



DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)

2004 Annual Report

DigiTel

Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock Code: 8030

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the directors of DigiTel Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

1

Corporate Information	2
Notice of Annual General Meeting	3
Chairman's Statement	7
Management Discussion and Analysis	8
Biographical Details of Directors and Senior Management	12
Directors' Report	14
Auditors' Report	24
Consolidated Profit and Loss Account	26
Consolidated Balance Sheet	27
Balance Sheet	29
Consolidated Statement of Changes in Equity	30
Consolidated Cash Flow Statement	31
Notes to the Accounts	32
Financial Summary	62

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit
Mr. Hon Chak Sang

Independent Non-executive Directors

Mr. Ha Kee Choi, Eugene
Mr. Ho Chiu Kee
Mr. Leung Ka Kui, Johnny

AUTHORISED REPRESENTATIVES

Mr. Lee Chuen Bit
Mr. Hon Chak Sang

COMPANY SECRETARY

Mr. Ho Lok Cheong

QUALIFIED ACCOUNTANT

Mr. Tam Tak Wah, *FCCA, FCPA*

COMPLIANCE OFFICER

Mr. Lee Chuen Bit

AUDIT COMMITTEE

Mr. Ho Chiu Kee (*Chairman*)
Mr. Ha Kee Choi, Eugene
Mr. Leung Ka Kui, Johnny

AUDITORS

Graham H.Y. Chan & Co.
Certified Public Accountants
Unit 1, 15/F, The Center
99 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Room 1408A, 14/F,
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY HOMEPAGE

<http://www.digitelgroup.com>

PRINCIPAL BANKERS

Wing Hang Bank Limited
B2 New Henry House
10 Ice House Street
Hong Kong

Wing Lung Bank Limited
112 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

8030

Notice of Annual General Meeting

3

NOTICE IS HEREBY GIVEN that the Annual General Meeting of DigiTel Group Limited (the “Company”) will be held at Room 1912, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 10 May, 2005 at 3:00 p.m. for the following purposes:

- (1) To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors for the financial year ended 31 December 2004;
- (2) To re-elect the retiring directors and to authorise the board of directors to fix the remuneration of the directors;
- (3) To re-appoint the auditors and to authorise the board of directors to fix their remuneration;
- (4) As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

(A) **“THAT**

- (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers, be and the same is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of any securities which are convertible into shares of the Company or the exercise of options granted under any share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

Notice of Annual General Meeting

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

(B) **“THAT**

- (i) subject to paragraph (ii) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to purchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which the Company is authorised to purchase pursuant to the approval in paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

Notice of Annual General Meeting

5

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
 - (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.”
- (C) “**THAT** conditional upon ordinary resolutions nos. 4(A) and 4(B) above being passed, the aggregate nominal amount of shares of the Company which are purchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4(A) above.”
- (D) “**THAT** the directors of the Company be and hereby authorised to grant options under its share option scheme adopted on 30 June 2000 and any other share option scheme of the Company entitling participants to acquire shares of HK\$0.10 each in the share capital of the Company pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the date of the passing of this resolution.”

By Order of the Board

DigiTel Group Limited

Lee Chuen Bit

Chairman

Hong Kong, 30 March 2005

Notice of Annual General Meeting

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Principal place of business:

Room 1408A
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- (i) A member is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) A poll may be demanded (i) by the chairman of the meeting; or (ii) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or (iii) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right for each resolution.
- (v) An Explanatory Statement containing further details regarding ordinary resolution no. 4(B) as required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange will be despatched to the members of the Company together with the 2004 annual report.
- (vi) The biographical details and other information of the retiring directors Mr. Ha Kee Choy, Eugene and Mr. Hon Chak Sang, who, being eligible, offer themselves for re-election at the meeting are set out in the section of "Biographical Details of Directors and Senior Management" and the Directors' Report of the 2004 annual report.

Chairman's Statement

7

On behalf of the board of directors (the "Board") of DigiTel Group Limited (the "Company"), I am pleased to present to the shareholders the 2004 annual report of the Company and its subsidiaries (together the "Group").

The year 2004 has been a year of consolidation for the Group. The Group has focused on energy saving and desulphurisation services in Hong Kong and the PRC. In addition, the Group has continued to develop on the telecommunication market by capturing its long-term business relationship with its existing customers with a view to secure on-going maintenance services contract.

The Group will position itself as a total solution service provider and will associate with its business partners with a view to accelerate its business expansion plan, increase its client base and widen its range of services.

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders, customers and business partners for their understanding and support. In addition, I would like to make a special thank to the hardworking staff of the Group for their dedication and enthusiasm during this year.

Lee Chuen Bit

Chairman

Hong Kong, 23 March 2005

BUSINESS REVIEW AND OUTLOOK

During the year under review, the Group is principally engaged in energy saving, system integration and desulphurisation services in Hong Kong and the PRC.

The Group has focused on the energy saving service for power saving system for commercial and residential buildings in Hong Kong. The Group has developed a series of solutions for the enhancement of the overall efficiency in electricity utilisation, which would reduce the electricity consumption in the public area of the buildings thereby reducing the electricity costs. The Group has secured various contracts for the implementation of such system in commercial buildings in Hong Kong and in a city-level water supply plant in the PRC.

The Group expects to conclude more projects for other commercial buildings in Hong Kong in the coming years and the Group will continue to market this service to other potential customers in Hong Kong. For a medium-term plan, the Group will apply this system to other customers such as power plants, water supply plants and other manufacturing plants in Hong Kong and the PRC.

In addition, the Group has pursuing business for the provision of desulphurisation system to the PRC power plants as the PRC government nowadays becomes more environmentally conscious and has taken steps to reduce the overall pollution rate. The Group envisages that it can act as the system integrator for the implementation of desulphurisation system or to act as a consultant for the provision of advisory services. In January 2004, the Group has entered into a consultancy agreement for the provision of business and technical advisory services for the development of an automatic system for a desulphurisation project located in the PRC.

