NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of investment properties.

In the current year, the Group adopted the new Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policy upon the adoption of the new SSAP 12 are set out in note 1(l) below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st 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 the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of overseas subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at average rates during the year. Exchange differences are dealt with as a movement in reserves.

(c) Revenue

(i) Revenue and profit from short-term contracts are recognised on completion of the contracts.

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

(iii) Rental income is recognised on a straight-line basis over the period of the relevant leases.

(iv) Telecommunication service income is recognised when the services are rendered.

(v) Revenue from media and content services is recognised when the services are rendered.

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

(d) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the relevant leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

(ii) Other fixed assets

Leasehold land and buildings and other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Leasehold land and buildings are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land and buildings	5%
Furniture, fixtures and equipment	20% to 33%
Motor vehicles	20%

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.

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, other than investment properties which are dealt with in note 1(d)(i) above, are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(e) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 5 to 10 years. The Group has no goodwill on acquisition occurring prior to 1st January 2001.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to capital reserve. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangibles *(Continued)*

(i) Goodwill/negative goodwill (Continued)

For acquisitions on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, the portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the profit and loss account immediately.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for acquisitions prior to 1st January 2001, the related goodwill/negative goodwill written off against reserves to the extent it has not previously been realised in the consolidated profit and loss account.

(ii) Patents

Expenditure on acquired patents is capitalised and amortised on a straight-line basis over their estimated useful lives, but not exceeding 20 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) Operating lease

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

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

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

(j) 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.

(k) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefit obligations

The Group participates in a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance. The scheme's assets are held separately from those of the Group in independently administered funds. The scheme is generally funded by payments from employees and by the Group.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions if any.

The Group's subsidiary in Mainland China is a member of the state-managed retirement benefits scheme operated by the Government of Mainland China. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the subsidiary's employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by the subsidiary to the scheme.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP12 has no material impact on the Group's results and financial positions for the current and prior accounting periods.

(m) Contingent liabilities and contingent assets

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

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

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

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

(n) 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.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Segment reporting

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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group was principally engaged in the property investment, telecommunication, fire protection and suppression, and media and content businesses. On 30th September 2003, the Group disposed of its wholly-owned subsidiaries which were principally engaged in the maintenance and servicing of fire protection and suppression systems and equipment in Hong Kong to independent third parties (note 3(a)). In March 2004, the Group announced to further dispose of its entire interests in its other subsidiaries which were principally engaged in the manufacturing of fire protection and suppression systems and equipment in Mainland China (note 3(b) and 13).

In December 2003, the Group acquired certain subsidiaries which are principally engaged in the provision of telecommunication value added services from a shareholder of the Company (note 13(b) and note 22(c)).

Subsequent to the disposals and acquisition, the Group has reorganised its operational structure and has classified its operations into the following continuing business segments:

(i) property investment;

(ii) provision of telecommunication services; and

(iii) provision of media and content services including telecommunication value added services.

Comparative figures have been reclassified to conform to the current year's presentation.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenues recognised during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Turnover		
Continuing operations		
– Rental income	**3,252**	4,788
– Telecommunication services income	**438**	–
– Media and content services income	**1,215**	–
Discontinuing operations		
– Fire protection and suppression	**39,248**	48,543
– Building services contracting	**–**	13,321
	44,153	66,652
Other revenues		
Interest income	**7**	125
Management fee income	**973**	182
	980	307
Total revenues	**45,133**	66,959

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

	2003				
	Continuing operations			Discontinuing operation	
	Property investment HK$'000	Telecom-munication HK$'000	Media and content HK$'000	Fire protection and suppression HK$'000	Total HK$'000
Turnover	3,252	438	1,215	39,248	44,153
Segment results	(4,849)	(2,658)	(763)	(11,487)	(19,757)
Loss on disposal of subsidiaries engaged in discontinuing operations	-	-	-	(14,309)	(14,309)
Unallocated revenues					980
Unallocated costs					(13,871)
Operating loss					(46,957)
Finance costs					
Segment	(81)	(29)	(65)	(125)	(300)
Unallocated					(583)
Loss before taxation					(47,840)
Taxation	(86)	(1)	-	580	493
Loss after taxation					(47,347)
Minority interests					620
Loss attributable to shareholders					(46,727)

There were no sales between the business segments during the year ended 31st December 2003.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2003				
	Continuing operations			Discontinuing operation	
	Property investment HK$'000	Telecom-munication HK$'000	Media and content HK$'000	Fire protection and suppression HK$'000	Total HK$'000
Segment assets	137,877	525	76,048	24,982	239,432
Unallocated assets					22,728
Total assets					262,160
Segment liabilities	1,981	2,202	9,872	10,078	24,133
Unallocated liabilities					100,385
Total liabilities					124,518
Segment capital expenditure	7,898	212	1,011	277	9,398
Unallocated capital expenditure					145
					9,543
Segment depreciation	2,227	44	–	1,392	3,663
Unallocated depreciation					1,116
					4,779
Impairment of fixed assets	5,704	–	–	–	5,704
Amortisation of goodwill and patents	–	–	519	4,005	4,524
Impairment of goodwill	–	–	–	5,109	5,109
Reversal of deficit on revaluation of investment properties	1,666	–	–	–	1,666

Segment assets and liabilities are stated after elimination of balances between the business segments.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2002			
	Continuing operation	Discontinuing operations		
	Property investment HK$'000	Fire protection and suppression HK$'000	Building services contracting HK$'000	Total HK$'000
Turnover	4,788	48,543	13,321	66,652
Segment results	(2,781)	(11,619)	(4,904)	(19,304)
Gain on disposal of subsidiaries engaged in discontinuing operations	–	–	29,335	29,355
Unallocated revenues				307
Unallocated costs				(13,872)
Operating loss				(3,514)
Finance costs				
Segment	–	(113)	(187)	(300)
Unallocated				(71)
Loss before taxation				(3,885)
Taxation				(506)
Loss after taxation				(4,391)
Minorit interests				433
Loss attributable to shareholders				(3,958)

