,919) |
| At 31st December, 2009 | 702 | 4,507 | 1,550 | – | 3,114 | 10,790 | 20,663 |
| Exchange adjustments | **–** | **216** | **50** | **–** | **297** | **515** | **1,078** |
| Additions | **–** | **3,289** | **388** | **–** | **5,057** | **5,494** | **14,228** |
| Acquired on acquisition of subsidiaries | **–** | **178** | **–** | **–** | **2,361** | **1,947** | **4,486** |
| Disposals | **–** | **–** | **–** | **–** | **(1,088)** | **(67)** | **(1,155)** |
| Disposal of subsidiaries | **–** | **(99)** | **(170)** | **–** | **(112)** | **–** | **(381)** |
| **At 31st December, 2010** | **702** | **8,091** | **1,818** | **–** | **9,629** | **18,679** | **38,919** |
| **DEPRECIATION** | | | | | | | |
| At 1st January, 2009 | 92,345 | 472 | 244,467 | – | 3,048 | 4,956 | 345,288 |
| Provided for the year | 6,267 | 134 | 13,377 | – | 270 | 1,336 | 21,384 |
| Eliminated on disposals | – | – | – | – | (155) | (555) | (710) |
| Disposal of subsidiaries | (98,120) | (472) | (257,835) | – | (2,910) | (5,012) | (364,349) |
| At 31st December, 2009 | 492 | 134 | 9 | – | 253 | 725 | 1,613 |
| Exchange adjustments | **–** | **53** | **6** | **–** | **40** | **79** | **178** |
| Provided for the year | **10** | **2,361** | **258** | **–** | **1,913** | **3,168** | **7,710** |
| Eliminated on disposals | **–** | **–** | **–** | **–** | **(201)** | **(37)** | **(238)** |
| Disposal of subsidiaries | **–** | **(18)** | **(46)** | **–** | **(44)** | **–** | **(108)** |
| **At 31st December, 2010** | **502** | **2,530** | **227** | **–** | **1,961** | **3,935** | **9,155** |
| **CARRYING VALUES** | | | | | | | |
| **At 31st December, 2010** | **200** | **5,561** | **1,591** | **–** | **7,668** | **14,744** | **29,764** |
| At 31st December, 2009 | 210 | 4,373 | 1,541 | – | 2,861 | 10,065 | 19,050 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | 2.7% – 10% |
| Leasehold improvements | 10% – 33% |
| Plant and machinery | 4% – 8% |
| Furniture, fixtures and equipment | 10% – 23% |
| Motor vehicles | 15% – 25% |

There was no pledged property, plant and equipment for both years.

The leasehold land and buildings are located on land held under medium-term leases in Hong Kong.

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group had interests in the following significant jointly controlled entities:

| Name of entity | Form of business structure | Place of registration | Principal place of operation | Class of capital | Proportion of nominal value of registered/ issued capital held by the Group 2010 % | 2009 % | Principal activity |
|---|---|---|---|---|---|---|---|
| 人民視訊文化有限公司 (“人民視訊”) | Limited liability company | PRC | PRC | Registered | **–** **(note a,b)** | – | Operating in mobile TV |
| 人民視訊(上海)文化有限公司 (“人民視訊(上海)”) | Limited liability company | PRC | PRC | Registered | **–** **(note a,b)** | – | Operating in mobile TV |
| 京華文化傳播有限公司 JingHua Culture Media Company Limited* (“JingHua Culture”) | Limited liability company | PRC | PRC | Registered | **–** **(note c)** | – | Advertising agency and distribution of a newspaper – Beijing Times |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

| Name of entity | Form of business structure | Place of registration | Principal place of operation | Class of capital | Proportion of nominal value of registered/ issued capital held by the Group 2010 % | 2009 % | Principal activity |
|---|---|---|---|---|---|---|---|
| 北京神州京華廣告有限公司 Beijing Shenzhou JingHua Advertising Company Limited* ("Shenzhou JingHua") | Limited liability company | PRC | PRC | Registered | **– (note c)** | – | Advertising agency |
| 北京京之華物流有限公司 Beijing Jing Zhi Hua Logistics Company Limited* ("Jing Zhi Hua") | Limited liability company | PRC | PRC | Registered | **– (note c)** | – | Logistic services to group companies |
| 北京盛世鴻宇科貿有限公司 Beijing Sheng Shi Hong Yu Technology and Trading Company Limited* ("Beijing Hong Yu") | Limited liability company | PRC | PRC | Registered | **– (note c)** | – | Advertising agency |

* The English name is for identification purpose only. The official names of these companies are in Chinese.

Notes:

(a) On 1st April, 2010, the Group established a jointly controlled entity 人民視訊 in the PRC, which is owned as to 49% by 中聯京華文化傳播(北京)有限公司("中聯京華"). The Company does not have any equity interest in the registered capital of 中聯京華 as it is owned by an employee of the Group. Pursuant to certain agreements among 中聯京華, the owner of 中聯京華 and the Group, the owner of 中聯京華 agreed to assign the power to appoint and remove all the members of the board of directors and to govern the financial and operating policies of 中聯京華 to the Group and to transfer all beneficial interests of 中聯京華 to the Group. Accordingly, 中聯京華 is treated as a wholly owned subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. The registered capital of 中聯京華 was contributed by the Group. 中聯京華 contributed the capital of 人民視訊 in cash of RMB4,900,000 (equivalent to approximately HK$5,568,000) and the joint venture partner contributed capital in cash of RMB5,100,000 (equivalent to approximately HK$5,795,000). 人民視訊(上海), a wholly owned subsidiary of 人民視訊, was set up on 9th August, 2010 with registered and paid up capital RMB10,000,000.

(b) 中聯京華 holds 49% of the registered capital of 人民視訊 and two out of the five directors of 人民視訊 are appointed by the Group, hence the Group controls 40% of the voting power in the Board of Directors meeting. As all the decisions made in the Board of Directors meeting require at least 1/2 votes from all the directors and at least one vote from the directors from each of the two joint venture partners, 人民視訊 and hence its wholly owned subsidiary, 人民視訊(上海) are accounted for as jointly controlled entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

(c) On 1st May, 2010, the Group acquired the entire issued share capital of Prefect Strategy and Main City, which had indirect control and an effective interest of 100% in 北京北大文化發展有限公司 (in English, Beijing Beida Culture Development Company Limited（"Beida Culture"）) through 上海經略廣告有限公司（"上海經略"）, which in turn, held 50% equity interest in JingHua Culture. The Company does not have any equity interest in the registered capital of 上海經略 as it is owned by an employee of the Group. Pursuant to certain agreements among 上海經略, the owner of 上海經略 and the Group, the owner of 上海經略 agreed to assign the power to appoint and remove all the members of the board of directors and to govern the financial and operating policies of 上海經略 to the Group and to transfer all beneficial interests of 上海經略 to the Group. Accordingly, 上海經略 is treated as a wholly owned subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. Jing Zhi Hua and Beijing Hong Yu were directly owned by JingHua Culture with equity interest of 80% and 90% respectively. 20% of the equity interest in Jing Zhi Hua was directly owned by Shenzhou JingHua. Shenzhou JingHua was 100% owned by JingHua Culture. 10% of the equity interest in Beijing Hong Yu was directly owned by Jing Zhi Hua. JingHua Culture holds exclusive advertising and distribution rights which entitle it to operate the advertising agency business and newspaper distribution business for Beijing Times together with other businesses as permitted under its business certificate. The other joint venture partner is responsible for the editorial part of Beijing Times. JingHua Culture was principally engaged in the businesses of newspaper advertising agency and newspaper distribution of Beijing Times, advertising agency services of sales and distribution of magazines and other newspapers, sales of bottled water and operating the newspaper website (namely JingHua Website) in the PRC. For details, please refer to note 39(b).

As all the major financial and operating decisions of the above entities require unanimous consent from all venturers, they are accounted for as jointly controlled entities.