The Group considers the marketing activities for the year 2005 ahead will be more intensive than previous years as the market prospects for telecommunication, power supply and energy saving services are promising. The Group will actively look for new business opportunities in the PRC and Hong Kong through its established business network and business partners.

The Directors are optimistic to the future prospects of the Group. The Directors believe that the strategy of the Group will ultimately create value to its shareholders.

FINANCIAL REVIEW

For the year 2004, the Group's turnover was approximately HK\$3.6 million, representing a 5.9% increase from approximately HK\$3.4 million for the year 2003. The Group recorded a profit attributable to shareholders approximately HK\$43.7 million for the year 2004, a significant improvement, as compared to the loss attributable to shareholders of approximately HK\$6.9 million for the year 2003.

Turnover for the year 2004 mainly comprised of desulphurisation services of approximately HK\$1.4 million, energy saving service of approximately HK\$1.2 million, system integration service of approximately HK\$0.9 million and rental income of approximately HK\$0.1 million.

The selling and administrative expenses of the Group has been reduced to approximately HK\$3.7 million as compared to approximately HK\$6.1 million in the year 2003. The operating results for the year 2004 was a profit of approximately HK\$44.6 million, as compared to a loss of approximately HK\$5 million for the year 2003. The administrative expenses mainly comprises of employee remuneration, legal and professional fee and marketing expenses. The operating profit for the year 2004 included a gain on waiver of debts due to creditors of approximately HK\$45.7 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of approximately HK\$2.7 million (as at 31 December 2003: HK\$2.5 million), including cash and bank balances of approximately HK\$0.8 million (as at 31 December 2003: HK\$0.7 million).

There were no bank overdrafts and trust receipt loans as at 31 December 2004 (as at 31 December 2003: approximately HK\$10.9 million and HK\$7.2 million respectively).

The Group's borrowings were mainly in Hong Kong dollars. The Group did not have banking facilities as at 31 December 2004.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group was not applicable as the Group suffered capital deficiency in both 31 December 2004 and 31 December 2003.

Almost all of the Group's cash is in Hong Kong dollars, the exposure to exchange fluctuation is minimal. Since most of the transactions of the Group were denominated in Hong Kong dollars, no hedging or other alternatives have been implemented.

CAPITAL STRUCTURE

The Group financed its operations by means of equity funding, external loans and funds generated from operations.

Apart from intra-group liabilities and trade and other payables, as at 31 December 2004, the amount of short-term borrowings of the Group which will be repayable within one year was approximately HK\$1.1 million (as at 31 December 2003: HK\$48 million) and the amount of long-term liabilities which will be repayable after one year was approximately HK\$6.8 million (as at 31 December 2003: HK\$16,000).

The Directors consider that the Group's future operations, capital expenditure and the capital requirement will be funded from business operations and, if necessary, additional equity or loan financing.

INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year, the Group did not acquire or dispose of any material investments or subsidiaries.

SEGMENTAL INFORMATION

During the year, the energy saving, system integration and desulphurisation services constitute the major source of income of the Group. Geographical markets are mainly in Hong Kong and the PRC.

CONTINGENT LIABILITIES

As at 31 December 2004, there was no contingent liability.

CHARGE OF ASSETS

As at 31 December 2004, there was no charge of assets.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the year amounted to approximately HK\$1.7 million (year ended 31 December 2003: HK\$3.0 million). The number of full-time employees as at 31 December 2004 was 8 (as at 31 December 2003: 9). The Group remunerates its employees based on their performance, experience and the prevailing industrial practice and has operated a defined contribution mandatory provident fund since 1 December 2000 and to which the Group makes contributions based on the relevant regulations.

SHARE OPTION SCHEME

Under the share option scheme (the "Share Option Scheme") of the Company adopted on 30 June 2000, with the purpose of providing incentives, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price determined by the Directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. No share options were granted under the Share Option Scheme since its adoption.

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit

Mr. Lee, aged 51, is the Chairman of the Board and founder of the Group. He has over 20 years of experience in management and business development in Hong Kong and the PRC. He holds a bachelor of business administration degree from The Chinese University of Hong Kong.

Mr. Hon Chak Sang

Mr. Hon, aged 52. He graduated from the Chinese University of Hong Kong with a bachelor of social science (economics) degree and has worked for 2 international insurance companies for over 20 years. He has extensive experience in project management. He was the project director of the Group for the period from February 2000 to November 2001 and re-joined the Group in September 2002.

Independent Non-Executive Directors

Mr. Ha Kee Choi, Eugene

Mr. Ha, aged 48, was appointed as an independent non-executive director in September 2004. He is a fellow member of the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. Mr. Ha holds a master degree in business administration and has over 15 years of experience in finance and banking industry. He is currently an executive director of Capital Prosper Limited, a non-executive director of Glory Future Group Limited, a non-executive director of Gorient (Holdings) Limited and an independent non-executive director of Dah Hwa International (Holdings) Limited.

Mr. Ho Chiu Kee

Mr. Ho, aged 52, was appointed as an independent non-executive director in June 2000. He has over 27 years of experience in management and administration. He is the managing director of Savills Guardian Group, the immediate past president of The Hong Kong Association of Property Management Companies Limited, a vice president of Hong Kong Institute of Real Estate Administration. He holds a bachelor of business administration degree from the Chinese University of Hong Kong.

Biographical Details of Directors and Senior Management

13

Mr. Leung Ka Kui, Johnny

Mr. Leung, aged 47, was appointed as an independent non-executive director in June 2000. He has over 19 years of experience in legal field and is the managing partner of Messrs. Johnny K. K. Leung & Co., Solicitors and Notaries. He is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He holds a bachelor of laws from the University of London, United Kingdom. He is an independent non-executive director of Cardlink Technology Group Limited, Celestial Asia Securities Holdings Limited and Jackin International Holdings Limited.