There were no sales between the business segments during the year ended 31st December 2002.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2002			
	Continuing operation	Discontinuing operations		
	Property investment HK$'000	Fire protection and suppression HK$'000	Building services contracting HK$'000	Total HK$'000
Segment assets	135,443	59,985	–	195,428
Unallocated assets				9,510
Total assets				204,938
Segment liabilities	14,056	17,928	–	31,984
Unallocated liabilities				7,971
Total liabilities				39,955
Segment capital expenditure	559	9,449	32	10,040
Unallocated capital expenditure				572
				10,612
Segment depreciation	–	1,035	955	1,990
Unallocated depreciation				2,025
				4,015
Amortisation of goodwill and patents	–	4,707	–	4,707
Deficit on revaluation of investment properties	3,778	–	–	3,778

Segment assets and liabilities are stated after elimination of balances between the business segments.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

	2003		
	Turnover HK$'000	**Total assets HK$'000**	**Capital expenditure HK$'000**
Hong Kong			
– continuing operations	**3,908**	**222,280**	**8,585**
– discontinuing operations	**19,956**	**–**	**94**
Mainland China			
– continuing operations	**997**	**14,898**	**681**
– discountinuing operations	**19,292**	**24,982**	**183**
	44,153	**262,160**	**9,543**

	2002		
	Turnover HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong			
– continuing operations	4,066	129,986	572
– discontinuing operations	44,046	34,581	33
Mainland China			
– continuing operations	722	14,967	559
– discontinuing operations	17,818	25,404	9,448
	66,652	204,938	10,612

There were no sales between the geographical segments.

3 DISPOSAL OF SUBSIDIARIES ENGAGED IN DISCONTINUING OPERATIONS

(a) The Group discontinued its fire protection and suppression business in Hong Kong (the "Discontinuing Segment – Hong Kong") by the disposal of its subsidiaries on 30th September 2003 which were principally engaged in the maintenance and servicing of fire protection and suppression systems and equipment in Hong Kong. The sales, results, cash flows and the total assets and liabilities of the Discontinuing Segment – Hong Kong as at and for the period up to the date of disposal are as follows:

	2003	2002
	HK$'000	HK$'000
Turnover	**19,956**	30,725
Other revenues	**2**	–
Operating costs	**(20,165)**	(39,201)
Operating loss	**(207)**	(8,476)
Finance costs	**(92)**	(100)
Loss before taxation	**(299)**	(8,576)
Taxation	**580**	(314)
Profit/(loss) after taxation	**281**	(8,890)
Net operating cash inflow/(outflow)	**1,786**	(5,981)
Net investing cash (outflow)/inflow	**(490)**	1
Total net cash inflow/(outflow)	**1,296**	(5,980)

3 DISPOSAL OF SUBSIDIARIES ENGAGED IN DISCONTINUING OPERATIONS *(Continued)*

	As at 30th September 2003 HK$'000	As at 31st December 2002 HK$'000
Intangible assets *(note 11)*	**7,095**	9,254
Fixed assets *(note 12)*	**961**	844
Investment in unlisted shares	**300**	–
Current assets	**14,736**	16,774
Total assets	**23,092**	26,872
Total liabilities	**14,124**	18,185
Net assets	**8,968**	8,687
Net assets disposed	**8,968**	–
Waiver of net amounts due from subsidiaries disposed	**10,341**	–
Proceeds from sale	**(5,000)**	–
Loss on disposal of subsidiaries engaged in discontinuing operations	**(14,309)**	–
The net cash inflow on sale is determined as follows:		
Proceeds from sale	**5,000**	–
Less: bank overdrafts in subsidiaries disposed	**426**	–
Sale of subsidiaries, net of cash disposed	**5,426**	–

The subsidiaries disposed did not have assessable profits for Hong Kong profits tax up to the date of the disposal and for the year ended 31st December 2002.

3 DISPOSAL OF SUBSIDIARIES ENGAGED IN DISCONTINUING OPERATIONS *(Continued)*

(b) On 30th March 2004, the Group announced to discontinue its fire protection and suppression business in Mainland China (the "Discontinuing Segment – Mainland China") by the disposal of its subsidiaries which were principally engaged in the manufacturing of fire protection and suppression systems and equipment in Mainland China. The sales, results, cash flows and the total assets and liabilities of the Discontinuing Segment – Mainland China as at and up to 31st December 2003 are as follows:

	2003	2002
	HK$'000	HK$'000
Turnover	**19,292**	17,818
Other revenues	**91**	58
Operating costs	**(30,570)**	(21,019)
Operating loss	**(11,187)**	(3,143)
Finance costs	**(33)**	(13)
Loss before taxation	**(11,220)**	(3,156)
Taxation	**–**	–
Loss after taxation	**(11,220)**	(3,156)
Minority interests	**620**	(433)
	(10,600)	(3,589)
Net operating cash inflow/(outflow)	**359**	(6,743)
Net investing cash outflow	**(183)**	(17,897)
Total net cash inflow/(outflow)	**176**	(24,640)

	2003	2002
	HK$'000	HK$'000
Intangible assets	**755**	7,710
Fixed assets	**6,677**	7,809
Current assets	**17,550**	17,594
Total assets	**24,982**	33,113
Total liabilities	**29,706**	26,617
Minority interests	**8,605**	9,225
Net liabilities	**(13,329)**	(2,729)

The financial effect of the disposal will be reflected in the accounts when the transaction is completed and the effect can be quantified.

The subsidiaries to be disposed do not have assessable profits for Hong Kong profits tax up to 31st December 2003 and for the year ended 31st December 2002.

