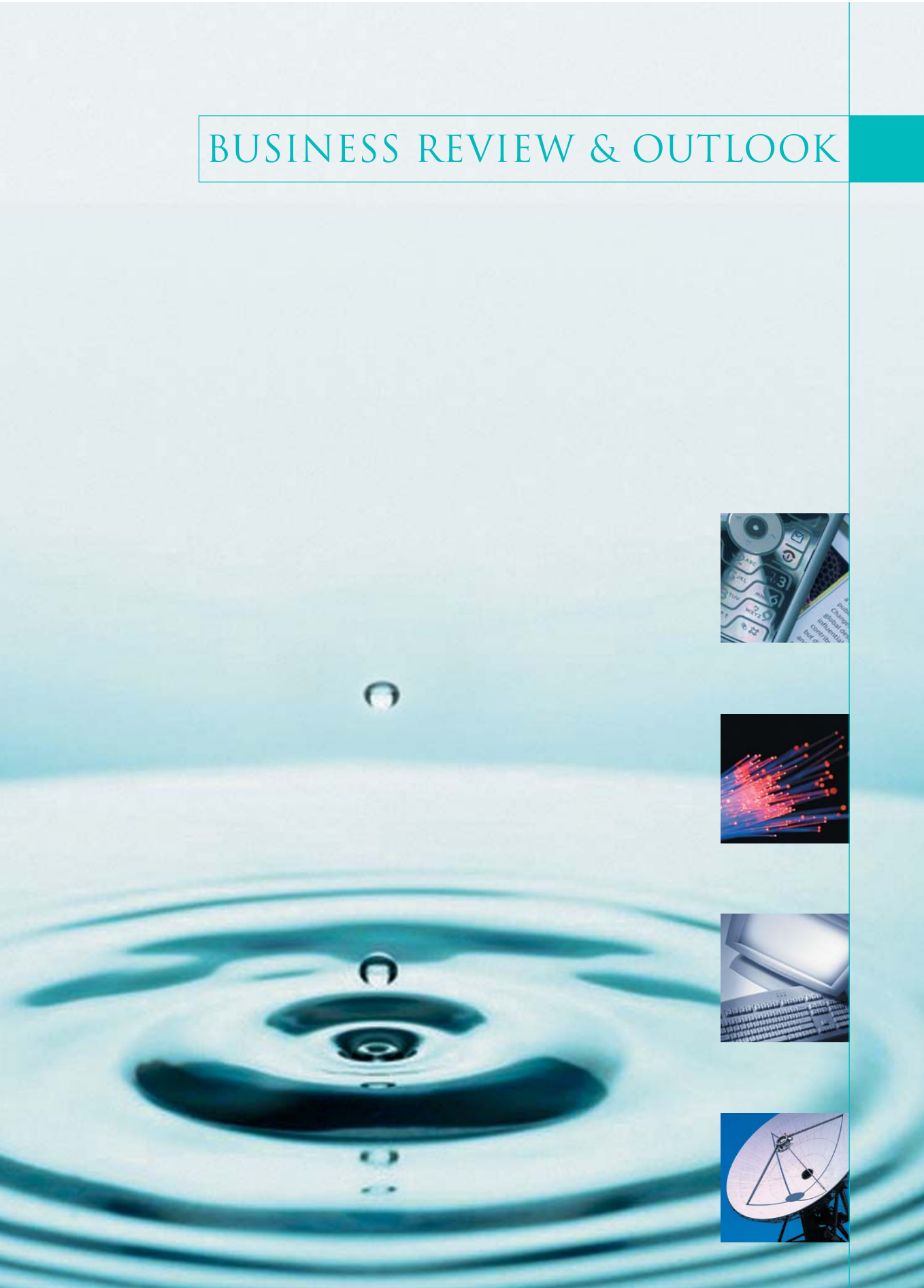


BUSINESS REVIEW & OUTLOOK



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FINANCIAL REVIEW

For the year ended 31 December 2004, the Group's consolidated turnover amounted to approximately HK\$48.3 million, representing an increase of approximately HK\$4.1 million from that of last year. The turnover from continuing operations increased by HK\$33.9 million approximately from HK\$4.9 million approximately to HK\$38.8 million approximately. The gross profit increased from approximately HK\$10.5 million to approximately HK\$21.2 million and gross profit ratio improved from 24% to 44%. The significant growth of turnover from continuing operations and improvement in gross profit was contributed by one of the subsidiary groups of the Entertainment Media Division which was acquired in December 2003. Loss attributable to shareholders in 2004 increased to approximately HK\$98.1 million. The main reasons for this increase were due to amortization and impairment loss of goodwill at approximately HK\$64.9 million and start up costs of some new business units in Telecommunication and Entertainment Media Divisions.