SENIOR MANAGEMENT

Mr. Tam Tak Wah

Mr. Tam, aged 39, is the financial controller and qualified accountant of the Company. He is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants and has over 15 years of experience in accounting, corporate finance and corporate development.

The directors of the Company (the "Directors") present their report together and the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The activities of the principal subsidiaries are set out on pages 49 and 50.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 26.

The directors do not recommend the payment of a dividend.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to result by principal activities and geographical area of performance for the year ended 31 December 2004 is set out in note 5 to the accounts.

FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the last five financial years is set out on page 62.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the accounts.

INTEREST-BEARING BORROWINGS

Details of interest-bearing borrowings of the Group and of the Company are set out in note 20 to the accounts.

RESERVES

The movements of the reserves of the Company and the Group during the year are set out in note 23 to the accounts and in the consolidated statement of changes in equity on page 30 respectively.

DONATIONS

The Group did not make any charitable donation during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company had no distributable reserves.

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases

- the largest supplier	60%
- five largest suppliers combined	92%

Sales

- the largest customer	39%
- five largest customers combined	99%

None of the Directors or any of their associates (as defined in the GEM Listing Rules) or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers or customers during the year.

DIRECTORS

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

Executive directors

Mr. LEE Chuen Bit

Mr. HON Chak Sang

Independent non-executive directors

Mr. HA Kee Choy, Eugene (appointed on 30 September 2004)

Mr. HO Chiu Kee

Mr. LEUNG Ka Kui, Johnny

In accordance with Article 86(3) of the Company's articles of association, Mr. Ha Kee Choy, Eugene will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 87 of the Company's articles of association, Mr. Hon Chak Sang will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

There is no fixed term of office for the independent non-executive directors, Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny. Mr. Ha Kee Choy, Eugene was appointed for an initial period of 2 years commencing from the date of appointment and thereafter may be extended for such period as the Company and Mr. Ha may agree in writing.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group as at the date of this report are set out on pages 12 to 13.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals of the Group are set out in note 12 to the accounts.

DIRECTORS' SERVICE CONTRACTS

Mr. Lee Chuen Bit and Mr. Hon Chak Sang, the executive directors, entered into service contracts with the Company on 1 April 2000 and 1 August 2002 respectively for a term of three years from 1 April 2000 and 1 August 2002 respectively and shall continue thereafter unless and until terminated in accordance with the provisions of the respective service contract with a monthly salary of HK\$100,000 and HK\$60,000 respectively. Under the service contracts, after each completed year of service, their remuneration may be increased by not more than 15% at the discretion of the directors and they will each be entitled to a discretionary bonus provided that the total amount of bonus payable to all the directors for such year shall not exceed 15% of the consolidated profit after taxation but before extraordinary items of the Group for the relevant year. The Company shall be entitled to terminate the contracts without any compensation to the directors by not less than three months' notice, or by summary notice with immediate effect, in writing under certain conditions as stipulated in the service contracts.

Mr. Lee Chuen Bit agreed to waive his emolument from 1 January 2004 to 31 March 2005 and Mr. Hon Chak Sang agreed to waive his emolument from 1 February 2004 to 31 March 2005.

Mr. Ha Kee Choy, Eugene, an independent non-executive director, entered into service contract with the Company on 21 September 2004 for an initial period of 2 years commencing on the date of appointment, i.e. 30 September 2004 and thereafter may be extended for such period as the Company and Mr. Ha may agree in writing. The service contract may be terminated by either party earlier by giving not less than one month's prior notice in writing to the other party. Mr. Ha is entitled to receive a director's emoluments of HK\$120,000 per annum.

The emoluments payable to Directors are determined with reference to the financial position of the Group, the prevailing market conditions and their respective duties, responsibilities and experience.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTOR' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries or its holding company 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the directors and chief executive in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in shares

(a) The Company

Name	Type of interests	Number of shares of the Company	Percentage of issued shares
Mr. Lee Chuen Bit (note)	Corporate	643,242,469	56.39%

Note:

The Shares are held by Lit Cheong Holdings Limited, the issued share capital of which is 50% beneficially held by The Grand Nature Trust ("GNT").

Under the terms of GNT, certain members of the family of Mr. Lee Chuen Bit are potential capital beneficiaries of the trust (so that they may become capital beneficiaries of the trust). Mr. Lee Chuen Bit is not at present a potential capital beneficiary of GNT, but he is eligible to be declared as such pursuant to the existing provisions of the trust. Any of the potential capital beneficiaries may become a capital beneficiary if and when so declared as such pursuant to the applicable provisions of GNT, provided that he/she is not excluded under the provisions of the trust. Under the terms of the trust, the beneficiaries also include charities namely the Tung Wah Group of Hospitals, the Community Chest of Hong Kong, The Barbados Cancer Society and the Duke of Edinburgh's Award Scheme, if their respective purposes are recognised as exclusively charitable under Cayman Islands laws.

(b) Associated corporations

No long positions of directors and chief executive in shares of associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in underlying shares and debentures

No long positions of directors and chief executive in underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in shares, underlying shares and debentures

No short positions of directors and chief executive in shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the Share Option Scheme of the Company, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price. During the year, no options were granted or exercised by the Directors and chief executive and as at 31 December 2004, there were no outstanding options which were granted to the Directors.

Apart from the above, neither the Company nor any of its subsidiaries nor its holding company was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any of such right.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO.

Long positions in shares

Name	Capacity	Type of interests	Number of shares of the Company	Percentage of issued shares
Lit Cheong Holdings Limited	Beneficial owner	Corporate	643,242,469	56.39%
Grand Nature (Cayman) Limited (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Nature Corp (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will (Cayman) Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Royal Bank of Canada Trust Company (Cayman) Limited (Note 3)	Trustee	Corporate	643,242,469	56.39%
Mr. Ho Lok Cheung (Note 4)	Trustee	Personal	543,242,469	47.62%

Note 1

Grand Nature (Cayman) Limited holds 100% equity interests in Grand Nature Corp. Grand Nature Corp holds 50% equity interests in Lit Cheong Holdings Limited.