3 DISPOSAL OF SUBSIDIARIES ENGAGED IN DISCONTINUING OPERATIONS *(Continued)*

(c) The Group discontinued the segment of building services contracting by the disposal of certain of its subsidiaries engaged in the above business on 31st January 2002 and 12th September 2002, respectively. The sales, results, cash flow and the total assets and liabilities of the building services contracting segment as at and for the periods up to the dates of disposal are as follows:

	2002 HK$'000
Turnover	13,321
Other revenues	76
Operating costs	(18,301)
Operating loss	(4,904)
Finance costs	(187)
Loss for the year	(5,091)
Net operating cash outflow	(2,204)
Net investing cash outflow	(4,128)
Total net cash outflow	(6,332)

	2002 HK$'000
Fixed assets	3,558
Current assets	22,545
Total assets	26,103
Total liabilities	538,406
Net liabilities	(512,303)
Net liabilities disposed	512,303
Waiver of net amounts due from the subsidiaries disposed	(484,948)
Proceeds from sale	2,000
Gain on disposal of subsidiaries engaged in discontinuing operations	29,355
The net cash inflow on sale is determined as follows:	
Proceeds from sale	2,000
Less: cash and cash equivalents in subsidiaries disposed	(154)
Sale of subsidiaries, net of cash disposed	1,846

The subsidiaries disposed did not have assessable profits for Hong Kong profits tax up to the dates of the disposal.

4 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2003 HK$'000	2002 HK$'000
Crediting		
Gain on revaluation of investment properties with deficits previously charged to the profit and loss account #	**1,666**	–
Charging		
Staff costs, excluding directors' emoluments (note 9)	**10,501**	18,641
Auditors' remuneration	**602**	873
Legal and professional fees	**5,037**	5,311
Deprecation of fixed assets	**4,779**	4,015
Operating lease rental in respect of office premises	**709**	1,575
Cost of inventories sold	**18,061**	12,734
Provision for inventory obsolescence	**1,863**	2,325
Loss on disposal of fixed assets	**31**	3
Impairment of fixed assets	**5,704**	–
Provision for bad and doubtful debts	**3,142**	2,526
Net exchange losses	**6**	92
Amortisation of patents ##	**143**	45
Amortisation of goodwill #	**4,381**	4,662
Impairment of goodwill #	**5,109**	–
Provision for losses on litigation cases #	**–**	2,500
Deficit on revaluation of investment properties #	**–**	3,778

Note:

\# Included in other operating expenses, net

\# # Included in administrative and operating expenses

5 FINANCE COSTS

	2003	2002
	HK$'000	HK$'000
Interest expenses on short-term borrowings	**174**	371
Interest expenses on long-term borrowings not wholly repayable within five years	**709**	–
	883	371

6 TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group's subsidiaries operate.

The amount of taxation credited/(charged) credited to the consolidated profit and loss account represents:

	2003	2002
	HK$'000	HK$'000
Hong Kong profits tax		
– Over/(under) provision in prior years	**493**	(336)
Overseas taxation	**–**	(170)
	493	(506)

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

	2003	2002
	HK$'000	HK$'000
Loss before taxation	**(47,840)**	(3,885)
Calculated at a taxation rate of 17.5% (2002: 16%)	**8,372**	622
Effect of different taxation rates in other countries	**–**	24
Tax effect of income not subject to taxation	**823**	4,697
Tax effect of expenses not deductible for taxation purposes	**(6,585)**	(2,730)
Over/(under) provision in prior years	**493**	(336)
Unrecognised tax losses	**(2,610)**	(2,783)
Taxation credit/(charge)	**493**	(506)

6 TAXATION *(Continued)*

(b) Deferred taxation

There were no material unprovided deferred tax liabilities as at 31st December 2003 and 2002.

No provision for deferred tax asset has been made in the accounts as it is uncertain whether the deferred tax asset amounting to approximately HK$4 million (2002: approximately HK$4.8 million including tax losses of subsidiaries disposed of during the year ended 31st December 2003) in respect of potential tax losses will be crystallised in the foreseeable future.

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the loss for the year attributable to shareholders is a loss of HK$48,332,000 (2002: HK$6,524,000) which has been dealt with in the accounts of the Company.

8 LOSS PER SHARE

The calculation of basic loss per ordinary share is based on the Group's loss attributable to the shareholders of HK$46,727,000 (2002: HK$3,958,000) and the weighted average number of 4,342,438,973 (2002: 4,182,438,973) shares in issue during the year.

The exercise of share options would have an anti-dilutive effect on the basic loss per share and accordingly no information in respect of the diluted loss per share in 2003 and 2002 is disclosed.

9 STAFF COSTS

Staff costs which exclude directors' emoluments are as follows:

	2003	2002
	HK$'000	HK$'000
Wages and salaries	**9,518**	17,223
Unutilised annual leave	**160**	207
Defined contribution retirement plans	**264**	681
Other staff welfare	**559**	530
	10,501	18,641

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Details of emoluments paid/payable to directors of the Company are as follows:

	2003	2002
	HK$'000	HK$'000
Directors' fees		
Executive directors	**1,028**	74
Independent non-executive directors	**120**	113
	1,148	187
For management		
Basic salaries, housing allowances, other allowances and benefits in kind	**3,203**	4,457
Retirement benefits scheme contributions	**58**	141
Compensation for loss of office as director paid by the Company	**–**	141
	4,409	4,926

(b) The emoluments of directors fell within the following bands:

Emolument bands	**Number of directors**	
HK$	**2003**	2002
Nil – 1,000,000	**6#**	8#
1,000,001 – 1,500,000	**2**	1
1,500,001 – 2,000,000	**–**	1
2,000,001 – 2,500,000	**1**	–

\# Included 2 (2002: 4) independent non-executive directors.