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using proportionate share of the assets, liabilities, income and expenses of the jointly controlled entities before elimination of transactions, balances, income and expenses with group companies are set out below:

| | **2010** |
|---|---|
| | HK$'000 |
| Current assets | 168,794 |
| Non-current assets | 560,524 |
| Current liabilities | 76,308 |
| Non-current liabilities | 98,758 |
| Income recognised in the consolidated income statement | 181,260 |
| Expenses recognised in the consolidated income statement | 157,859 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

At the end of the reporting period, the Group's jointly controlled entities had commitments for future minimum lease payments under non-controllable operating leases for premises which fall due as follows:

| | **2010** |
|---|---|
| | HK$'000 |
| Not later than one year | 2,627 |
| Later than one year and not later than five years | 4,953 |
| Later than five years | 649 |
| | 8,229 |

## 18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

| | HK$'000 |
|---|---|
| **GOODWILL** | |
| **COST** | |
| At 1st January, 2009 | 83,618 |
| Arising on acquisition of subsidiaries (note 39) | 39,781 |
| Eliminated on disposal of subsidiaries (note 42(c)) | (83,618) |
| At 31st December, 2009 | 39,781 |
| Exchange adjustments | **8,001** |
| Arising on acquisition of subsidiaries (note 39) | **166,568** |
| Eliminated on disposal of subsidiaries (note 42(b)) | **(972)** |
| **At 31st December, 2010** | **213,378** |
| **IMPAIRMENT** | |
| At 1st January, 2009 | 14,139 |
| Eliminated on disposal of subsidiaries (note 42(c)) | (14,139) |
| At 31st December, 2009 and **31st December, 2010** | – |
| **CARRYING VALUES** | |
| **At 31st December, 2010** | **213,378** |
| At 31st December, 2009 | 39,781 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE *(Continued)*

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful life have been allocated to individual cash-generating units (CGUs), including two subsidiaries in film production and distribution ("Entertainment"), one subsidiary in mobile games development and distribution segment ("Game"), one subsidiary in mobile value-added services segment ("Mobile value-added") and one jointly controlled entity in advertising agency and newspaper distribution segment ("Advertising and newspaper"). The carrying amounts of goodwill and intangible assets with indefinite useful life as at 31st December, 2010 and 2009 allocated to these units are as follows:

| | **2010** | | 2009 |
|---|---|---|---|
| | **Goodwill** | **Intangible assets with indefinite useful life** | Goodwill |
| | **HK$'000** | **HK$'000** | HK$'000 |
| Entertainment (Unit A) | **–** | **–** | 972 |
| Entertainment (Unit B) | **36,286** | **–** | 34,926 |
| Game (Unit C) | **4,034** | **–** | 3,883 |
| Mobile value-added (Unit D) | **19,084** | **–** | – |
| Advertising and newspaper (Unit E) | **153,974** | **421,851** | – |
| | **213,378** | **421,851** | 39,781 |

During the year ended 31st December, 2010, the directors of the Company determined that there was no impairment of goodwill and intangible assets with indefinite useful life allocated to any of its CGUs.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE *(Continued)*

### Unit B

The recoverable amount of Unit B has been determined on the basis of value in use calculation. Its recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2009: 5-year period), and a discount rate of 16.5% (2009: 16.5%). Unit B's cash flows beyond the 5-year period are extrapolated using a 2% growth rate. The 2% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on Unit B's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B to exceed the aggregate recoverable amount of Unit B.

### Unit C

The recoverable amount of Unit C has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2009: 5-year period), and a discount rate of 19.76% (2009: 19.76%). Unit C's cash flow beyond the 5-year period are extrapolated using a 2% growth rate. The 2% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on Unit C's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit C to exceed the aggregate recoverable amount of Unit C.

### Unit D

The recoverable amount of Unit D has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 24.08% (2009: 20.04%). Unit D's cash flows beyond the 5-year period are extrapolated using a 2% growth rate. The 2% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on Unit D's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit D to exceed the aggregate recoverable amount of Unit D.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE *(Continued)*

### Unit E

The recoverable amount of Unit E has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and extrapolated for a further 5-year period using 7% growth rate, using a discount rate of 13.26% and terminal value covering the following years indefinitely. The 7% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry of 5% to 10%. The 5-year period is based on the average product rate cycle of newspaper media based on the industry history. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on Unit E's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit E to exceed the aggregate recoverable amount of Unit E.

## 19. MINING RIGHT

| | HK$'000 |
|---|---|
| **COST** | |
| At 1st January, 2009 | 8,389 |
| Eliminated on disposal of subsidiaries (note 42(c)) | (8,389) |
| At 31st December, 2009 and **31st December, 2010** | – |
| **AMORTISATION** | |
| At 1st January, 2009 | 619 |
| Charge for the year | 122 |
| Eliminated on disposal of subsidiaries (note 42(c)) | (741) |
| At 31st December, 2009 and **31st December, 2010** | – |
| **CARRYING VALUES** | |
| At 31st December, 2009 and **31st December, 2010** | – |

The licence period was 10 years and renewable for another 10 years or more at minimal charges. In the opinion of the directors, the mining right was amortised on a straight-line basis over its estimated useful life of 50 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 20. INTANGIBLE ASSETS

| | Licenses | Mobile game platform | Mobile game | Advertising and distribution rights | Broad-casting right | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | | |
| At 1st January, 2009 | – | – | – | – | – | – |
| Acquired on acquisition of a subsidiary (note 39) | – | 2,107 | 5,894 | – | – | 8,001 |
| At 31st December, 2009 | – | 2,107 | 5,894 | – | – | 8,001 |
| Exchange adjustments | **397** | **82** | **257** | **15,820** | **2,338** | **18,894** |
| Additions | **–** | **–** | **1,233** | **10,998** | **60,000** | **72,231** |
| Acquired on acquisition of subsidiaries (note 39) | **10,195** | **–** | **–** | **395,033** | **–** | **405,228** |
| **At 31st December, 2010** | **10,592** | **2,189** | **7,384** | **421,851** | **62,338** | **504,354** |
| **AMORTISATION** | | | | | | |
| At 1st January, 2009 and 31st December, 2009 | – | – | – | – | – | – |
| Exchange adjustments | **88** | **21** | **143** | **–** | **141** | **393** |
| Charge for the year | **2,266** | **527** | **3,684** | **–** | **3,636** | **10,113** |
| **At 31st December, 2010** | **2,354** | **548** | **3,827** | **–** | **3,777** | **10,506** |
| **CARRYING VALUES** | | | | | | |
| **At 31st December, 2010** | **8,238** | **1,641** | **3,557** | **421,851** | **58,561** | **493,848** |
| At 31st December, 2009 | – | 2,107 | 5,894 | – | – | 8,001 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 20. INTANGIBLE ASSETS *(Continued)*

The above intangible assets relate to development costs which have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Licenses | 3 years |
| Mobile game platform | 5 years |
| Mobile game | 2 years |
| Broadcasting right | 3 years |

The advertising and distribution rights of Beijing Times were obtained by the Group through acquisition of subsidiaries, Prefect Strategy and Main City during the year. The advertising and distribution rights are held by JingHua Culture, a jointly controlled entity of the Group. The advertising and distribution rights are considered by the management of the Group as having an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The advertising and distribution rights will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Details of impairment testing are set out in note 18.

## 21. CLUB DEBENTURE

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Club debenture, at cost | **2,692** | 2,591 |

## 22. ART WORK

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Art work, at cost | **51,565** | 8,780 |

In the opinion of the directors, having considered that most art work were purchased during the year ended 31st December, 2010 from sizable auction houses, there was no indication of impairment as at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 23. INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **1,015** | – |

## 24. FILM RIGHTS

| | HK$'000 |
|---|---|
| **COST** | |
| At 1st January, 2009 | – |
| Acquired on acquisition of subsidiaries (note 39) | 69,390 |
| Additions | 19,344 |
| Recognised as an expense included in cost of sales | (29,620) |
| At 31st December, 2009 | 59,114 |
| Exchange adjustments | **1,890** |
| Additions | **70,489** |
| Recognised as an expense included in cost of sales | **(82,060)** |
| Disposal of subsidiaries (note 42(b)) | **(33,124)** |
| **At 31st December, 2010** | **16,309** |

At 31st December, 2010, included in film rights costs are costs of films under production of HK$16,033,000 (2009: HK$39,017,000) and costs of films with completed production of HK$276,000 (2009: HK$20,097,000).

The costs of film rights are recognised as an expense in the consolidated income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 25. HELD FOR TRADING INVESTMENTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong | **49,959** | 57,822 |

The particulars of the Group's investments in the equity securities included in held for trading investments which exceed 10% of the assets of the Group for the year ended 31st December, 2009 disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

| Name of company | Country of incorporation | Class of shares | Number of shares held by the Group | Percentage of issued share capital held by the Group |
|---|---|---|---|---|
| Media China Corporation Limited | Cayman Islands | Ordinary | 1,099,037,500 | 3.96% |

At 31st December, 2010, all the held for trading investments have been pledged as security for the margin loan to the Group of approximately HK$32,618,000 (2009: HK$17,081,000).

## 26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Trade receivables | **204,746** | 51,910 |
| Less: Allowance for bad and doubtful debts for trade receivables | **(3,026)** | (2,913) |
| | **201,720** | 48,997 |
| Receivable for disposal of a subsidiary (note 42(b)) | **17,420** | – |
| Amount receivable from a former subsidiary (note 42(b)) | **45,538** | – |
| Receivable for disposal of other financial asset (note) | **40,142** | – |
| Other receivables and deposits | **37,932** | 54,846 |
| Less: Allowance for bad and doubtful debts for other receivables and deposits | **(2,405)** | (2,242) |
| | **138,627** | 52,604 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Prepayment for purchase of inventories | 24,468 | – |
| Other prepayments | 7,842 | 1,544 |
| Amount due from a joint venture partner | 29,456 | – |
| Total trade and other receivables, deposits and prepayments | 402,113 | 103,145 |
| Analysed as | | |
| Current | 398,948 | 100,289 |
| Non-current | 3,165 | 2,856 |
| | 402,113 | 103,145 |

Note: The amounts are unsecured, interest-free and repayable on demand.