Note 2

Grand Will (Cayman) Limited holds 100% equity interests in Grand Will Limited. Grand Will Limited holds 50% equity interests in Lit Cheong Holdings Limited.

Note 3

Royal Bank of Canada Trust Company (Cayman) Limited is the trustee of Grand Nature (Cayman) Limited and Grand Will (Cayman) Limited.

Note 4

Mr. Ho Lok Cheung holds the shares of the Company for Lit Cheong Holdings Limited as its trustee.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares and underlying shares

No short positions of other persons and substantial shareholders in the shares and underlying shares of equity derivatives of the Company were recorded in the register.

MANAGEMENT CONTRACTS

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

RETIREMENT SCHEME

Details of the retirement scheme of the Group are set out in note 22 to the accounts.

In the opinion of the Directors, the Group had no significant obligation for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2004.

DIRECTORS' INTEREST IN COMPETING BUSINESS

The Directors are not aware of, as at 31 December 2004, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

In compliance with rule 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties.

The principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Ha Kee Choy, Eugene, Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny. The audit committee met four times during the financial year.

CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Board Practices and Procedures as set out in rule 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with rule 18.44 of the GEM Listing Rules for financial year ending 31 December 2005.

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors.

The Company has received the annual confirmation of independence from each of the independent non-executive director of the Company and the Company considers that all of the independent non-executive directors are independent.

AUDITORS

On 30 January 2002, Messrs. PricewaterhouseCoopers and Messrs. Graham H. Y. Chan & Co. resigned as the joint auditors of the Company and RSM Nelson Wheeler were appointed as auditors of the Company.

On 21 February 2003, RSM Nelson Wheeler resigned as the auditors of the Company. On 30 April 2003, Messrs. Graham H. Y. Chan & Co. were appointed as the auditors of the Company.

The accounts have been audited by Messrs. Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Chuen Bit

Chairman

Hong Kong, 23 March 2005



GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

We have audited the accounts on pages 26 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. As further explained in note 1 to the accounts, the Group's net current liabilities, as at 31 December 2004, exceeded its current assets by HK\$10,626,000 and the net liabilities of the Group amounted to HK\$16,372,000. Furthermore, included in the profit attributable to shareholders of HK\$43,736,000 is a gain on waiver of debts due to creditors of HK\$45,715,000. Should the waiver have not been made by creditors, the Group would have been suffered. The accounts have been prepared on a going concern basis, the validity of which depends upon the continuing financial supports from its creditors and other external funding being available. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong, 23 March 2005

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	4	3,631	3,382
Cost of sales		(1,565)	(1,974)
Gross profit		2,066	1,408
Gain on waiver of debts due to creditors		45,715	1,182
Other revenues	4	576	387
Selling expenses		–	(5)
Administrative expenses		(3,651)	(6,085)
Other operating expenses		(92)	(1,867)
Operating profit/(loss)	6	44,614	(4,980)
Finance costs	7	(1,154)	(2,734)
Gain on disposal of subsidiaries		150	–
Recovery of impairment of investment securities		126	853
Profit/(loss) before taxation		43,736	(6,861)
Taxation	8	–	–
Profit/(loss) attributable to shareholders	9	43,736	(6,861)
Basic earnings/(loss) per share	11	3.83 cents	(0.60) cents

Consolidated Balance Sheet

AS AT 31 DECEMBER 2004

27

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Fixed assets	13	64	123
Investment securities	15	–	–
Financial asset	16	–	–
Deferred costs		931	–
Long-term trade receivables	18	9	–
		<u>1,004</u>	<u>123</u>
Current assets			
Inventories	17	783	783
Current trade and other receivables	18	133	899
Cash and bank balances		771	700
		<u>1,687</u>	<u>2,382</u>
Current liabilities			
Trade and other payables	19	10,269	13,583
Interest-bearing borrowings – repayable within one year	20	1,143	19,763
Convertible debentures		–	10,140
Tax payable		901	1,082
Trust receipt loans, secured		–	7,173
Bank overdrafts, secured		–	10,923
		<u>12,313</u>	<u>62,664</u>
Net current liabilities		<u>(10,626)</u>	<u>(60,282)</u>
Total assets less current liabilities		<u>(9,622)</u>	<u>(60,159)</u>

Consolidated Balance Sheet

AS AT 31 DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Capital and reserves			
Share capital	21	114,073	114,073
Reserves		(130,445)	(174,248)
Capital deficiency		(16,372)	(60,175)
Non-current liabilities			
Interest-bearing borrowings			
– repayable after one year	20	6,750	16
		<u>(9,622)</u>	<u>(60,159)</u>

On behalf of the Board

Lee Chuen Bit
Director

Hon Chak Sang
Director

Balance Sheet

AS AT 31 DECEMBER 2004

29

		2004	2003
	Note	HK\$'000	HK\$'000
Non-current assets			
Investment in subsidiaries	14	–	(3,581)
Current liabilities			
Other payables and accruals		1,587	4,449
Convertible debentures		–	10,140
		<u>1,587</u>	<u>14,589</u>
Net current liabilities		<u>(1,587)</u>	<u>(14,589)</u>
Total assets less current liabilities		<u>(1,587)</u>	<u>(18,170)</u>
Capital and reserves			
Share capital	21	114,073	114,073
Reserves	23	<u>(122,410)</u>	<u>(132,243)</u>
Capital deficiency		<u>(8,337)</u>	<u>(18,170)</u>
Non-current liabilities			
Interest-bearing borrowings – repayable after one year	20	<u>6,750</u>	–
		<u>(1,587)</u>	<u>(18,170)</u>