No directors waived emoluments in respect of the years ended 31st December 2003 and 2002.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(c) The five individuals whose emoluments were the highest in the Group for the year include three (2002: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2002: nil) during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**804**	–
Retirement benefits scheme contributions	**37**	–
	841	–

The emoluments of individuals fell within the following band:

Emolument band	**Number of individuals**	
HK$	**2003**	2002
Nil – 1,000,000	**2**	–

11 INTANGIBLE ASSETS

	Goodwill	Patents	Total
	HK$'000	HK$'000	HK$'000
Year ended 31st December 2003			
Opening net book amount	16,066	898	16,964
Acquisition of subsidiaries *(note 13(b) & 22(c))*	62,264	–	62,264
Amortisation charge	(4,381)	(143)	(4,524)
Impairment charge	(5,109)	–	(5,109)
Disposal of subsidiaries *(note 3(a))*	(7,095)	–	(7,095)
Closing net book amount	61,745	755	62,500
As at 31st December 2003			
Cost	62,264	943	63,207
Accumulated amortisation and impairment losses	(519)	(188)	(707)
Net book amount	61,745	755	62,500
As at 31st December 2002			
Cost	23,194	943	24,137
Accumulated amortisation	(7,128)	(45)	(7,173)
Net book amount	16,066	898	16,964

12 FIXED ASSETS

	Group					Company
	Leasehold land and buildings	Investment properties	Furniture, fixtures and equipment	Motor vehicles	Total	Furniture, fixtures and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation						
As at 1st January 2003	11,349	133,600	9,112	926	154,987	–
Additions	–	–	8,422	110	8,532	31
Acquisition of subsidiaries *(note 22(c))*	–	–	1,434	–	1,434	–
Revaluation	–	1,666	–	–	1,666	–
Disposals	(15)	–	(117)	(19)	(151)	–
Disposal of subsidiaries *(note 3(a))*	–	–	(2,636)	(145)	(2,781)	–
As at 31st December 2003	11,334	135,266	16,215	872	163,687	31
Accumulated depreciation and impairment						
As at 1st January 2003	2,666	–	3,801	348	6,815	–
Charge for the year	532	–	4,014	233	4,779	1
Disposal of subsidiaries *(note 3(a))*	–	–	(1,680)	(140)	(1,820)	–
Acquisition of subsidiaries *(note 22(c))*	–	–	423	–	423	–
Disposals	–	–	(72)	(5)	(77)	–
Impairment	–	–	5,704	–	5,704	–
As at 31st December 2003	3,198	–	12,190	436	15,824	1
Net book value						
As at 31st December 2003	8,136	135,266	4,025	436	147,863	30
As at 31st December 2002	8,683	133,600	5,311	578	148,172	–

12 FIXED ASSETS *(Continued)*

The analysis of the cost or valuation as at 31st December 2002 and 2003 of the above assets are as follows:

	Group					Company
	Leasehold land and buildings	Investment properties	Furniture, fixtures and equipment	Motor vehicles	Total	Furniture, fixtures and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2003						
At cost	11,334	–	16,215	872	28,421	31
At valuation	–	135,266	–	–	135,266	–
	11,334	135,266	16,215	872	163,687	31
2002						
At cost	11,349	–	9,112	926	21,387	–
At valuation	–	133,600	–	–	133,600	–
	11,349	133,600	9,112	926	154,987	–

(a) The investment properties were revalued as at 31st December 2003 on the basis of their open market value by Vigers Hong Kong Ltd, an independent professional valuers. The net surplus on revaluation amounting to HK$1,666,000 was credited to the consolidated profit and loss account as loss on previous revaluation was debited to the consolidated profit and loss account.

(b) The Group's interests in investment properties and leasehold land and buildings at their net book values/carrying amounts are analysed as follows:

	Leasehold land and buildings		Investment properties	
	2003 HK$'000	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
In Hong Kong held on:				
Leases of over 50 years	**–**	–	**124,700**	120,000
Leases of between 10 to 50 years	**3,500**	3,750	**–**	–
In Mainland China, held with land use right certificate for 50 years	**4,636**	4,933	**10,566**	13,600
	8,136	8,683	**135,266**	133,600

(c) As at 31st December 2003, fixed assets with a net book value of HK$124,700,000 (2002: HK$55,000,000) were pledged as security for facilities granted by a financial institution and a bank.

12 FIXED ASSETS *(Continued)*

(d) In August 2000, the Group entered into a 6-year lease rental agreement with a tenant, a company beneficially owned by two former directors, and received rental in advance for the entire lease period of approximately HK$20,898,000. The Group had the right to terminate the lease at any time from 1st August 2001 by refunding the pro-rata undue rental prepaid upon termination. As at 31st December 2002, the outstanding rental received in advance amounted to HK$13,379,000 (note 17(a)).

In February 2003, the Group entered into an agreement (the "Agreement") with the aforementioned tenant for the purpose of the early termination of the lease agreement and purchase of the furniture, fixtures and equipment situated in that property. Pursuant to the Agreement, the Group settled the refund of the pro-rata undue rental prepaid as at the date of the Agreement of HK$13,102,000 by means of the issuance of approximately 131,102,000 of the Company's ordinary shares of HK$0.1 each at par. In addition, the Group purchased the aforementioned fixed assets at a consideration of HK$7,898,000, settled by the issuance of approximately 68,980,000 of the Company's ordinary shares of HK$0.1 each at par plus cash of HK$1,000,000.

(e) In March 2004, the Group has signed an agreement to dispose of its leasehold land and buildings situated in Hong Kong with a net book value of HK$3,500,000 as at 31st December 2003 at a consideration of HK$3,520,000 to an independent third party and the disposal will be completed on or before 30th September 2004.