### Trade receivables

Trade receivables consist of receivables from debtors arising from production and distribution of film rights segment and other business segments analysed as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Production and distribution of film rights | 144,821 | 47,355 |
| Other business segments | 56,899 | 1,642 |
| | 201,720 | 48,997 |

For the production and distribution of film rights segment, according to certain sales contracts signed with customers who usually pay upfront deposits after obtaining the master copies of films or TV drama, they are required to settle the remaining balance when the relevant films or TV drama are broadcasted, which is normally within 2 years. In the opinion of the directors, these trade receivables are not considered as past due. However, the directors will assess whether allowance on these receivables is necessary on a regular basis after considering (i) the reputation and historic trading history of these customers; (ii) the market situations that lead to delay of broadcasting; and (iii) subsequent settlement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

**Trade receivables** *(Continued)*

The following is an aged analysis of trade receivables net of allowance for doubtful debts for production and distribution of film rights segment presented based on the delivery date at the end of the reporting period:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 0-90 days | **60,155** | 5,784 |
| 91-180 days | **429** | 39,585 |
| 181-365 days | **53,536** | 1,986 |
| Over 365 days | **30,701** | – |
| | **144,821** | 47,355 |

The following is an aged analysis of trade receivables net of allowance for doubtful debts for other business segments presented based on the invoice date at the end of the reporting period:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 0 – 90 days | **34,259** | – |
| 91 – 180 days | **19,751** | 1,642 |
| 181 – 365 days | **2,889** | – |
| | **56,899** | 1,642 |

The Group has a policy of allowing its trade customers from all business segments other than production and distribution of film rights segment credit periods normally ranging from 120 days to 1 year. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed regularly. All trade receivables were neither past due nor impaired and have good historical settlement record for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

### Other receivables and deposits

Included in other receivables as at 31st December, 2009 is a loan of HK$30,000,000 to a third party which is denominated in HK$, a currency other than the functional currency of the respective group entities. This amount bears interest rate at 12% per annum. The amount had been fully settled as at 31st December, 2010.

### Movement in the allowance for bad and doubtful debts

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **5,155** | 54,350 |
| Exchange difference | **186** | – |
| Impairment losses recognised on receivables | **90** | 233 |
| Amounts recovered during the year | **–** | (381) |
| Disposal of subsidiaries | **–** | (47,675) |
| Amounts written off as uncollectible | **–** | (1,372) |
| Balance at end of the year | **5,431** | 5,155 |

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$5,431,000 (2009: HK$5,155,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 27. OTHER FINANCIAL ASSET

Other financial asset as at 31st December, 2009 related to a loan of HK$34,091,000 to a film producer for the production of a particular film. The loan was secured by a guarantee given by a PRC company which was owned by a film director. The amount was classified as non-current asset as it was not expected to be recoverable within the next 12 months. The return on the loan was 10.5% on the profit after taxation of the particular film in the next 10 years starting from first showing. In the opinion of the directors, the fair value of this embedded derivative at the date of grant and at 31st December, 2009 was insignificant. The other financial asset was disposed of during the year ended 31st December, 2010 for a consideration of HK$46,189,000.

## 28. BANK BALANCES AND CASH

Bank balances and cash comprise cash and bank balances held by the Group with maturity of three months or less and carry interest at prevailing deposit rates which range from 0.01% to 0.36% (2009: 0.01% to 0.36%) per annum.

## 29. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The following is an aged analysis of trade and other payables presented based on the invoice date at the reporting date:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **41,064** | 1,806 |
| 91 – 180 days | **3,164** | – |
| 181 – 365 days | **3,060** | – |
| Over 1 year | **1,162** | 1,573 |
| | **48,450** | 3,379 |
| Advance payments from customer | **30,039** | – |
| Other tax payable | **17,792** | 2,765 |
| Accrued staff costs | **9,442** | 3,401 |
| Payable for purchase of broadcasting right | **16,000** | – |
| Other payables, deposits received and accrued charges | **34,075** | 13,609 |
| Amounts due to related companies (note 43) | **3,372** | 9,087 |
| | **159,170** | 32,241 |

The average credit period on purchase of goods is normally ranging from 120 days to 210 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 30. BORROWINGS

Borrowings represents fixed-rate margin loan which are secured by held for trading investments as disclosed in note 25, repayable on demand and denominated in HK$, a currency other than the functional currencies of the relevant group entities.

At 31st December, 2010, the effective interest rate on the margin loan is 12% (2009: 12%).

## 31. CONVERTIBLE NOTES ISSUABLE

The balance represented the estimated fair value of contingent consideration at the end of the reporting period arising from the acquisition of Main City. Details of which are set out in note 39(b).

Based on the relevant agreement, the Group is required to issue an additional amount of convertible note of the Company amounting to a principal amount of HK$30,000,000 (the "Additional CB") to the vendor if Beida Culture's profit after taxation in the year 2010 exceeds HK$50,000,000 (the "Condition").

Due to the Condition has been fulfilled as at 31st December, 2010, the obligation of the issuance of the Additional CB was established. The directors of the Company were of the opinion that the fair value of the convertible notes issuable as at 31st December, 2010 approximates HK$30,000,000, which is also the fair value of the Additional CB as of the issuance date on 30th March, 2011.

The Additional CB will comprise of liability and equity component. The fair value of the liability component of the Additional CB was calculated as the present value of the coupon payments and the redemption amount. The discount rate used in the calculation was the cost of debt applicable to the Company. The fair value of the equity component is estimated using Binomial model. The aggregated fair value of the liability and equity component of the Additional CB as at 30th March, 2011 approximates HK$30,000,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 32. SHARE CAPITAL

| | Number of shares | Share capital HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.25 each | | |
| Authorised | | |
| At 1st January, 2009 | 2,000,000,000 | 500,000 |
| Increased on 7th August, 2009 | 8,000,000,000 | 2,000,000 |
| At 31st December, 2009 and **31st December, 2010** | **10,000,000,000** | **2,500,000** |
| Issued and fully paid: | | |
| At 1st January, 2009 | 729,395,043 | 182,349 |
| Issued by placing of new shares (note 1) | 315,000,000 | 78,750 |
| Issued by open offer of new shares (note 2) | 437,197,521 | 109,299 |
| At 31st December, 2009 | 1,481,592,564 | 370,398 |
| Issued in consideration for the acquisition of Year Wealth Limited (note 3) | **40,000,000** | **10,000** |
| Issued by placing of new shares (note 4) | **296,000,000** | **74,000** |
| Issued upon conversion of convertible notes (note 33) | **120,000,000** | **30,000** |
| **As 31st December, 2010** | **1,937,592,564** | **484,398** |

Notes:

(1) On 19th January, 2009, the Company placed 145,000,000 ordinary shares to independent investors at a price of HK$0.27 per share.

On 29th July, 2009, the Company placed 170,000,000 ordinary shares to independent investors at a price of HK$0.52 per share.

(2) On 15th May, 2009, the Company proposed an open offer of 437,197,521 ordinary shares of the Company at a price of HK$0.30 per share, on the basis of one offer share for every two existing shares of the Company held on 4th June, 2009. The open offer was completed on 29th June, 2009.

(3) On 11th February, 2010, the Company issued 40,000,000 ordinary shares to the vendor pursuant to the payment term of the agreement in consideration for the acquisition of the entire issued share capital of Year Wealth Limited ("Year Wealth"), details of which are set out in note 39(d).

(4) On 18th May, 2010, the Company placed 296,000,000 ordinary shares to independent investors at a price of HK$0.55 per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 33. CONVERTIBLE NOTES

Pursuant to the equity transfer agreements mentioned in note 39(b), the Company issued two zero coupon convertible notes which have an aggregate principal amount of HK$470,000,000 on 3rd June, 2010. The first convertible note ("CB1") amounting to HK$350,000,000 will be matured in 3 years after the date of issue. The second convertible note ("CB2") amounting to HK$120,000,000 will be matured in 5 years after the date of issue. The convertible notes are denominated in HK$. The convertible notes entitle the note holders to convert them into shares of the Company at any time within 3 years (for CB1) or 5 years (for CB2) from the date of issue of the convertible notes, at the conversion price per share of HK$1.2 for CB1 or HK$1 for CB2 respectively, subject to anti-dilutive clauses. In addition, the note holders shall exercise its conversion rights in relation to all outstanding amount of the convertible notes if (i) the market closing price of the Company's shares on the Stock Exchange shall for 10 consecutive trading days be more than HK$1.5 per share; and (ii) the Company shall have given to the note holders within 7 business days written notice of compulsory conversion requiring the note holders to exercise its conversion rights in relation to all outstanding amount of the convertible notes regardless of the 15% issued share capital restriction set out in the convertible notes under any circumstance.

If the convertible notes have not been converted, they will be redeemed at par on 2nd June, 2013 (for CB1) or 2nd June, 2015 (for CB2) respectively. The Company is allowed at any time since the date of issue to the maturity date, to redeem the convertible notes at its face value provided that any such redemption shall be made in amount of not less than a whole multiple of HK$1,000,000 as specified in the redemption notice of not less than 7 days (which notice will be irrevocable), if there shall occur before the maturity date any period of 20 consecutive trading days within which the shares shall be trading on the Stock Exchange at the volume of not less than 10,000,000 shares for each of the trading days within the conversion period with the market closing price of the shares being not less than HK$1.5.