On behalf of the Board

Lee Chuen Bit
Director

Hon Chak Sang
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium	Accumulated losses	Capital reserve on consolidation	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	114,073	36,247	(262,935)	59,368	(67)	(53,314)
Loss for the year	—	—	(6,861)	—	—	(6,861)
At 31 December 2003	<u>114,073</u>	<u>36,247</u>	<u>(269,796)</u>	<u>59,368</u>	<u>(67)</u>	<u>(60,175)</u>
At 1 January 2004	114,073	36,247	(269,796)	59,368	(67)	(60,175)
Profit for the year	—	—	43,736	—	—	43,736
Reserve realised on disposal of subsidiaries	—	—	—	—	67	67
At 31 December 2004	<u>114,073</u>	<u>36,247</u>	<u>(226,060)</u>	<u>59,368</u>	<u>—</u>	<u>(16,372)</u>

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

31

	Note	2004 HK\$'000	2003 HK\$'000
Net cash from/(used in) operating activities	24	<u>181</u>	<u>(1,729)</u>
Investing activities			
Purchase of fixed assets		(3)	(22)
Net proceeds from disposal of fixed assets		–	11,104
Net cash outflow from disposal of subsidiaries	25	(42)	–
Addition of deferred costs		<u>(931)</u>	<u>–</u>
Net cash (used in)/from investing activities		<u>(976)</u>	<u>11,082</u>
Financing activities			
Decrease in trust receipt loans, secured		(542)	(2,773)
Increase in bank overdrafts, secured		149	832
Repayment of bank loans		(2,148)	(7,161)
Repayment of capital element of finance leases		(1,543)	(17)
Repayment of convertible debentures		(1,908)	–
Repayment of convertible notes		(685)	–
New other loans raised		8,350	–
Repayment of other loan		<u>(807)</u>	<u>–</u>
Net cash from/(used in) financing activities		<u>866</u>	<u>(9,119)</u>
Net increase in cash and cash equivalents		71	234
Cash and cash equivalents at 1 January		<u>700</u>	<u>466</u>
Cash and cash equivalents at 31 December		<u><u>771</u></u>	<u><u>700</u></u>
Analysis of balances of cash and cash equivalents			
Bank and cash balances		<u><u>771</u></u>	<u><u>700</u></u>

1 GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 9 March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2000 and the trading of its shares has been suspended since 2 July 2002.

The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the continuing financial support of the Group's creditors and other external funding being available.

As at 31 December 2004, the Group's net current liabilities exceeded its current assets by HK\$10,626,000 and the net liabilities of the Group amounted to HK\$16,372,000. Furthermore, included in the profit attributable to shareholders of HK\$43,736,000 is a gain on waiver of debts due to creditors of HK\$45,715,000. Should this waiver have not been made by creditors, the Group would have been suffered.

The directors have considered the future operations of the Group and estimated its working capital requirements in the foreseeable future. They are of the opinion that the funds generated from the business operations will be able to meet its working capital and financing requirements for the foreseeable future. On this basis, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

Had the going concern basis not been used, adjustments would have to be made to reclassify non-current assets as current assets and non-current liabilities as current liabilities, reduce the value of assets to their recoverable amounts and provided for any future liabilities which might arise.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 14 to the accounts.

2 RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with generally accepted accounting principles in Hong Kong. The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove majority of the members of the Board, or to cast majority of the votes at the meeting of the Board.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Revenue recognition

The recognition of revenue/attribution profit from contracts commences when the outcome of a contract can be estimated reliably. Contract revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date, being the percentage of the contract costs incurred at the end of the year to the estimated total contract costs on completion, to the extent of amount of contract revenue received and subject to due allowances for contingencies. Provision is made for foreseeable losses as soon as they are anticipated by management.

Revenue from the provision of energy saving services is recognised on a straight-line basis over the period that specified in the contract.

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

Revenue from desulphurisation service is recognised when the services are rendered, or pro-rata over the life of the agreement, where appropriate, and corresponding to notional delivery of the service.

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold improvements are depreciated over the estimated useful lives or lease period, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:–

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Network, computer and demo equipment	20%-50%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in obligation under finance lease in the balance sheets. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

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

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Financial asset

Financial asset is held for non-trading purpose and is stated at fair value at the balance sheet date. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of financial asset is recognised in the profit and loss account. Financial asset is reviewed regularly to determine whether it is impaired. When a financial asset is considered to be impaired, the impairment loss is recognised in the profit and loss account.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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, unless the relevant asset is carried at a revalued amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Deferred costs

Deferred costs represent the portion of project costs that have been incurred but are deferred to match with the corresponding project income to be recognised in the future.

(i) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity period of three months or less.

(k) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes profit and loss items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the assets and liabilities of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value and the excess of the exercise price per share over the nominal value of the shares are recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

4 TURNOVER AND REVENUES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the provision of system integration services, energy saving services, desulphurisation services, maintenance services, sale of goods and property leasing. Revenues recognised during the year are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
System integration contracts revenue	940	917
Energy saving contracts revenue	1,151	–
Desulphurisation contracts revenue	1,400	–
Sales of goods at invoiced value, net of returns and discounts	–	1,707
Rental income	140	758
	<u>3,631</u>	<u>3,382</u>
Other revenues		
Other income	576	58
Forfeiture of rental deposit	–	329
	<u>576</u>	<u>387</u>
Total revenues	<u><u>4,207</u></u>	<u><u>3,769</u></u>

5 SEGMENTAL INFORMATION

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

(a) By business segments

- For management purposes, the Group is currently organised into four divisions – system integration contracts, energy saving contracts, desulphurisation contracts and sale of goods. Others include provision of maintenance service and property leasing.

5 SEGMENTAL INFORMATION (CONTINUED)

(a) By business segments (continued)

Segmental information about these businesses is presented below.