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares/investments, at cost	**78,501**	11,501
Amounts due from subsidiaries	**669,035**	665,709
	747,536	677,210
Less: Provision for		
– impairment loss on cost of investments	**(1)**	(9,567)
– amounts due from subsidiaries	**(558,192)**	(509,264)
	189,343	158,379

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Particulars of the Company's principal subsidiaries as at 31st December 2003 are as follows:

Company	Country or place of incorporation/ operation	Issued share capital/registered capital	Effective equity interest attributable to the Group Direct	Indirect	Nature of Business
Sun Innovation Resources Limited (formerly known as Mansion Resources Limited)	Hong Kong	HK$2	–	100%	Provision of management services
Cornwick Investments Limited	Hong Kong	HK$2	–	100%	Holding investment properties in Hong Kong
Alion Development Limited	Hong Kong	HK$10,000	–	60%	Holding investment properties in Mainland China
Unique Profit Development Limited	Hong Kong	HK$10,000	–	60%	Holding investment properties in Mainland China
Sai Chak Company Limited	Hong Kong	HK$100,000	–	100%	Holding investment properties in Hong Kong
Mansion Fire International Limited	Hong Kong	HK$2	–	100%	Investment holding
Shanghai Mansion Wananda Fire System Company Limited (i)	Mainland China	RMB18,000,000	–	51%	Manufacturing of fire protection and suppression systems and equipment
Sun Innovation Media Group Limited (formerly known as Keen Billion Agents Limited) *(note (b))*	British Virgin Islands/ Hong Kong	US$1	100%	–	Investment holding
Cellcast (Asia) Limited	British Virgin Islands/ Hong Kong	US$37,525	–	99.93%	Provision of content and Information services
Smart Drive Advertising Limited	British Virgin Islands/ Hong Kong	US$1	–	99.93%	Provision of Advertising agency services

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Company	Country or place of incorporation/ operation	Issued share capital/registered capital	Effective equity interest attributable to the Group Direct	Indirect	Nature of Business
New Multimedia Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	Provision of content and information services
Cellcast Technology (Shenzhen) Limited (ii)	Mainland China	HK$1,000,000	–	100%	Investment Holding
New Power Limited (iii)	Mainland China	Renminbi 1,100,000	–	51%	Provision of content and information services
Telecom Innovation Limited	Hong Kong	HK$100	–	100%	Provision of telecommunication services
TelecomInno (Macau) Company Limited	Macau	MOP100,000	–	100%	Provision of telecommunication services
Wide Profit Enterprises Limited	British Virgin Islands	US$100	–	100%	Investment holding

(i) Shanghai Mansion Wananda Fire System Company Limited is a sino-foreign equity joint venture.

(ii) Cellcast Technology (Shenzhen) Limited is a wholly owned foreign enterprise established in Mainland China.

(iii) New Power Limited is a company established in Mainland China.

Save as stated separately, the above companies' places of operation are the same as their respective places of incorporation.

The above list includes the subsidiaries which, in the opinion of the directors, materially affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) On 17th December 2003, the Company entered into an agreement with e-Lux (Asia) Limited, a subsidiary of e-Lux Corporation which had an 8.89% equity interest in the Company at that time, to acquire the entire issued share capital of Sun Innovation Media Group Limited (formerly known as Keen Billion Agents Limited) and its subsidiaries (the "SIM Group") at a consideration of HK$67,000,000, resulting in a goodwill of HK$62,264,000 (notes 11 and 22(c)). With reference to a valuation report prepared by BMI Appraisals Limited, independent professional valuers, the directors are of the opinion that the underlying value of the goodwill is not less than its carrying value as at 31st December 2003.

Included in the SIM Group acquired by the Company as mentioned above is a 51% equity interest in New Power Limited ("NPL"), a company established in Mainland China. Up to the date of the approval of these accounts, the SIM Group is awaiting the approval of the relevant authorities in Mainland China for the transfer of its 51% equity interest in NPL.

In connection with the acquisition of SIM Group, the Group paid a sum of HK$33,500,000 to e-Lux (Asia) Limited during the year ended 31st December 2003 and settled the remaining balance of HK$33,500,000 in January 2004 (note 17(b)).

(c) In January 2004, the Group acquired the entire issued share capital of Circle Telecom USA Inc. ("Circle Telecom"), a company incorporated in the United States of America and principally engaged in telecommunication business, at a consideration of US$1 from a company beneficially owned by a director of the Company, which resulted in an estimated goodwill of approximately HK$2.6 million.

Pursuant to an agreement entered into between the Company, Circle Telecom and Circle Asia Inc. ("Circle Asia"), an independent third party, the Company agreed to assume a debt of HK$11,400,000 (the "Debt") owing by Circle Telecom to Circle Asia. In February 2004, the Company issued 475,000,000 ordinary shares at HK$0.024 each to Circle Asia to settle the Debt (note 20(e)).

(d) On 30th March 2004, the Group announced to dispose of its entire interest in a wholly owned subsidiary which is holding Shanghai Mansion Wananda Fire System Company Limited ("Shanghai Mansion") to the ultimate beneficial owner of the minority shareholders of Shanghai Mansion at a consideration of Renminbi 5,000,000 (equivalent to HK$4,673,200) (note 3(b)).

14 INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**733**	1,907
Work in progress	**822**	1,011
Finished goods	**1,263**	5,647
	2,818	8,565

As at 31st December 2003, inventories were stated at cost less a provision of HK$2,227,000 (2002: HK$2,325,000).

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(note(a))*	**16,072**	18,544	**–**	–
Retention monies receivable *(note(b))*	**1,673**	4,462	**–**	–
Prepayments and other receivables	**5,198**	3,039	**202**	3,807
	22,943	26,045	**202**	3,807

Note:

(a) The Group normally allows an average credit period of 60 days to trade customers. As at 31st December 2003, the ageing analysis of the Group's trade receivables was as follows:

	2003	2002
	HK$'000	HK$'000
Current	**5,000**	4,061
31 – 60 days	**4,901**	5,891
61 – 90 days	**2,937**	1,779
over 90 days	**3,234**	6,813
	16,072	18,544

(b) As at 31st December 2003, retention monies receivable amounting to HK$345,000 (2002: HK$3,163,000) from manufacturing of fire protection and suppression systems and equipment are receivable after one year from the balance sheet date.

16 CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

As at 31st December 2003, approximately HK$1,053,000 (2002: HK$Nil) of the Group's bank deposits were pledged to secure banking facilities granted to the Group and approximately HK$8,601,000 (2002: Nil) of the Company's deposits were pledged to a bank for a performance bond issued by that bank.