Upon issuance of the convertible notes, the HK$ principal amount of the convertible notes shall be equivalent to its RMB principal amount of the convertible notes translated at the exchange rate at the date of issuance of HK$1.00 = RMB0.91. Any payment in the event of redemption by the Company shall be made in HK$, equivalent to their RMB principal amount translated at the prevailing exchange rate at the date of redemption.

The number of shares to be issued on conversion of notes will be determined by dividing the RMB principal amount of the notes to be converted (translated into HK$ at the fixed exchange rate of HK$1.00 = RMB0.91) by the conversion price in effect at the conversion date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 33. CONVERTIBLE NOTES *(Continued)*

The convertible notes contain two components, liability (together with embedded derivative for conversion right by the Company which is closely related to the host debt) and equity elements. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts and the fair value of the conversion option for the note holders to convert the notes into equity which is included in equity (convertible notes equity reserve) is determined using the Binomial Model.

The fair values of the embedded derivative for conversion right by the Company at the grant date are calculated using the Binomial Model. The inputs into the model were as follows:

| | **Date of grant of principal amount of HK$350,000,000** | **Date of grant of principal amount of HK$120,000,000** |
|---|---|---|
| Conversion price | HK$1.20 | HK$1.00 |
| Expected volatility (note a) | 80.16% | 79.76% |
| Expected life (note b) | 3 years | 5 years |
| Risk free rate (note c) | 1.22% per annum | 1.22% per annum |

Notes:

(a) Expected volatility for embedded derivative was determined by calculating the historical volatility of the Company's share price based on weekly basis.

(b) Expected life was the expected remaining life of the embedded derivative.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

The effective interest rate of the liability component is 10.03% for CB1 and 10.99% for CB2 respectively at the date of initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 33. CONVERTIBLE NOTES *(Continued)*

Since the date of issue up to the end of the reporting period, none of the CB1 has been converted. On 6th August, 2010, CB2 was fully converted into shares of the Company.

The movement of the liability component of the convertible notes for the year is set out below:

| | **Principal amount** HK$'000 | **Carrying amount** HK$'000 |
|---|---|---|
| At 1st January, 2010 | – | – |
| Exchange adjustments | – | (200) |
| Issuance of convertible notes | 470,000 | 333,991 |
| Interest charged (note 11) | – | 19,877 |
| Conversion of CB2 to ordinary shares | (120,000) | (73,306) |
| **At 31st December, 2010** | **350,000** | **280,362** |

## 34. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Deferred tax assets | **(1,818)** | – |
| Deferred tax liabilities | **102,309** | 3,667 |
| | **100,491** | 3,667 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 34. DEFERRED TAXATION *(Continued)*

At the end of the reporting period and during the year, deferred tax liabilities (assets) have been recognised in respect of the temporary differences attributable to the following:

| | Intangible assets | Accelerated tax depreciation | Allowance for doubtful debts | Others | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January, 2009 | – | 33,027 | (4,790) | 682 | 28,919 |
| Credit to the consolidated income statement for the year | – | (1,496) | – | (270) | (1,766) |
| Acquisition of subsidiaries | 2,000 | – | – | 1,937 | 3,937 |
| Disposals of subsidiaries | – | (31,531) | 4,790 | (682) | (27,423) |
| At 31st December, 2009 | 2,000 | – | – | 1,667 | 3,667 |
| Credit to the consolidated income statement for the year | **(3,650)** | **–** | **–** | **(833)** | **(4,483)** |
| Acquisition of subsidiaries | **101,307** | **–** | **–** | **–** | **101,307** |
| **At 31st December, 2010** | **99,657** | **–** | **–** | **834** | **100,491** |

Starting from 1st January, 2008, the tax law of the PRC requires payment of withholding tax upon the distribution of profits earned by the PRC subsidiaries to the foreign shareholders. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits amounting to approximately HK$122,714,000 (2009: HK$23,281,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2010, the Group had estimated unused tax losses of HK$183,720,000 (2009: HK$183,706,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. During the year ended 31st December, 2009, the unused tax losses of HK$11,411,000 were eliminated on disposal of subsidiaries. At 31st December, 2010 and 2009, the unused tax losses can be carried forward indefinitely.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 35. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted by the shareholders of the Company pursuant to a resolution passed on 23rd May, 2002 for the primary purpose of providing the executives and employees in the services of any member of the Group and other persons who have contributed or will contribute to the Group with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Scheme will expire on 22nd May, 2012.

The total number of shares in respect of which options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. As at 31st December, 2010, a total of 193,759,256 (2009: 148,159,256) shares of the Company (representing 10% of the issued share capital of Company) are available for issue under the Scheme.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the shareholders of the Company.

Options granted must be taken up within 21 days from date of grant, upon payment of HK$10 per each grant of options. An option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant, whichever is the higher, provided that the exercise price should not be lower than the nominal value of a share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

During the year ended 31st December, 2010, aggregate share options of 147,910,000 (2009: nil) were granted to certain employees, senior management, directors and consultants on 18th March, 2010 and 4th May, 2010. Both share options granted will have 1/3, issued options vested after 1, 2 and 3 years, respectively of continuous employment/service of the grantee with the Group commencing from 23rd April, 2009 or other date of grantee's commencement of employment/service with the Group whichever is later. The validity period of the share options shall not be more than 10 years from the date of grant. None of these were exercised nor forfeited as at 31st December, 2010.

In the opinion of the directors, the consultancy services rendered by the consultants are similar to those rendered by the employees. Therefore, the fair value of the share options granted to the consultants was measured by the same accounting policies as that of the employees in accordance with HKFRS 2. During the year ended 31st December, 2010, HK$9,698,000 in respect of share options granted to the consultants has been charged to the consolidated income statement.

The fair values of the options determined at the dates of grant of 18th March, 2010 and 4th May, 2010 using the Binomial Model were HK$33,456,217 and HK$11,585,211 respectively.

The closing price of the Company's shares immediately before 18th March, 2010 and 4th May, 2010, the dates of grant, were HK$0.46 and HK$0.52 respectively.

The following assumptions were used to calculate the fair values of share options:

| | **18th March, 2010** | **4th May, 2010** |
|---|---|---|
| Grant date share price | HK$0.475 | HK$0.56 |
| Exercise price | HK$0.475 | HK$0.56 |
| Expected life | 7.2 – 8.3 years | 4.1 – 8.0 years |
| Expected volatility | 80% | 80% |
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 2.65% | 2.93% |

Since the main business of the Group has been changed, its historical share price volatility is not a relevant estimation. The Group adopted a volatility of 80% for both options granted as of 18th March, 2010 and as of 4th May, 2010, based on the average historical volatilities of companies in similar line of the new main business of the Group.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in the consolidated income statement, with a corresponding adjustment to the share option reserve.

Details of the movements of the share options granted by the Company pursuant to the Scheme during the year are as follows:

| Category | Date of grant | Exercise price per share | Number of share options: Outstanding as at 1st January, 2010 | Number of share options: Granted during the year and outstanding as at 31st December, 2010 |
|---|---|---|---|---|
| | | HK$ | | |
| 1. Directors | 04.05.2010 | 0.560 | – | 29,160,000 |
| 2. Employees | 18.03.2010 | 0.475 | – | 82,250,000 |
| | 04.05.2010 | 0.560 | – | 7,200,000 |
| 3. Consultants | 18.03.2010 | 0.475 | – | 29,300,000 |
| Total | | | – | 147,910,000 |
| Exercisable at year end | | | | 49,303,000 |

Notes:

1. The share options are exercisable as follows:

| Exercise criteria | Amount of share options that can be exercised |
|---|---|
| (i) On completion of the continuous employment/service of the grantee with the Group for 1 year commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to one-third of the share options granted |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Notes: *(Continued)*

| | | |
|---|---|---|
| (ii) | On completion of the continuous employment/service of the grantee with the Group for 2 years commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to two-thirds of the share options granted |
| (iii) | On completion of the continuous employment/service of the grantee with the Group for 3 years commencing from 23rd April, 2009 or the date of the relevant grantee's commencement of employment/service (whichever is the later) | Up to all of the share options granted |

2. The period within which the share options must be exercised shall not be more than 10 years from the date of grant.

3. Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

4. During the period from the date of grant to year ended 31st December, 2010, no share options were exercised, cancelled or lapsed.

5. The Group recognised the total expense of HK$28,266,000 for the year ended 31st December, 2010 (2009: nil) in relation to share options granted by the Company.

## 36. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,000 per person.

The PRC employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute 20% – 22% (2009: 20% – 22%) of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the Group made total contributions to the retirement benefits schemes of HK$9,125,000 (2009: HK$5,975,000). Included in the total contribution made, HK$98,000 (2009: HK$123,000) is contribution made for Hong Kong employees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 37. OPERATING LEASE COMMITMENTS

Operating leases and rentals are negotiated for an original average term of two to eight years.