For the year ended 31 December 2004

	Energy saving contracts revenue HK\$'000	Desulphurisation contracts revenue HK\$'000	Sale of goods HK\$'000	System integration contract revenue HK\$'000	Other operations HK\$'000	Total HK\$'000
Turnover						
External revenue	<u>1,151</u>	<u>1,400</u>	<u>-</u>	<u>940</u>	<u>140</u>	<u>3,631</u>
Result						
Segment result	<u>(471)</u>	<u>(36)</u>	<u>(286)</u>	<u>403</u>	<u>(152)</u>	<u>(542)</u>
Gain on waiver of debts due to creditors						45,715
Other revenues						576
Unallocated corporate expenses						(1,135)
Profit from operations						44,614
Finance costs						(1,154)
Recovery of impairment of investment securities						126
Gain on disposal of subsidiaries						150
Profit before taxation						43,736
Taxation						-
Profit for the year						<u>43,736</u>
Assets						
Segment assets	1,709	-	783	141	52	2,685
Unallocated corporate assets						6
Consolidated total assets						<u>2,691</u>
Liabilities						
Segment liabilities	1,757	450	-	2,132	6,384	10,723
Unallocated corporate liabilities						8,340
Consolidated total liabilities						<u>19,063</u>
Other information						
Capital additions	-	-	-	3	-	
Depreciation	-	2	1	2	57	

5 SEGMENTAL INFORMATION (CONTINUED)

(a) By business segments (continued)

For the year ended 31 December 2003

	Energy saving contracts revenue HK\$'000	Desulphurisation contracts revenue HK\$'000	Sale of goods HK\$'000	System integration contract revenue HK\$'000	Other operations HK\$'000	Total HK\$'000
Turnover						
External revenue	<u>-</u>	<u>-</u>	<u>1,707</u>	<u>917</u>	<u>758</u>	<u>3,382</u>
Result						
Segment result	<u>-</u>	<u>-</u>	<u>(261)</u>	<u>(1,615)</u>	<u>(1,753)</u>	<u>(3,629)</u>
Gain on waiver of debts due to creditors						1,182
Other revenue						387
Unallocated corporate expenses						<u>(2,920)</u>
Loss from operations						(4,980)
Finance costs						(2,734)
Recovery of impairment of investment securities						<u>853</u>
Loss before taxation						(6,861)
Taxation						<u>-</u>
Loss after taxation						<u>(6,861)</u>
Assets						
Segment assets	-	-	821	819	854	2,494
Unallocated corporate assets						<u>11</u>
Consolidated total assets						<u>2,505</u>
Liabilities						
Segment liabilities	-	-	8,731	19,487	19,622	47,840
Unallocated corporate liabilities						<u>14,839</u>
Consolidated total liabilities						<u>62,679</u>
Other information						
Capital additions	-	-	-	22	-	
Depreciation	-	-	-	95	-	
Inventories recovery	-	-	(72)	-	-	
Bad debt recovery	-	-	-	(393)	-	

5 SEGMENTAL INFORMATION (CONTINUED)

(b) Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's system integration contracts service and desulphurisation contract service are mainly carried out in the PRC whereas energy saving contract service and sale of goods are mainly carried out in Hong Kong.

The following is the analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong	926	1,063
The PRC	2,705	2,319
	<u>3,631</u>	<u>3,382</u>

The following is an analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area where the assets are located:

	Carrying amount of segment assets		Addition to fixed assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,691	2,467	3	22
The PRC	—	38	—	—
	<u>2,691</u>	<u>2,505</u>	<u>3</u>	<u>22</u>

6 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging/(crediting) the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Auditors' remuneration	200	238
Bad debts recovery	–	(393)
Depreciation		
– leased fixed assets	–	11
– owned fixed assets	62	84
Inventories recovery	–	(72)
Loss on disposal of fixed assets	–	2,403
Net exchange loss/(gain)	2	(71)
Operating leases rental in respect of land and buildings	158	136
Staff costs (excluding directors' remuneration)	1,595	1,995
	<u>1,595</u>	<u>1,995</u>

7 FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loan and overdrafts	578	2,101
Finance leases charges	17	453
Other loans interest	559	180
	<u>1,154</u>	<u>2,734</u>

8 TAXATION

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the year (2003: Nil).
- (b) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.
- (c) The charge for the year can be reconciled to profit/(loss) before taxation per consolidated profit and loss account as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit/(loss) before taxation	<u>43,736</u>	<u>(6,861)</u>
Tax at the domestic income tax rate of 17.5%	7,654	(1,201)
Tax effect of non-taxable income	(4,686)	(209)
Utilisation of tax losses previously not recognised	(3,117)	–
Deferred tax assets not recognised	<u>149</u>	<u>1,410</u>
Taxation charge for the year	<u>–</u>	<u>–</u>

As at 31 December 2004, the Company had unrecognised deferred tax asset of approximately HK\$19,808,000 (2003: HK\$22,934,000) which represents the tax effect of unused tax losses. Such deferred tax asset was not recognised in the accounts due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

9 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of approximately HK\$9,833,000 (2003: loss of approximately HK\$1,519,000).

10 DIVIDENDS

No dividends had been paid or declared by the Company during the year (2003: Nil).

11 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of approximately HK\$43,736,000 (2003: loss of HK\$6,861,000) and the weighted average of 1,140,730,792 (2003: 1,140,730,792) ordinary shares in issue.

As there is no dilution arising from the outstanding share options granted by the Company, no diluted earnings per share for the year had been presented. For the year ended 31 December 2003, as there was no dilution arising from the outstanding share options granted by the Company, the convertible notes and convertible debentures issued by the Group, no diluted loss per share for that year had been presented.

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Independent non-executive directors		
Fees	30	–
Other emoluments of executive directors		
basic salaries and allowances	60	1,020
retirement scheme contributions	2	5
	<u>92</u>	<u>1,025</u>

During the year, the independent non-executive director appointed during the year received individual emoluments of HK\$30,000. The other two independent non-executive directors did not receive any emoluments. During the year ended 31 December 2003, none of the independent non-executive directors received any directors' emoluments.