The Group's total assets as at 31 December 2004 were approximately HK\$170.2 million which are financed by liabilities and minority interest amounting to approximately HK\$122.8 million and shareholders' fund amounting to approximately HK\$47.4 million. The Group incurred approximately HK\$7.5 million on acquisition of property, plant and equipment, approximately HK\$4.3 million on acquisition of intangible assets and approximately HK\$3.1 million on goodwill in respect of acquisition of the Hawaii subsidiary in January 2004.

In addition, the Company had announced the acquisition of a Japanese content company in December 2004 at HK\$13,406,400 by issue and allotment of 196,000,000 shares at HK\$0.0684 and the acquisition was completed in January 2005. The details of the acquisition are disclosed in the announcement of the Company dated 21 December 2004.

Capital Commitment

Save as the acquisition of the Japan subsidiary, the Group did not have material capital commitment as at 31 December 2004.

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In order to deploy the internal resources efficiently, the Group has undergone restructuring during 2004 and divided the business into three main divisions: Telecommunication Division, Entertainment Media Division and Property Investment Division.

Telecommunication Division

The turnover of this Division for the year ended 31 December 2004 was approximately HK\$4.6 million, an increase of 951% when compared to that of 2003. Due to the severe competition in the Hong Kong telecommunication industry and the further development and consolidation of this Division, the loss of this Division was approximately HK\$10.8 million for the year ended 31 December 2004 which included impairment loss of goodwill at approximately HK\$2.5 million.

This Division was established in March 2003. The Hong Kong subsidiary, Telecom Innovation Limited, provides corporate IDD retail service, voice wholesales service and billing service to international customers and also sells prepaid IDD calling card products to the Hong Kong market.

The Hawaii subsidiary, Circle Telecom USA Inc. ("CT USA"), which was acquired in January 2004, has an Internet Protocol ("IP") network to support its customers' IP voice and data requirements with good quality at competitive price. CT USA provides prepaid cards services which provide enterprises with customized prepaid telephone cards with their own logos, a full range of Voice Over Internet Protocol ("VoIP") services which offer VoIP voicemail and enhanced calling features, VoIP local, inter-island, domestic and international long distance calls, VoIP phones, prepaid services and Virtual Private Network ("VPN") service. It also operates eKiosks services which offer advanced, function-rich and flexible kiosks for corporate clients. Starting from the fourth quarter of 2004, CT USA provides Talk4Less Residential and Business Calling Services in United States so that the customers can enjoy international and domestic long distance services at low rates by simply using local access number without any Personal Identification Number ("PIN"). The Talk4Less services show progressive growth in the US market with satisfactory customer retention. In second half of 2004, a Japan strategic partner of CT USA restructured its businesses by terminating certain services and changing scope of services provided. The business restructuring of the Japan partner resulted significant reduction of revenue of CT USA. The management reviewed the fair value of the business of CT USA as at 31 December 2004 and subsequently recognized impairment loss for goodwill at HK\$2.5 million.

CT USA has formed strategic partnership with the largest reseller of cellular telephone in Hawaii in November 2004 and three prepaid card providers in early 2005 to enhance the distribution network.

Besides, this Division has a subsidiary which provides capital leasing services to international telecommunication companies.

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Entertainment Media Division

This Division, formerly known as Media and Content Division, comprises of several local and foreign subsidiaries with businesses in telecommunication value-added services (“VAS”), media entertainment provisioning and advertising agency, content aggregation, on-line content provisioning in Hong Kong, Macau, PRC, Hawaii and Japan. The turnover of this Division for the year ended 31 December 2004 was approximately HK\$31.7 million.

In the year of 2004, the VAS industry in Hong Kong continued to suffer from price competition. The VAS industry in PRC had undergone a period of consolidation as the State’s Ministry of Information Industry (“MII”) which has strengthened its regulations on Service Providers (“SP’s”) and China Mobile lowered the pricing on certain VAS products. In view of the uncertainty of the operating environment, the Division has accounted for an impairment of goodwill of Hong Kong and PRC operating subsidiaries amounting to approximately HK\$10.6 million and HK\$41.8 million respectively.