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | **12,369** | 2,848 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for premises and plant and equipment which fall due as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Not later than one year | **13,846** | 10,463 |
| Later than one year and not later than five years | **15,545** | 20,269 |
| Later than five years | **649** | – |
| | **30,040** | 30,732 |

Operating leases and rentals are negotiated for an original average term of two to eight years.

## 38. COMMITMENTS

On 28th April, 2009, a subsidiary of the Company entered into a conditional agreement with an independent third party to acquire the entire issued share capital and a shareholder's loan relating to the 25% registered capital of a Guangxi hotel at an aggregate consideration of RMB26,000,000 (equivalent to approximately HK$29,500,000). An initial refundable deposit of RMB6,000,000 (equivalent to approximately HK$6,818,000) was paid during the year ended 31st December, 2009.

At 30th August, 2010, as certain conditions precedent are still yet to be fulfilled, the Group has reached an agreement with the independent third party that the transaction be ceased and the conditional agreement be terminated. On the same day, the independent third party has repaid the Group RMB12,000,000 (equivalent to approximately HK$14,000,000), being the refundable deposit previously paid by the Group for the proposed acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES

(a) On 1st February, 2010, the Group acquired 100% voting power in Youline Technology for a consideration of HK$26,162,000. Youline Technology is principally engaged in the provision of personalised information and entertainment services to mobile handset users via the internet and other modern telecom technologies in the form of value-added services business and was acquired with the objective of developing the Group into a modern and innovative media enterprise.

**Consideration transferred**

| | HK$'000 |
|---|---|
| Cash | 26,162 |

Acquisition-related costs amounting to HK$97,000 have been excluded from the cost of acquisition and have been recognised as an expense in the period, within the "other expenses" line item in the consolidated income statement.

Assets and liabilities recognised by the Group at the date of acquisition:

| | HK$'000 |
|---|---|
| **Current assets** | |
| Other receivables | 2 |
| Bank balances and cash | 84 |
| **Non-current assets** | |
| Intangible assets – licenses | 10,195 |
| Equipment | 62 |
| **Non-current liability** | |
| Deferred tax liabilities | (2,549) |
| | 7,794 |

The intangible assets represent the licenses granted by China Mobile Limited which enables Youline Technology to act as a service provider in the form of mobile value-added services. The fair value of the intangible asset is determined by discounted cash flow method. The cash flows from intangible assets have been used to estimate the benefit stream attributable to the licenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

### Goodwill arise on acquisition

| | HK$'000 |
|---|---|
| Consideration transferred | 26,162 |
| Less: fair value of identifiable net assets acquired | (7,794) |
| Goodwill arise on acquisition | 18,368 |

The goodwill arising on the acquisition of Youline Technology is attributed to the anticipated profitability of the mobile value-added services of this company.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

### Net cash outflow arising on acquisition

| | HK$'000 |
|---|---|
| Cash consideration | 26,162 |
| Bank balances and cash acquired | (84) |
| | 26,078 |

### Impact of acquisition on the results of the Group

Included in the profit for the year is HK$2,002,000 attributable to the additional business generated by Youline Technology. Revenue for the year includes HK$10,416,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On 1st May, 2010, the Group acquired the entire issued share capital of Prefect Strategy and Main City which have indirect control and an effective interest of 100% in Beida Culture which in turn, holds 50% equity interest in JingHua Culture, a jointly controlled entity for an aggregate consideration of HK$619,000,000 which was partly settled by cash of HK$119,000,000 and partly by the issuance of convertible notes in the principal amount of HK$500,000,000 by the Company, including the convertible notes of the Company with principal amount of HK$30,000,000 to be issued to the vendor of Main City if the guaranteed Beida Culture's profit after taxation for the year ended 31st December, 2010 of HK$50,000,000 can be met pursuant to the agreement. Prefect Strategy and Main City were acquired so as to allow the Group to penetrate into the newspaper and advertising market.

### Consideration transferred

| | HK$'000 |
|---|---|
| Cash consideration | 119,000 |
| Convertible notes (note 33) | 403,467 |
| Contingent consideration arrangement (note) | 25,418 |
| | 547,885 |

Note: Based on the relevant agreement, the Group is required to issue an additional amount of convertible note of the Company with a principal amount of HK$30,000,000 to the vendor if Beida Culture's profit after taxation in the year 2010 exceeds HK$50,000,000. HK$25,418,000 represents the estimated fair value of this obligation with reference to the fair value of convertible note issued for these acquisitions.

Acquisition-related costs amounting to HK$4,806,000 have been excluded from the cost of acquisition and have been recognised as an expense in the year, within the "other expenses" line item in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

### Consideration transferred *(Continued)*

Assets and liabilities recognised by the Group at the date of acquisition:

| | HK$'000 |
|---|---|
| **Current assets** | |
| Inventories | 1,209 |
| Trade and other receivables and deposits | 44,603 |
| Amount due from shareholder | 22,832 |
| Prepayments | 17,408 |
| Bank balances and cash | 56,260 |
| **Non-current assets** | |
| Intangible asset – advertising and distribution rights | 395,033 |
| Plant and equipment | 4,424 |
| **Current liabilities** | |
| Trade and other payables, bills payable and deposit received | (40,110) |
| Tax liabilities | (3,216) |
| **Non-current liability** | |
| Deferred tax liabilities | (98,758) |
| | 399,685 |

The fair value of trade and other receivables and amount due from shareholder at the date of acquisition amounted to HK$44,318,000 and HK$22,832,000 respectively. The gross contractual amounts of those trade and other receivables and amount due from shareholder acquired amounted to HK$44,318,000 and HK$22,832,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

The intangible asset represents the advertising and distribution rights of Beijing Times held by JingHua Culture. The fair value of the intangible asset is determined by the discounted cash flow method, based on cash flows projections covering 5 years and extrapolated for a further 5-year period using 7% growth rate and terminal value covering the following years indefinitely. A discount rate of 13.26% had been used to estimate the fair value of the intangible asset at date of acquisition. The cash flows from intangible asset has been used to estimate the benefit stream attributable to the advertising and distribution rights.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

### Goodwill arising on acquisition

| | HK$'000 |
|---|---|
| Consideration transferred | 547,885 |
| Less: fair value of identifiable net assets acquired | (399,685) |
| Goodwill arising on acquisition | 148,200 |

Beijing Times covers more than 75% share of the morning post retail market in Beijing. The goodwill arising on the acquisition of Prefect Strategy and Main City is attributed to the anticipated profitability of the advertising agency business and newspaper distribution business for Beijing Times of JingHua Culture. The principal investment of Beida Culture is a jointly controlled entity, JingHua Culture. The Group recognises its interests in this jointly controlled entity using proportionate consolidation.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

### Net cash outflow arising on acquisition

| | HK$'000 |
|---|---|
| Cash consideration paid | 119,000 |
| Bank balances and cash acquired | (56,260) |
| | 62,740 |

### Impact of acquisition on the results of the Group

Included in the profit for the year is HK$32,839,000 attributable to Prefect Strategy and Main City. Revenue for the year includes HK$176,387,000 in respect of Prefect Strategy and Main City.

If the acquisitions of subsidiaries in notes (a) and (b) had been completed on 1st January, 2010, the Group's revenue for the year ended 31st December, 2010 would have been approximately HK$476,306,000 and profit for the year would have been approximately HK$32,092,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and profit of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2010, nor is it intended to be a projection of future results.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) On 9th July, 2009, the Group acquired 75% voting power in 北京中盛千里傳媒文化有限公司, in English, Beijing Zhong Sheng Qian Li Media Culture Company Limited ("Zhong Sheng Qian Li") for a consideration of HK$1,278,000.

The net assets acquired in this transaction and the goodwill arising are as follows:

| | **Acquiree's carrying amount before combination and fair value** HK$'000 |
|---|---|
| Net assets acquired: | |
| Equipment | 203 |
| Film rights – films in progress | 6,057 |
| Other receivables and deposits | 17 |
| Prepayments | 5 |
| Bank balances and cash | 1,742 |
| Other payables | (4,434) |
| Amount due to a non-controlling interest | (3,182) |
| | 408 |
| Non-controlling interests | (102) |
| Goodwill | 972 |
| | 1,278 |
| Total consideration satisfied by: | |
| Deferred cash consideration | 1,278 |
| Net cash inflow arising on acquisition | |
| Bank balances and cash acquired | 1,742 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

The deferred cash consideration will be payable within one year after the end of the reporting period.

Zhong Sheng Qian Li is principally engaged in planning, production, publication and investment of television drama series, television programme and film and organising cultural and artistic exchange activities in the PRC. The goodwill arising on the acquisition of Zhong Sheng Qian Li is attributed to the anticipated profitability of the film and television programme production, distribution and licensing business of this company.

Zhong Sheng Qian Li contributed HK$1,324,000 to the Group's loss for the period between the date of acquisition and the end of 31st December, 2009.