During the year, two executive directors received individual emoluments of HK\$62,000 (2003: HK\$731,000) and HK\$nil (2003: HK\$294,000) respectively.

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) (Continued)

Two executive directors agreed to waive their emoluments from 1 January 2004 to 31 March 2005 and from 1 February 2004 to 31 March 2005 respectively. The amounts waived for the year are HK\$1,200,000 and HK\$660,000 respectively. During the year ended 31 December 2003, one executive director waived his emoluments of HK\$900,000. The waived amounts had not been included in the above disclosure. Other than this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2003 and 2004.

(b) Details of the five individuals whose emoluments were the highest in the Group for the year (including directors and other employees) are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	1,226	2,516
Retirement scheme contributions	29	39
	<u>1,255</u>	<u>2,555</u>

The emoluments of the five individuals with the highest emoluments are within the band of nil to HK\$1,000,000.

No emoluments were paid or payable to the directors or senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2003 and 2004.

13 FIXED ASSETS

Group	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Network computer and demo equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2004	18	283	330	631
Additions at cost	—	—	3	3
At 31 December 2004	18	283	333	634
Aggregate depreciation				
At 1 January 2004	2	179	327	508
Charge for the year	4	56	2	62
At 31 December 2004	6	235	329	570
Net book value				
At 31 December 2004	12	48	4	64
At 31 December 2003	16	104	3	123

At 31 December 2004, no fixed assets were held by the Group under finance leases. At 31 December 2003, the net book value of fixed assets held by the Group under finance leases included in the total amounts of office equipment amounted to approximately HK\$42,000.

14 INVESTMENT IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost (note a)	19,997	19,997
Amounts due from subsidiaries (note b)	137,696	135,820
Amount due to subsidiaries (note b)	—	(3,581)
	<u>157,693</u>	<u>152,236</u>
Less: provision	<u>(157,693)</u>	<u>(155,817)</u>
	<u>—</u>	<u>(3,581)</u>

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

At 31 December 2004 the Company held shares in the following principal subsidiaries:

Name of company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Shares held directly: –				
DigiTel Group (BVI) Limited	British Virgin Islands	Ordinary US\$34,190	100%	Investment holding in Hong Kong

14 INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) (Continued)

Name of company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Shares held indirectly: –				
DigiTel Communication Limited	Hong Kong	Ordinary HK\$100	100%	Distribution of energy saving products with maintenance services in Hong Kong and provision of desulphurisation services in the PRC
DigiTel Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding in Hong Kong
DigiTel Venture Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding in Hong Kong
Lit Cheong Energy Solutions Limited	British Virgin Islands	Ordinary US\$1	100%	Sale of energy saving products with maintenance services in Hong Kong

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15 INVESTMENT SECURITIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Equity securities, at cost		
Unlisted investment	51,000	51,000
Less: Provision for impairment loss	(51,000)	(51,000)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Netpolis Communications Hong Kong Limited ("Netpolis")	British Virgin Islands	Ordinary US\$100	17%	Dormant

Netpolis and its subsidiaries had been engaged in the ISP and telecommunication business in Hong Kong, the PRC and overseas. Since 2002, Netpolis has ceased operation and its subsidiaries have been involved in various legal proceedings. Full provision on the investment in Netpolis had been made in 2002.

16 FINANCIAL ASSET

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Equity option, at cost	10,500	10,500
Less: Provision for impairment loss	<u>(10,500)</u>	<u>(10,500)</u>
	<u>—</u>	<u>—</u>

The financial asset represents an irrevocable option acquired by the Group in late 2001 to acquire the 100% equity of a PRC company (the “subject company”). The subject company, as represented to the Group, had obtained all necessary approvals to operate as a provider of Internet services at various cities in Guangdong province.

Although the period of exercising the option is 5 years from the date of agreement, the Group, having considered to its financial position and the prospects of the subject company, will not exercise the option in the coming years. Besides, due to the unfavourable market conditions, the subject company is also in a difficult position and will not proceed for the project of providing Internet services. Full provision for the option had been made in 2002.

17 INVENTORIES

At 31 December 2004 and 2003, all inventories were carried at net realisable value.

18 TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days or terms in accordance with sales contract. The aging analysis of trade receivables is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-30 days	91	–
31-60 days	1	–
61-90 days	–	95
91-120 days	–	–
Over 120 days	–	755
	<hr/>	<hr/>
	92	850
Long-term trade receivables	9	–
	<hr/>	<hr/>
Total trade receivables	101	850
Prepayments and deposits	41	49
	<hr/>	<hr/>
	142	899
	<hr/> <hr/>	<hr/> <hr/>

19 TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-30 days	201	–
31-60 days	–	–
61-90 days	–	–
91-120 days	–	–
Over 120 days	2,206	1,946
Total trade payables	2,407	1,946
Other payables and accruals	7,862	11,637
	<u>10,269</u>	<u>13,583</u>

20 INTEREST-BEARING BORROWINGS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group		
Convertible notes	–	5,643
Other loans, unsecured (a)	7,893	2,900
	<u>7,893</u>	<u>8,543</u>
Obligations under finance leases	–	11,236
	<u>7,893</u>	<u>19,779</u>
Amount repayable within one year included in current liabilities	(1,143)	(19,763)
	<u>6,750</u>	<u>16</u>

20 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) The other loans are repayable as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	1,143	2,900
In the second year	6,750	–
	<u>7,893</u>	<u>2,900</u>
Company		
Other loans, unsecured		
– Repayable in the second year	<u>6,750</u>	–

21 SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 December 2003 and 2004	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31 December 2003 and 2004	<u>1,140,730,792</u>	<u>114,073</u>

There was no movement in the share capital of the Company for both years.

22 EMPLOYEE BENEFITS

The Group operates a Mandatory Provident Fund scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately. The Group’s contribution to the scheme charged to profit and loss account was approximately HK\$46,000 (2003: HK\$60,000).