In Hong Kong and Macau, Cellcast (Asia) Limited (“CAL”), one of the subsidiaries under this Division, continued to deliver the majority of the revenue for this Division. CAL, which trades under the brand “Yeahmobile”, offers ring tone, wallpaper, Java games download and community services and continues its leading position in this industry. It also introduced new services including true tone (also known as MP3 ring tone) download, connecting tone (also known as color ring) services. The delivery means has shifted from voice based to Short Message Services (“SMS”) based or WAP based as mobile data usage continues to grow. In addition to the distribution of services through mobile network operators, CAL continues to operate with chain stores like Wilson Communications Limited to distribute our services on prepaid cards under the brand “Yeahyeah” card. CAL also provides Interactive Voice Response (“IVR”) platform for certain mobile network operators in Hong Kong and Macau as well as IVR and SMS platform for TVB and RTHK. CAL also provides IVR platform bundled with ring tone download for 7-Eleven and Fortress Corporation for their marketing campaign.

The Macau subsidiary, TelecomInno (Macau) Company Limited, which launched its on-line gaming services under the brand name of “www.gamedegift.com” in the Japanese mobile market in the fourth quarter of 2004, it has recruited more than 2,000 registered customers in Japan since its establishment. The growth of this business is expected to be faster in the coming year. It also plans to extend the service coverage to other jurisdiction and will introduce more innovation platforms for personal computer customers.

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In PRC, New Power Limited (“NPL”) continues to offer download services of Java games, community, graphics, sports information and certain ring tone. The PRC business suffered a decline in the second half of 2004 due to the following unfavorable conditions: (1) tighter regulation by MII and China Mobile on SP’s including using SMS as a promotion means; (2) over competition from more than 3,500 SP’s on a national basis; (3) a prolonged cycle of assessment, approval, testing and implementation by China Mobile in respect of new services submitted by SP’s; (4) implementation of Mobile Internet Service Centre (“MISC”) platform by China Mobile which requires the confirmation by mobile subscribers upon the request of information; (5) cleaning up of “silent subscriber” which means that SP’s cannot charge a subscriber a monthly fee if no information is requested by the subscriber; (6) bad debt resulting from traffic discrepancies between volume recorded by SP’s and volume charged against mobile subscribers by China Mobile. Accordingly, NPL has restructured its Shanghai and Shenzhen operations and rationalized its overhead cost. It also adopted a more flexible marketing approach by entering into joint promotion effort with certain regional network operators and handsets retailers.

Visual Paradise Inc. is a Hawaii incorporated subsidiary under this Division and was established in the second half year of 2004. It produces Hawaiian video and audio recordings to be distributed via websites and kiosk in Japan. No revenue was generated in 2004 as the business is still in the preparation stage.

In January 2005, the Company has acquired a Japanese corporation – “Limited Liability Company Prehit” (the company name renamed to “Y.K. Drive” subsequently after acquisition) from Freparnetworks Inc., the inventor and developer of Digi Raku Kiosk Machines. The customers in Japan can download varieties of entertainment contents from the Digi Raku Kiosk Machine stationed in major chain stores in and around Tokyo. Y.K. Drive has entered into an exclusive content agreement with Freparnetworks Inc. to provide entertainment contents to the Digi Raku Kiosk Machines. The Group expects the business of Y.K. Drive to grow substantially in 2005.

Property Investment Division

This Division generated stable revenue through several investment properties in Hong Kong and Guangzhou, PRC and most of them are leased to independent third parties. During the year, a group of subsidiaries consolidated from various office locations and moved to one of the premises in Hong Kong. Since the Group does not lease that premises to third party, the Division reclassified that premises from investment property to leasehold land and buildings and started to depreciate that premises.

For the year ended 31 December 2004, this Division contributed revenue at approximately HK\$3.1 million, a decrease of approximately HK\$0.2 million comparing with that of 2003. This Division suffered a loss of approximately HK\$1.5 million (2003: approximately HK\$4.8 million) because of property valuation losses in PRC properties and depreciation charge for property held for own use.

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Discontinued PRC Fire Protection and Suppression Business

Due to the change of corporate strategy, the Group had disposed of a wholly-owned subsidiary, which held 51% equity interests in the Shanghai joint venture, Shanghai Mansion Wananda Fire System Company Limited during the year of 2004. After the disposal, the Group did not conduct any fire protection and suppression business.

Subsequent Events

In January 2005, the Company has issued 196,000,000 new shares of the Company at the issue price of HK\$0.0684 each to Freparnetworks Inc. to acquire “Limited Liability Company Prehit”. Details of which are disclosed in the paragraph under Entertainment Media Division above and also in the announcement dated 21 December 2004.

The Company has entered into three option agreements with Mr. Lai On Shing, Mr. Au Chung Kong and Sinoland International Limited (collectively known as the “Grantees”) on 28 January 2005 and granted in aggregate 225,000,000 options to the Grantees in February 2005.