Included in the balances of the Group is an amount of HK$878,000 (2002: HK$942,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

17 TRADE, OTHER PAYABLES AND ACCRUALS

(a) Trade, other payables and accruals

		Group		Company	
		2003	2002	**2003**	2002
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade payables	(i)	**9,944**	10,345	**–**	–
Retention monies payable		**–**	613	**–**	–
Other payables and accruals		**13,136**	4,244	**2,125**	1,173
Rental received in advance	(ii)	**–**	13,379	**–**	–
		23,080	28,581	**2,125**	1,173

Note:

(i) As at 31st December 2003, the ageing analysis of the Group's trade payables was as follows:

	2003	2002
	HK$'000	HK$'000
Current	**2,453**	6,595
31 – 60 days	**1,418**	1,780
61 – 90 days	**1,961**	762
over 90 days	**4,112**	1,208
	9,944	10,345

(ii) Balance represented rental received in advance pursuant to a rental agreement entered into in previous years which was settled in February 2003 (note 12(d)).

(b) Payable for acquisition of subsidiaries

Balance represented accrual for the final payment for the acquisition of SIM Group which was settled in January 2004 by means of a long-term loan maturing in 2010 (notes 13(b) and 19(b)).

18 SHORT-TERM BORROWINGS – SECURED

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt bank loans	**–**	1,707	**–**	–
Current portion of long-term loans *(note 19)*	**1,518**	–	**–**	–
Short-term bank loans	**5,943**	–	**5,000**	–
Bank overdrafts	**4,978**	6,568	**4,947**	3,569
	12,439	8,275	**9,947**	3,569

Short-term bank loans are secured by bank deposits of a subsidiary in Mainland China of HK$1,053,000 (2002: Nil) and an investment property of the Group with a total net book value of HK$58,600,000 as at 31st December 2003 (2002: HK$55,000,000). The loans bear interest at the rate of 4% to 5% per annum (2002: 3% to 6% per annum).

19 LONG-TERM LOANS – SECURED

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans, not wholly repayable within five years				
Bank loan *(note(a))*	**9,640**	–	**–**	–
Loan from a financial Institution *(note(a))*	**12,377**	–	**–**	–
Other loan *(note(b))*	**35,000**	–	**35,000**	–
	57,017	–	**35,000**	–
Current portion of long-term loans *(note 18)*	**(1,518)**	–	**–**	–
	55,499	–	**35,000**	–

19 LONG-TERM LOANS – SECURED *(Continued)*

As at 31st December 2003, the Group's long-term loans were repayable as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,518**	–	**–**	–
In the second year	**1,579**	–	**–**	–
In the third to fifth year	**5,115**	–	**–**	–
After the fifth year	**48,805**	–	**35,000**	–
	57,017	–	**35,000**	–

Note:

(a) The bank loan and loan from a financial institution are secured by certain investment properties of the Group with a total book value of HK$58,600,000 (2002: HK$55,000,000) and HK$66,100,000 (2002: Nil), respectively(note 12(c)). The bank loan and loan from a financial institution bear interest at the rates of 3% and 5% per annum, respectively.

(b) Other loan

In connection with the acquisition of SIM Group as set out in note 13(b), the Group borrowed a loan of HK$70,000,000 ("the Loan") from Station Investments Limited ("SIL") which owned 3.92% equity interest in the Company at the date of the transaction. As at 31st December 2003, HK$35,000,000 of the Loan was drawn down by the Group while the remaining portion of HK$35,000,000 was drawn down in January 2004. The Loan matures in January 2010, bears interest at the rate of 3% per annum for the first year and thereafter 6% per annum until maturity and is secured by 805,570,000 shares of the Company held by e-Compact Limited, a substantial shareholder of the Company, and the entire issued shares of a wholly owned subsidiary of the Company which indirectly holds a property in Hong Kong (note 23(b)).

Pursuant to the loan agreement with SIL, in January 2004, the Company granted a non-transferrable option to SIL, carrying rights to subscribe for a maximum of 180,000,000 shares of the Company at HK$0.02 per share before December 2008 (note 20(d)) and as long as any of the Loan is still outstanding.

On 8th April 2004, the Company entered into a subscription agreement ("Subscription Agreement") with SIL in relation to the proposed issuance of 3,066,666,666 convertible preference shares of HK$0.01 each at the conversion price of HK$0.0225 each in the share capital of the Company ("Convertible Preference Shares") by the Company to settle HK$69,000,000 of the Loan. Pursuant to the Subscription Agreement, holders of the Convertible Preference Shares are entitled to subscribe for 3,066,666,666 ordinary shares of the Company with a par value of HK$0.01 each upon completion of the Subscription Agreement, which is expected to take place on or before 30th June 2004, subject to the fulfilment of various conditions and approvals as set out in the Subscription Agreement. Principal terms and other details of the Convertible Preference Shares are summarised in the Company's announcement dated 16th April 2004.

20 SHARE CAPITAL

	Authorised	
	Number of shares	**Nominal value**
		HK$'000
As at 31st December 2001 and 2002, ordinary shares of HK$0.10 each	20,000,000,000	2,000,000
Share subdivision *(note(b)(i))*	180,000,000,000	–
Authorised share capital reduction *(note(b)(ii))*	(125,000,000,000)	(1,250,000)
As at 31st December 2003, ordinary shares of HK$0.01 each	75,000,000,000	750,000

	Issued and fully paid	
	Number of shares	**Nominal value**
		HK$'000
As at 31st December 2001 and 2002, ordinary shares of HK$0.10 each	4,182,438,973	418,243
Issue of shares *(note(a))*	200,000,000	20,000
Reduction in par value of issued shares *(note(b)(iii))*	–	(394,419)
As at 31st December 2003, ordinary shares of HK$0.01 each	4,382,438,973	43,824

Notes:

(a) In February 2003, the Company issued 200,000,000 ordinary shares of the Company at HK$0.1 each, including 131,021,160 ordinary shares to repay the rental received in advance and 68,978,840 ordinary shares to acquire certain fixed assets from a company beneficially owned by two former directors (note 12(d)).