(d) On 30th September, 2009, the Group acquired 100% of the issued share capital of Year Wealth, which indirectly had 51% voting power in Xian Jinding for a consideration of HK$58,273,000 which will be partly settled by the issuance of 60,000,000 ordinary shares of the Company at an agreed price of HK$0.6 each (the "Consideration") and partly settled by RMB19,600,000 (equivalent to approximately HK$22,273,000) in cash in form of capital injection on behalf of the minority shareholders. The Consideration is subject to adjustment. Pursuant to the agreement, 20,000,000 ordinary shares of the Company to be issued to the vendor is subject to reduction if the guaranteed Xian Jinding's profit after taxation for the year ended 31st December, 2009 of RMB15,000,000 and for the year ending 31st December, 2010 of RMB26,000,000 cannot be met. For details, please refer to this note (ii).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(d) *(Continued)*

The net assets acquired in this transaction and the goodwill arising are as follows:

| | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Equipment | 6 | – | 6 |
| Film rights | 55,583 | 7,750 | 63,333 |
| Trade and other receivables and deposits | 47,891 | – | 47,891 |
| Bank balances and cash | 1,703 | – | 1,703 |
| Trade and other payables | (32,106) | – | (32,106) |
| Amount due to a related company | (35,035) | – | (35,035) |
| Tax liabilities | (2,292) | – | (2,292) |
| Deferred tax liabilities | – | (1,937) | (1,937) |
| | 35,750 | 5,813 | 41,563 |
| Non-controlling interests | | | (31,716) |
| Goodwill | | | 34,926 |
| | | | 44,773 |
| Total consideration satisfied by: | | | |
| Issue of shares (Note i) | | | 15,000 |
| Contingent consideration arrangement (Note ii) | | | 7,500 |
| | | | 22,500 |
| Cash | | | 22,273 |
| | | | 44,773 |
| Net cash outflow arising on acquisition | | | |
| Cash consideration paid | | | (22,273) |
| Bank balances and cash acquired | | | 1,703 |
| | | | (20,570) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(d) *(Continued)*

Notes:

(i) The 40,000,000 ordinary shares of the Company with par value of HK$0.25 each were issued on 11th February, 2010 pursuant to the payment term of the agreement. The exchange rate is fixed at HK$1.00 = RMB0.88 as governed by the agreement signed by the Group and the vendor. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the completion of this acquisition, amounted to HK$15,000,000.

(ii) The contingent consideration requires the Group to issue 20,000,000 ordinary shares of the Company with par value of HK$0.25 each to the vendor if Xian Jinding's profit after taxation in each of the years 2009 and 2010 exceeds RMB15,000,000 (equivalent to approximately HK$17,045,000) and RMB26,000,000 (equivalent to approximately HK$29,545,000), respectively (together referred to as "Guarantee Profits"). If the actual Xian Jinding's profit after taxation is lower than the Guarantee Profits, the number of ordinary shares of the Company will be adjusted based on the difference between the actual Xian Jinding's profit after taxation and the Guarantee Profits in 2009 and 2010 shared by the Group. If the actual Xian Jinding's profit after taxation are higher than the Guarantee Profits, no adjustments will be made to the 20,000,000 ordinary shares of the Company and the agreed price of HK$0.6 each. Based on the management account of Xian Jinding for the year ended 31st December, 2010, its profit after taxation exceeds RMB26,000,000. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the completion of this acquisition, amounted to HK$7,500,000.

Year Wealth is an investment holding company and Xian Jinding is principally engaged in planning, production, publication and investment of television drama series and film and organizing cultural and artistic exchange activities in the PRC. The goodwill arising on the acquisition of Year Wealth is attributed to the anticipated profitability of the film and television programme production, distribution and licensing business of this group.

Year Wealth and its subsidiaries contributed profit of HK$12,743,000 to the Group for the period between the date of acquisition and the end of the reporting period.

(e) On 30th September, 2009, the Group acquired 51% voting power in 天津唐圖科技有限公司 (in English, Tianjin Tang Tu Technology Company Limited ("Tianjin Tang Tu")) for a consideration of HK$7,284,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(e) *(Continued)*

The net assets acquired in this transaction and the goodwill arising are as follows:

| | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Equipment | 149 | – | 149 |
| Intangible assets | – | 8,001 | 8,001 |
| Other receivables and deposits | 10,331 | – | 10,331 |
| Amount due from a non-controlling interest | 881 | – | 881 |
| Bank balances and cash | 264 | – | 264 |
| Other payables | (730) | – | (730) |
| Deferred tax liabilities | – | (2,000) | (2,000) |
| | 10,895 | 6,001 | 16,896 |
| Non-controlling interests | | | (8,279) |
| Goodwill | | | 3,883 |
| Amount due by the Group to Tianjin Tang Tu | | | (5,216) |
| | | | 7,284 |
| Total consideration satisfied by: | | | |
| Deferred cash consideration | | | 7,284 |
| Net cash inflow arising on acquisition | | | |
| Bank balances and cash acquired | | | 264 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(e) *(Continued)*

The deferred cash consideration will be payable within one year after the end of the reporting period.

Tianjin Tang Tu is principally engaged in production and distribution of mobile games. The goodwill arising on the acquisition of Tianjin Tang Tu is attributed to the anticipated profitability of the production and distribution of mobile games business of this company.

Tianjing Tang Tu contributed to the Group's loss of HK$703,000 for the period between the date of acquisition and the end of the reporting period.

If the acquisitions of subsidiaries in this notes (c) to (e) had been completed on 1st January, 2009, total Group's revenue for the year ended 31st December, 2009 would have been approximately HK$434,800,000, and loss for the year ended 31st December, 2009 would have been approximately HK$219,059,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and loss of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2009, nor is it intended to be a projection of future results.

## 40. ACQUISITION OF ADDITIONAL INTEREST OF A SUBSIDIARY

During the year ended 31st December, 2010, a wholly-owned subsidiary of the Group entered into a share transfer agreement with the non-controlling interest of Xian Jinding in relation to the acquisition of 5% equity interest in Xian Jinding at a total consideration of RMB8,000,000 (approximately HK$9,445,000) (the "Consideration"). The Consideration was satisfied by way of cash. The difference between the Consideration and the carrying value of the additional interest acquired by the Group of HK$5,288,000 was recognised in equity as capital reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 41. ACQUISITION OF AN ASSET THROUGH PURCHASE OF A SUBSIDIARY

On 14th August, 2010 the Group acquired a broadcasting right from an independent third party through purchase of the entire equity interests of Golden Pace Limited ("Golden Pace") at a total consideration of HK$60,000,000. The subsidiary has not commenced business at the date of acquisition.

**Consideration transferred**

| | HK$'000 |
|---|---|
| Cash consideration | 44,000 |
| Deferred cash consideration | 16,000 |
| | 60,000 |

The deferred cash consideration will be payable within one year after the end of the reporting period.

The principal asset of Golden Pace is the broadcasting right. The acquisition is accounted for as acquisition of an asset.

| **Non-current asset** | HK$'000 |
|---|---|
| Intangible asset – broadcasting right (note 20) | 60,000 |

Cash outflow arising on acquisition

| | |
|---|---|
| Cash consideration | 44,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES

(a) On 20th August, 2010, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with an independent third party. Pursuant to the Share Transfer Agreement, the independent third party agreed to purchase and the Company agreed to sell, the entire issued share capital of Power Progress Limited ("Power Progress"), an investment holding company, for a cash consideration of HK$2,000,000. The disposal was completed on 30th August, 2010, on which date control of Power Progress passed to the acquirer.

**Consideration transferred**

| | HK$'000 |
|---|---|
| Cash consideration | 2,000 |

**Analysis of assets and liabilities over which control was lost**

| | HK$'000 |
|---|---|
| Bank balances and cash | 928 |
| Other payables and deposits received | (32) |
| | 896 |

**Gain on disposal of a subsidiary**

| | HK$'000 |
|---|---|
| Consideration received | 2,000 |
| Net assets disposed of | (896) |
| Gain on disposal | 1,104 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

### Net cash inflow arising on disposal

| | HK$'000 |
|---|---|
| Cash consideration receivable | 2,000 |
| Bank balances and cash disposal of | (928) |
| | 1,072 |

The directors of the Company considers that disposal of subsidiary is in the best interest of the Company as a whole.

During the period between date of acquisition and year ended 31st December, 2010, Power Progress contributed HK$925,000 to the Group's net operating cash flows and paid HK$4,000 in respect of financing activities.

(b) On 3rd December, 2010, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with an independent third party. Pursuant to the Share Transfer Agreement, the independent third party agreed to purchase and the Company agreed to sell, 75% issued share capital of Zhong Sheng Qian Li for a cash consideration of RMB5,500,000 equivalent to approximately HK$6,494,000 and a deferred cash consideration of RMB14,755,000 equivalent to approximately HK$17,420,000 paid on or before 28th February, 2011. The disposal was completed before 31st December, 2010, on which date control of Zhong Sheng Qian Li passed to the acquirer.

### Consideration transferred

| | HK$'000 |
|---|---|
| Cash consideration | 6,493 |
| Deferred consideration | 17,420 |
| | 23,913 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

The deferred consideration of RMB14,755,000, equivalent to approximately HK$17,420,000 together with the net amount due to the Group companies of HK$45,538,000 will be payable within one year after the end of the reporting period.