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Scheme”) of the Company adopted on 20 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price of HK\$1.05 each.

No share options can be granted under the Pre-IPO Scheme after the listing of the shares of the Company on 12 July 2000.

During the year, all outstanding share options granted under the Pre-IPO Scheme brought forward were cancelled after the resignation of the relevant employees.

As at 31 December 2004, there was no share options outstanding (2003: 20,000,000 options).

Under the share option scheme (the “Share Option Scheme”) of the Company adopted on 30 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price determined by the board of directors and shall be no 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 for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than three years and not more than ten years from the date of grant.

No share options were granted under the Share Option Scheme since its adoption.

23 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 30 of the accounts.

Company	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	36,247	(166,971)	(130,724)
Loss for the year	—	(1,519)	(1,519)
At 31 December 2003	<u>36,247</u>	<u>(168,490)</u>	<u>(132,243)</u>
At 1 January 2004	36,247	(168,490)	(132,243)
Profit for the year	—	9,833	9,833
At 31 December 2004	<u>36,247</u>	<u>(158,657)</u>	<u>(122,410)</u>

In the opinion of the directors, the Company had no reserve available for distribution as at 31 December 2004 and 2003.

24 NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before taxation to net cash from/(used in) operating activities is set out below:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit/(loss) before taxation	43,736	(6,861)
Adjustments for:		
Depreciation	62	95
Loss on disposal of fixed assets	–	2,403
Waiver of amount due to creditors	(45,715)	(1,182)
Gain on disposal of subsidiaries	(150)	–
Interest on bank loan and overdrafts	578	2,101
Interest on other loan	559	180
Finance leases charges	17	453
Operating loss before working capital changes	(913)	(2,811)
Decrease in inventories	–	208
Decrease in trade and other receivables	757	3,232
Increase/(decrease) in trade and other payables	1,493	(72)
Cash from operations	1,337	557
Interest on bank loan and overdrafts	(578)	(2,101)
Finance leases charges	(17)	(5)
Interest on other loan	(559)	(180)
Hong Kong profits tax paid	(2)	–
Net cash from/(used in) operating activities	<u>181</u>	<u>(1,729)</u>

25 DISPOSAL OF SUBSIDIARIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash and bank balances	42	–
Trade and other payables	(79)	–
Provision for taxation	(180)	–
	<u>(217)</u>	<u>–</u>
Exchange reserve	67	–
Gain on disposal	150	–
	<u>–</u>	<u>–</u>
Total consideration	<u>–</u>	<u>–</u>

The analysis of net outflow of cash and cash equivalents in respect of the disposals is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration received	–	–
Cash and bank balance disposed of	(42)	–
	<u>(42)</u>	<u>–</u>
Net outflow of cash and cash equivalents	<u>(42)</u>	<u>–</u>

26 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases in respect of land and building, falling due as follows:–

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	40	158
In the second to fifth years, inclusive	–	40
	<u>40</u>	<u>198</u>

27 LITIGATIONS

As at the date of this report, the Group has been involved in material litigations as follows:–

- (a) On 1 June 2002, a writ was issued by a printing house against the Company for the outstanding printing charges of approximately HK\$0.16 million. The Company filed a defence on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter. Full provision was made in the accounts.
- (b) On 11 March 2002, a writ was issued by a former landlord against three wholly owned subsidiaries and one associate of the Group for outstanding rent of approximately HK\$1.95 million. The Group settled all rental payment up to 31 March 2002, delivered vacant possession on 9 May 2002 and the former landlord has retained its 3-month rental deposit of approximately HK\$1.18 million. The Group, therefore, does not consider that it has material obligation to pay any further sum to the former landlord. No further action has been taken by either party thereafter.
- (c) On 2 September 2002, a writ was issued by another former landlord against a wholly owned subsidiary of the Group for outstanding rent of approximately HK\$4.4 million. The Group filed a defence on 27 September 2002 and vacant possession was delivered on 1 August 2002. On 7 June 2004, the High Court gave notice to the Group stated that the former landlord intended to proceed the action. Other than that, there has been no further development of the case.
- (d) On 17 January 2003, a writ was issued by the Inland Revenue Department (“IRD”) to a wholly owned subsidiary of the Group for the 2000/01 profits tax of approximately HK\$0.34 million. Summary judgment was entered into on 23 April 2003 for approximately HK\$0.31 million together with interest and legal costs. On 7 October 2004, the IRD issued letters to the directors of the subsidiary and demand for settlement within 14 days, otherwise the IRD will initiate winding up proceedings against the subsidiary. Other than that, there has been no further development of the case. Full provision was made in the accounts.

Apart from the actions against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

28 ULTIMATE HOLDING COMPANY

The directors regard Lit Cheong Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29 APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the board of directors on 23 March 2005.

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Results

Turnover

Continuing operations	3,631	3,382	7,113	58,753	113,861
Discontinued operations	–	–	586	15,153	20,834
	<u>3,631</u>	<u>3,382</u>	<u>7,699</u>	<u>73,906</u>	<u>134,695</u>

Profit/(loss) attributable to shareholders

Continuing operations	43,736	(6,861)	(127,002)	2,918	(35,282)
Discontinued operations	–	–	(34,999)	(61,616)	(14,157)
	<u>43,736</u>	<u>(6,861)</u>	<u>(162,001)</u>	<u>(58,698)</u>	<u>(49,439)</u>

Assets and liabilities

Total assets	2,691	2,505	19,291	179,925	184,569
Total liabilities	(19,063)	(62,680)	(72,605)	(80,950)	(60,964)
Minority interests	–	–	–	–	4,505
(Capital deficiency)/ shareholders' funds	<u>(16,372)</u>	<u>(60,175)</u>	<u>(53,314)</u>	<u>98,975</u>	<u>128,110</u>

Note:

The results, assets and liabilities of the Group for the year ended 31 December 2000 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the year.