(b) Capital organisation scheme was approved by the shareholders of the Company on 30th May 2003 which includes, inter alia, the following:

(i) a share subdivision under which each of the authorised but unissued shares was re-designated and subdivided into ten new shares;

20 SHARE CAPITAL *(Continued)*

Notes: (Continued)

(ii) reduced the authorised share capital from HK$2,000,000,000 to HK$750,000,000 divided into 75,000,000,000 shares of HK$0.01 each, by cancelling 125,000,000,000 shares;

(iii) reduced HK$394,000,000 on the Company's share capital by reducing the nominal value of the issued share capital from HK$0.1 each to HK$0.01 each;

(iv) reduced the Company's share premium account by approximately HK$257,000,000; and

(v) applied the aggregate amount mentioned in items (iii) and(iv), totalling approximately HK$651,000,000, to eliminate the accumulated losses of the Company of approximately HK$531,000,000 and then applied the balance to the contributed surplus.

(c) Share option scheme

The Company adopted a share option scheme on 18th May 2001 ("the 2001 Option Scheme") and had granted options in August 2001 to the Group's employees (including executive directors) to subscribe for shares in the Company with option period expiring after 2nd August 2003.

Furthermore, the Company adopted another share option scheme on 16th May 2002 ("the 2002 Option Scheme"), to adopt the changes in the Chapter 17 of the Listing Rules, under which the Company may grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards. As at 31st December 2003, options have already granted to employees, executive directors and a customer of the Company.

Movements of share options during the year are as follows:

(i) 2001 Option Scheme

	Number of options	
	2003	2002
	'000	'000
As at 1st January	**354,930**	377,060
Lapsed	**(354,930)**	(22,130)
As at 31st December	**–**	354,930

The share options lapsed were granted on 2nd August 2001 with an exercise price of HK$0.10 per share.

20 SHARE CAPITAL *(Continued)*

Notes: (Continued)

(ii) 2002 Option Scheme

	Number of options	
	2003	2002
	'000	'000
As at 1st January	**–**	–
Granted	**125,950**	–
Lapsed	**(11,900)**	–
As at 31st December	**114,050**	–

The outstanding share options were granted on 2nd June 2003 with an exercise price of HK$0.02 per share of which 107,600,000 and 6,450,000 share options were exercisable over a period of three years and two years, respectively, from the date of grant.

On 18th March 2004, the Company has granted 92,350,000 options to the employees of the Group at the exercise price of HK$0.022 each for a period of two years.

(d) In January 2004, the Company has granted a non-transferrable option to SIL, carrying rights to subscribe for a maximum of 180,000,000 shares of the Company at HK$0.02 per share on or before December 2008 and as long as any of the loan is outstanding (note 19(b)).

(e) In February 2004, the Company issued 475,000,000 ordinary shares at HK$0.024 each to settle the Debt owing to Circle Asia (note 13(c)).

(f) In April 2004, the Group intended to settle HK$69,000,000 of the Loan by the issuance of 3,066,666,666 Convertible Preference Shares to SIL. Details are set out in note 19(b).

21 RESERVES

Group

	Share premium HK$'000	Capital reserve (a) HK$'000	Contributed surplus (b) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2002	257,073	3,000	–	(518,600)	(258,527)
Loss for the year	–	–	–	(3,958)	(3,958)
At 31st December 2002	257,073	3,000	–	(522,558)	(262,485)
At 1st January 2003	257,073	3,000	–	(522,558)	(262,485)
Capital reorganisation *(note 20(b))*	(257,073)	–	651,492	–	394,419
Transfer *(note (b))*	–	–	(530,562)	530,562	–
Loss for the year	–	–	–	(46,727)	(46,727)
At 31st December 2003	–	3,000	120,930	(38,723)	85,207

Company

	Share premium HK$'000	Contributed Surplus (b) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2002	257,073	16,714	(530,562)	(256,775)
Loss for the year	–	–	(6,524)	(6,524)
At 31st December 2002	257,073	16,714	(537,086)	(263,299)
At 1st January 2003	257,073	16,714	(537,086)	(263,299)
Capital reorganisation *(note 20(b))*	(257,073)	651,492	–	394,419
Transfer *(note (b))*	–	(530,562)	530,562	–
Loss for the year	–	–	(48,332)	(48,332)
At 31st December 2003	–	137,644	(54,856)	82,788

21 RESERVES *(Continued)*

Note:

(a) Capital reserve represents negative goodwill arisen from acquisition of a subsidiary in prior years.

(b) Contributed surplus of the Company represents the following:

(i) the excess of the nominal value of the shares issued by the Company over the nominal value of the issued share capital of subsidiaries acquired pursuant to a group reorganisation which took place in 1992,

(ii) the transfer of HK$651,492,000 to contributed surplus pursuant to the capital reorganisation scheme as set out in note 20(b); and

(iii) the application of HK$530,562,000 in contributed surplus to eliminate the accumulated losses of the Company (note 20(b)).