### Analysis of assets and liabilities over which control was lost

| | HK$'000 |
|---|---|
| Equipment | 273 |
| Film rights – film in progress | 33,124 |
| Other receivables and deposits | 8,642 |
| Prepayments | 221 |
| Amount due from group companies | 3,260 |
| Bank balances and cash | 303 |
| Other payables | (327) |
| Amount due to group companies | (48,798) |
| Net liabilities disposed of | (3,302) |

### Gain on disposal of a subsidiary

| | HK$'000 |
|---|---|
| Consideration received and receivable | 23,913 |
| Net liabilities disposed off | 3,302 |
| Non-controlling interest | (826) |
| Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to the consolidated income statement on loss of control of the subsidiary | (115) |
| Attributable goodwill | (972) |
| Gain on disposal | 25,302 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

### Net cash inflow arising on disposal

| | HK$'000 |
|---|---|
| Cash consideration | 6,493 |
| Bank balances and cash disposal of | (303) |
| | 6,190 |

The directors of the Company considers that the disposal of subsidiary is in the best interest of the Company as a whole.

During the year ended 31st December, 2010, Zhong Sheng Qian Li paid HK$528,000 (9.7.2009 to 31.12.2009: HK$795,000) of the Group's net operating cash flows and paid HK$112,000 (9.7.2009 to 31.12.2009: contributed HK$4,000) in respect of investing activities.

(c) On 21st May, 2009, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with Sunwealth Holdings Limited ("Sunwealth"), a wholly-owned subsidiary of Tian An China Investments Company Limited which is listed on the Stock Exchange. Pursuant to the Share Transfer Agreement, Sunwealth conditionally agreed to purchase and the Company conditionally agreed to sell, the entire issued share capital of a wholly-owned subsidiary, Shanghai Allied Cement Holdings Limited ("SACHL"), and the shareholder's loan of approximately HK$278,504,000 owed by SACHL to the Company as at the date of the Share Transfer Agreement for an aggregate cash consideration of HK$200,000,000. The disposal was completed on 16th September, 2009, on which date control of SACHL passed to the acquirer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

The net assets of SACHL at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| **NET ASSETS DISPOSED OF** | |
| Property, plant and equipment | 461,570 |
| Prepaid lease payments on land use rights | 16,638 |
| Mining right | 7,648 |
| Properties held for sale | 1,333 |
| Inventories | 50,729 |
| Trade and other receivable and deposits | 224,595 |
| Prepayments | 11,663 |
| Amount due from a non-controlling interest | 3,182 |
| Tax recoverable | 160 |
| Pledged short-term bank deposits | 11,364 |
| Bank balances and cash | 60,580 |
| Trade and other payable and deposits received | (121,666) |
| Amount due to the Group | (282,182) |
| Dividend payable to a non-controlling interest | (6,932) |
| Borrowings | (171,795) |
| Deferred tax liabilities | (27,423) |
| | 239,464 |
| Non-controlling interest | (185,222) |
| Attributable goodwill | 69,479 |
| | 123,721 |
| Loss on disposal | (202,425) |
| Total consideration | (78,704) |
| Satisfied by: | |
| Cash consideration | 200,000 |
| Assignment of shareholder's loan | (278,504) |
| Directly attributable cost paid | (200) |
| | (78,704) |
| Net cash inflow arising on disposal: | |
| Cash consideration | 200,000 |
| Bank balances and cash disposed of | (60,580) |
| Directly attributable cost paid | (200) |
| | 139,220 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 42. DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

The directors of the Company considered that the disposal of subsidiaries is in the best interests of the Company as a whole because given the tough economic climate and the escalating energy prices, the manufacturing aspect of the Group's business was becoming increasingly capital intensive.

During the year ended 31st December, 2009, SACHL and its subsidiaries contributed HK$41,337,000 to the Group's net operating cash flows, paid HK$9,732,000 in respect of investing activities and paid HK$30,186,000 in respect of financing activities.

## 43. RELATED PARTY TRANSACTIONS

On 16th December, 1995, a leasing agreement was entered into between Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), a wholly-owned subsidiary and Shanghai Cement Factory ("SCF"), a non-controlling interest, which held a 40% interest in Shanghai SAC. According to the leasing agreement, Shanghai SAC should pay to SCF an annual leasing fee which consisted of (1) a fixed asset leasing fee mainly based on the depreciation of the property, plant and equipment leased under the leasing agreement plus a mark-up of about 10%; and (2) an usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the leasing agreement was signed. The underlying assets are also used by SCF. During the year ended 31st December, 2009, Shanghai SAC paid a total leasing fee of HK$4,661,000 to SCF. Such transaction has been ceased upon disposal of SACHL on 16th September, 2009, in which Shanghai SAC is a subsidiary of SACHL.

In addition, the Group has entered into the following related party transactions:

| | | **2010** | 2009 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| (a) | Administrative expenses to a related company, with common directorship of key management personnel of the Company | **–** | 534 |
| (b) | Key management compensation | | |
| | Short-term employee benefits | **5,540** | 6,856 |
| | Post-employment benefits | **99** | 122 |
| | Share-based payment | **5,909** | – |
| | | **11,548** | 6,978 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 43. RELATED PARTY TRANSACTIONS *(Continued)*

At 31st December, 2010 and 2009, the Group had the following significant balances with related parties.

| | NOTES | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Current asset** | | | |
| Amounts due from non-controlling interests | i | **786** | 756 |
| **Current liabilities** | | | |
| Amount due to a non-controlling interest | i | **741** | 682 |
| Amounts due to related companies | i, ii | **3,372** | 9,087 |

Notes:

(i) The balances are unsecured, non-interest bearing and repayable on demand.

(ii) At 31st December, 2010 and 31st December, 2009, the related companies are controlled indirectly by members of the key management personnel of the Group.

## 44. EVENT AFTER THE REPORTING PERIOD

On 27th January, 2011, the Group entered into a conditional subscription agreement pursuant to which the Group has conditionally agreed to subscribe for and Super Sports Media Inc. (the "Issuer") has conditionally agreed to allot and issue to the Group the subscribed preferred shares entitling the Group to convert into ordinary shares representing 26.09% of the equity interests in the Issuer on an as-converted and fully diluted basis for a consideration of US$15,000,000 (equivalent to approximately HK$117,000,000). The acquisition has been completed at the date these consolidated financial statements were authorised for issue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 45. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

| | NOTES | **2010** HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Unlisted investments | | **150,596** | 36,345 |
| Amounts due from subsidiaries | a | **776,100** | 192,256 |
| | | **926,696** | 228,601 |
| Current assets | | | |
| Held for trading investments | | **49,959** | 57,822 |
| Prepayments | | **432** | 74 |
| Bank balances and cash | | **14,816** | 104,100 |
| | | **65,207** | 161,996 |
| Current liabilities | | | |
| Other payables | | **11,697** | 8,050 |
| Amounts due to subsidiaries | b | **97,871** | 62,425 |
| | | **109,568** | 70,475 |
| Net current (liabilities) assets | | **(44,361)** | 91,521 |
| Total assets less current liabilities | | **882,335** | 320,122 |
| Capital and reserves | | | |
| Share capital | | **484,398** | 370,398 |
| Reserves | c | **87,575** | (50,276) |
| | | **571,973** | 320,122 |
| Non-current liability | | | |
| Convertible notes | | **280,362** | – |
| Convertible notes issuable | | **30,000** | – |
| | | **310,362** | – |
| | | **882,335** | 320,122 |

Particulars of the principal subsidiaries of the Company at 31st December, 2010 and 2009 are set out in note 46.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 45. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Notes:

### (a) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, the amounts will not be repaid in the next twelve months from the end of the reporting period and the amounts are therefore shown as non-current assets. The effective interest rate of the amounts is 5% (2009: 2.11%) per annum.

### (b) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

### (c) Reserves of the Company

| | Share option reserve HK$'000 | Convertible notes equity reserve HK$'000 | Share premium HK$'000 | Shares redemption reserve HK$'000 | Contributed surplus HK$'000 | Translation reserve HK$'000 | Capital issuable reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1st January, 2009 | – | – | – | 918 | 65,409 | 17,951 | – | (45,743) | 38,535 |
| Loss for the year | – | – | – | – | – | – | – | (172,645) | (172,645) |
| Recognition of shares to be issued for acquisition of subsidiaries | – | – | – | – | – | – | 22,500 | – | 22,500 |
| Shares issued | – | – | 70,661 | – | – | – | – | – | 70,661 |
| Transaction costs attributable to issue of shares | – | – | (9,327) | – | – | – | – | – | (9,327) |
| At 31st December, 2009 | – | – | 61,334 | 918 | 65,409 | 17,951 | 22,500 | (218,388) | (50,276) |
| Exchange difference arising on translations to presentation currency | – | – | – | – | – | 20,948 | – | – | 20,948 |
| Loss for the year | – | – | – | – | – | – | – | (98,024) | (98,024) |
| Issue of shares for acquisition of subsidiaries | – | – | 5,000 | – | – | – | (15,000) | – | (10,000) |
| Shares issued | – | – | 88,800 | – | – | – | – | – | 88,800 |
| Transaction costs attributable to issue of shares | – | – | (4,921) | – | – | – | – | – | (4,921) |
| Recognition of equity component of convertible notes | – | 69,476 | – | – | – | – | – | – | 69,476 |
| Issue of shares upon conversion of convertible notes | – | (30,459) | 73,765 | – | – | – | – | – | 43,306 |
| Recognition of equity-settled share-based payment | 28,266 | – | – | – | – | – | – | – | 28,266 |
| **At 31st December, 2010** | **28,266** | **39,017** | **223,978** | **918** | **65,409** | **38,899** | **7,500** | **(316,412)** | **87,575** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 45. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Notes: *(Continued)*