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash used in operating activities:

	Group	
	2003	2002
	HK$'000	HK$'000
Loss before taxation	**(47,840)**	(3,885)
Depreciation of fixed assets	**4,779**	4,015
Amortisation of goodwill and patents	**4,524**	4,707
Impairment of goodwill	**5,109**	–
Loss on disposal of fixed assets	**31**	3
Impairment of fixed assets	**5,704**	–
Loss/(gain) on disposal of subsidiaries	**14,309**	(29,355)
(Surplus)/deficit on revaluation of investment properties	**(1,666)**	3,778
Interest income	**(7)**	(125)
Interest expenses	**883**	371
Loss before working capital changes	**(14,174)**	(20,491)
Decrease/(increase) in inventories	**2,649**	(879)
Decrease in net contract work in progress	**–**	737
Decrease/(increase) in trade and other receivables	**1,527**	(11,834)
(Decrease)/increase in trade payable and other accruals, provisions and progress payment on account	**(678)**	10,235
Net cash used in operations	**(10,676)**	(22,232)

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Short-term and long-term loans		**Share capital**		**Minority interests**	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1st January	**1,707**	1,350	**418,243**	418,243	**9,225**	–
New loans raised	**63,422**	357	**–**	–	**–**	–
Repayment	**(2,169)**	–	**–**	–	**–**	–
Issue of shares *(note(d)(i))*	**–**	–	**20,000**	–	**–**	–
Capital reorganisation scheme	**–**	–	**(394,419)**	–	**–**	–
Acquisition of subsidiaries *(note(c))*	**–**	–	**–**	–	**6**	9,658
Minority interests' share of loss	**–**	–	**–**	–	**(620)**	(433)
At 31st December	**62,960**	1,707	**43,824**	418,243	**8,611**	9,225

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Purchase of subsidiaries

	2003 **HK$'000**	2002 HK$'000
Net assets acquired		
Intangible assets	**–**	943
Fixed assets *(note 12)*	**1,011**	6,604
Inventories	**–**	3,503
Trade and other receivables	**10,489**	–
Cash and bank balances	**2,804**	8,660
Trade and other payables	**(9,562)**	–
Minority interests	**(6)**	(9,658)
	4,736	10,052
Goodwill *(notes 11 and 13)*	**62,264**	8,514
	67,000	18,566
Satisfied by:		
Cash	**33,500**	18,566
Payable for acquisition of subsidiaries *(note 17(b))*	**33,500**	–
	67,000	18,566
The net cash outflow on acquisitions is determined as follows:		
Consideration paid	**33,500**	18,566
Less: cash and cash equivalents in subsidiaries acquired	**(2,804)**	(8,660)
	30,696	9,906

The subsidiaries acquired during the year paid HK$0.2 million (2002: HK$2.4 million) in respect of the Group's net operating cash outflows.

(d) Major non-cash transactions

(i) During the year, approximately 131,000,000 and 69,000,000 of the Company's ordinary shares were issued at par of HK$0.1 each as consideration to settle the outstanding rental received in advance and acquire certain fixed assets, respectively (note 12(d)).

(ii) During the year, the Group acquired SIM Group from a minor shareholder of the Company at a consideration of HK$67,000,000 of which HK$33,500,000 was settled in January 2004 (notes 13(b) and 17(b)).

23 PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31st December 2003, the Group had aggregate banking facilities of approximately HK$37,960,000 (2002: HK$15,000,000) from several banks and a financial institution for guarantees, trust receipt loans, bank overdrafts and long-term loan. Unused facilities as at the same date amounted to HK$5,022,000 (2002: HK$6,725,000). These facilities were secured by:

(i) cross guarantees totalling HK$25,000,000 (2002: HK$25,000,000) given by the Company and certain of its subsidiaries in respect of a shared banking facility to be used by the Company and these subsidiaries;

(ii) bank deposits of HK$1,053,000 (2002: nil) (note 16); and

(iii) certain investment properties of the Group with a total book value of approximately HK$124,700,000 (2002: HK$55,000,000) as at 31st December 2003 (note 12(c)).

(b) As at 31st December 2003, the Group's other long-term loan of HK$35,000,000 is secured by:

(i) 805,570,000 shares of the Company held by e-Compact Limited, a substantial shareholder of the Company and

(ii) the entire issued shares of a wholly owned subsidiary of the Group which indirectly holds a property in Hong Kong.

24 CONTINGENT LIABILITIES

Save as disclosed in note 23 above, as at 31st December 2003, there was a material outstanding litigation which was commenced by a third party contractor in April 2002, claiming against a bank which had served a third party notice to the Company, for a performance bond amounting to HK$8,600,000 given by the Company to a former subsidiary in order for it to undertake an installation project with the third party contractor. As at 31st December 2003, the Group's bank deposits of HK$8,600,000 were pledged for the purpose of this performance bond. The Company issued a fourth party notice to seek recourse from the former subsidiary. The directors, having sought independent legal advice, are of the opinion that the case is unclear at this stage as the amount of liability could not be measured with sufficient reliability. Accordingly, no provision has been made in the accounts in respect of the claim.

25 COMMITMENTS UNDER OPERATING LEASES

(i) As at 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	2002
	HK$'000	HK$'000
Not later than one year	**396**	615
Later than one year and not later than five years	**231**	644
	627	1,259

(ii) As at 31st December 2003, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of investment properties as follows:

	2003	2002
	HK$'000	HK$'000
Not later than one year	**3,446**	2,155
Later than one year and not later than five years	**3,879**	3,811
	7,325	5,966

26 RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,000 ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For non-MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution made by the Group was approximately HK$535,000 (2002: HK$681,000), after deduction of forfeited contribution of approximately HK$271,000 (2002: HK$181,000).

A subsidiary operating in Mainland China is required to participate in a defined contribution retirement plan orgainised by the local government. The subsidiary is required to make contributions to the retirement plan at 2% (2002: 2%) of basic salary for each Mainland China employee of the Group.

27 RELATED PARTY TRANSACTIONS

Save as disclosed in notes 2 and 13(b), the Group did not have any significant related party transactions for the year ended 31st December 2003.

28 SIGNIFICANT SUBSEQUENT EVENTS

Save as disclosed in notes 2, 3(b), 12(e), 13(c), 13(d), 20(d), 20(e) and 20(f), the Group did not have any significant events which took place subsequent to the balance sheet date.

29 COMPARATIVE FIGURES

Certain comparative figures have been restated or reclassified as a consequence of the change in the Group's presentation of segmental information and the presentation of financial information in relation to the discontinuing operations.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23rd April 2004.