**(c) Reserves of the Company** *(Continued)*

The contributed surplus of the Company represents the aggregate of:

(i) the difference between the consolidated shareholders' funds of a group of subsidiaries at the date on which the corporate reorganisation became effective and the nominal amount of the Company's shares issued under the reorganisation; and

(ii) a net balance arising from reduction of issued share capital and share premium after setting off accumulated losses of the Company during 2002 and after deducting the accumulated dividend paid from contributed surplus to shareholders.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company had no distributable reserves at 31st December, 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

| Name of subsidiary | Country/ place of incorporation/ registration | Place/ country of operations | Issued and fully paid share capital/registered capital | Proportion of issued share capital/ registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | 2010 | | 2009 | | |
| | | | | Directly % | Indirectly % | Directly % | Indirectly % | |
| Beida Culture (Note f) | PRC (Note a) | PRC (Note a) | Registered capital RMB100,000,000 | – | – | – | – | Provision of other agency services |
| China Allied Culture Media Group Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | 100 | – | 100 | – | Investment holding |
| Gain Favour Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | 100 | – | 100 | – | Investment holding |
| Golden Pace | British Virgin Islands | Hong Kong | Ordinary US$1 | 100 | – | – | – | Investment holding |
| Rich Data Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | 100 | – | 100 | – | Provision of management services to group companies |
| Prefect Strategy | British Virgin Islands | Hong Kong | Ordinary US$1 | – | 100 | – | – | Investment holding |
| Main City | British Virgin Islands | Hong Kong | Ordinary US$1 | – | 100 | – | – | Investment holding |
| SAC Enterprises Limited | Hong Kong | Hong Kong | Ordinary HK$1,000 | 100 | – | 100 | – | Provision of management services to group companies |
| SAC Finance Company Limited | Hong Kong | Hong Kong | Ordinary HK$100 | – | 100 | – | 100 | Provision of financing services to group companies |
| SAC Nominees Limited | Hong Kong | Hong Kong | Ordinary HK$100 | 100 | – | 100 | – | Provision of nominee services |
| SAC Secretarials Limited | Hong Kong | Hong Kong | Ordinary HK$100 | 100 | – | 100 | – | Provision of secretarial services |
| Tianjin Tang Tu (Note b) | PRC (Note a) | PRC (Note a) | Registered capital RMB10,000,000 | – | – | – | – | Development and distribution of mobile games |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Country/ place of incorporation/ registration | Place/ country of operations | Issued and fully paid share capital/registered capital | Proportion of issued share capital/ registered capital held by the Company 2010 Directly % | 2010 Indirectly % | 2009 Directly % | 2009 Indirectly % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| Worthwide Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | 100 | – | 100 | – | Production and distribution of film rights over films and television programmes |
| Xian Jinding (Note c) | PRC (Note a) | PRC (Note a) | Registered capital RMB3,000,000 | – | – | – | – | Production and distribution of film rights over films and television programmes |
| Year Wealth | British Virgin Islands | Hong Kong | Ordinary US$1 | – | 100 | – | 100 | Investment holding |
| Youline Technology (Note b) | PRC (Note a) | PRC (Note a) | Registered capital RMB10,000,000 | – | – | – | – | Provision of mobile value-added services |
| 上海經略 (Note f) | PRC (Note a) | PRC (Note a) | Registered capital RMB1,000,000 | – | – | – | – | Investment holding |
| 北京世通寰亞廣告有限公司 ("北京世通") (Note c) | PRC (Note a) | PRC (Note a) | Registered capital RMB200,000 | – | – | – | – | Investment holding |
| 北京中聯同達文化有限公司 ("中聯同達") (Note b) | PRC (Note a) | PRC (Note a) | Registered capital RMB1,000,000 | – | – | – | – | Provision of TV programmes packaging services |
| 北京中聯億盟商貿有限公司 | PRC (Note d) | PRC (Note d) | Registered capital RMB1,000,000 | – | 100 | – | 100 | Sales of cement |
| 沂大商業管理咨詢（上海）有限公司 | PRC (Note e) | PRC (Note e) | Registered capital US$100,000 | – | 100 | – | 100 | Investment holding |
| 中聯京華傳媒文化（北京）有限公司 | PRC (Note e) | PRC (Note e) | Registered capital US$100,000 | – | 100 | – | – | Investment holding |
| 中聯京華 (Note b) | PRC (Note a) | PRC (Note a) | Registered capital RMB10,000,000 | – | – | – | – | Investment holding |
| 中聯盛世文化(北京)有限公司 | PRC (Note e) | PRC (Note e) | Registered capital RMB56,132,260 | – | 100 | – | 100 | Investment holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) These subsidiaries are domestic-invested enterprises.

(b) The Company does not have any equity interest in the registered capital of 中聯京華 as it is owned by an employee of the Group. Pursuant to certain agreements among 中聯京華, the owner of 中聯京華 and the Group, the owner of 中聯京華 agreed to assign the power to appoint and remove all the members of the board of directors and to govern the financial and operating policies of 中聯京華 to the Group and to transfer all beneficial interests of 中聯京華 to the Group. Accordingly, 中聯京華 is treated as a wholly owned subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. The registered capital of 中聯京華 was contributed by the Group. 中聯京華 holds 51% of the issued registered capital of Tianjin Tang Tu, 100% equity interest of Youline Technology and 51% equity interest of 中聯同達 and controls 51%, 100% and 51% of the voting power Tianjin Tang Tu, Youline Technology and 中聯同達 respectively. Tianjin Tang Tu, Youline Technology and 中聯同達 are limited liability companies registered in the PRC.

(c) The Company does not have any equity interest in the registered capital of 北京世通 as it is owned by an employee of the Group. Pursuant to certain agreements among 北京世通, the owner of 北京世通 and the Group, the owner of 北京世通 agreed to assign the power to appoint and remove all the members of the board of directors and to govern the financial and operating policies of 北京世通 to the Group and to transfer all beneficial interest of 北京世通 to the Group. Accordingly, 北京世通 is treated as a wholly owned subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. The registered capital of 北京世通 was contributed by the Group. 北京世通 holds 56% of the issued share capital of Xian Jinding and controls 56% of the voting power in Xian Jinding. Xian Jinding is a limited liability company registered in the PRC.

(d) The subsidiary is limited liability company registered in the PRC.

(e) The subsidiary is wholly-owned foreign enterprise.

(f) The Company does not have any equity interest in the registered capital of 上海經略 as it is owned by an employee of the Group. Pursuant to certain agreements among 上海經略, the owner of 上海經略 and the Group, the owner of 上海經略 agreed to assign the power to appoint and remove all the members of the board of directors and to govern the financial and operating policies of 上海經略 to the Group and to transfer all beneficial interest of 上海經略 to the Group. Accordingly, 上海經略 is treated as a wholly owned subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. The registered capital of 上海經略 was contributed by the Group. 上海經略 holds 100% of the issued share capital of Beida Culture and controls 100% of the voting power in Beida Culture. Beida Culture is a limited liability company registered in the PRC.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.

# FINANCIAL SUMMARY

For the year ended 31st December, 2010

## RESULTS

| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
|---|---|---|---|---|---|
| Turnover | 386,511 | 434,300 | 552,847 | 388,935 | **405,986** |
| Profit (loss) before taxation | 14,406 | (16,595) | 12,346 | (218,657) | **48,361** |
| Taxation (charge) credit | (7,212) | 1,400 | (1,857) | (400) | **(24,633)** |
| Profit (loss) for the year | 7,194 | (15,195) | 10,489 | (219,057) | **23,728** |
| Profit (loss) attributable to: | | | | | |
| Owners of the Company | 387 | (21,658) | 2,487 | (225,296) | **13,662** |
| Non-controlling interests | 6,807 | 6,463 | 8,002 | 6,239 | **10,066** |
| | 7,194 | (15,195) | 10,489 | (219,057) | **23,728** |

## ASSETS AND LIABILITIES

| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
|---|---|---|---|---|---|
| Total assets | 868,454 | 1,133,021 | 1,178,748 | 466,888 | **1,404,589** |
| Total liabilities | (394,714) | (651,259) | (672,792) | (61,562) | **(639,038)** |
| Total equity | 473,740 | 481,762 | 505,956 | 405,326 | **765,551** |
| Non-controlling interests | (173,093) | (186,677) | (192,882) | (45,737) | **(38,182)** |
| Equity attributable to owners of the Company | 300,647 | 295,085 | 313,074 | 359,589 | **727,369** |