Capital

During December 2004 and January 2005, the Company received notice from a convertible preference shareholder, Station Investments Limited (“Station”), to transfer in aggregate 1,200,000,000 convertible preference shares (“CPS”) of the Company to T&C Capital Limited (“T&C”), an independent third party by tranches. In January 2005, T&C converted 800,000,000 CPS into ordinary shares of the Company and in March 2005, Station also converted 166,666,666 CPS into ordinary shares of the Company. In March 2005, the Company has received a notice from Station in respect of the transfer of 800,000,000 CPS to a shareholder of the Company, e-Lux Corporation. After the aforesaid CPS conversion, the outstanding number of CPS at the date of this report is 2,100,000,000 CPS.

Liquidity, Financial Resources, Charges on Group Assets and Gearing Ratio

As at 31 December 2004, the Group has cash and bank balances of approximately HK\$5.5 million, short-term loans at approximately HK\$13 million, long-term loans at approximately HK\$21.3 million and convertible preference shares at HK\$69 million. The Group’s current assets as at 31 December 2004 were approximately HK\$16.3 million while the current liabilities were approximately HK\$34.2 million. The Group continues to adopt conservative funding and treasury policies. As at 31 December 2004, the Group’s current ratio was 0.48 (2003: 0.63).

The Group’s gearing ratio, representing the Group’s total liabilities divided by the shareholders’ funds of the Group, as at 31 December 2004 is 2.59 (2003: 0.97).

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Exposure to fluctuations in exchange rates and related hedges

The Group's turnover, expenses, assets and liabilities are denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contingent liabilities

As at 31 December 2004, there was a material outstanding litigation which was commenced by a third party contractor in July 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 31 December 2004, the Group's bank deposits of HK\$8,603,000 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 financial statements in respect of the claim.

Besides the aforesaid litigation case, there were also two civil litigation cases outstanding. One litigation case was commenced by a bankrupted third party for breach of an alleged agreement and claimed damages against the Company in respect of a joint venture formed in 1996 for construction projects. Another litigation case was commenced by a bank against the aforesaid bankrupted third party and the joint venture, which had served a third party notice to the Company, for outstanding balance of overdraft facilities. After obtaining two counsel's advices on the former case and a lawyer's advice on the latter case, the directors are of the opinion that these cases are remote and no provision has been made in the financial statements in respect of the alleged claims.

Save as disclosed above, the Group did not have any material contingent liabilities.

Pledged of Shares

The Company had pledged its entire issued shares of Wide Profit Enterprises Limited, a property holding subsidiary of the Group to Station for the balance of a loan in the amount of HK\$1,000,000 which the Group intends to repay it in the mid 2005.

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Employee of the Group

The Group has adopted competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies, study and examination leaves offered to all full-time staff.

As at 31 December 2004, the total headcount of the Group was 79.

Outlook

In relation to the Entertainment Media Division, the Company believes that data usage, higher speed and more bandwidth will be the future trend of mobile telecommunications industry. The significant growth in the number of 2.5G and 3G mobile subscribers in the Hong Kong telecommunications VAS market proved this trend. According to statistics of the Office of Telecommunications Authority (“OFTA”), the number of 2.5G and 3G mobile subscribers in Hong Kong has increased from 0.84 million in January 2004 to 1.35 million in December 2004. These trends increase the market size for products with larger file size involving delivery through General Packet Radio Services (“GPRS”) and 3G mobile gateways. The enhancement in the speed of data delivery over the mobile operators’ network also provided opportunities for smart phones. More and more smart phones are introduced into the market, which run on Windows Mobile, Symbian or Linux operating systems and incorporated with a lot of Personal Digital Assistant (“PDA”) features. The Group considers that 3G services and smart phones (mobile phones plus PDA) will provide new business opportunities in the Hong Kong market and we will explore opportunities in these areas while continuing to secure the leading position in telecommunications VAS and mobile platform provisioning industries.

In addition, the Group will also enhance the existing telecommunication services and products, including the Talk4Less service and the on-line content services to attract more customers with efficient marketing campaign and the association of strategic partners to activate new routes and extend new networks.

In relation to the PRC market, the Group considers the downturn of the VAS market was over. In the middle of year 2004, our subsidiary, NPL has complied with the new requirement of MII on share capital and obtained a Cross Region ICP license. Subsequently, China Mobile changed its “one point connection, national wide network assess, and one point collection” policy by the end of 2004. NPL also has responded by connecting only to the selected provinces which consider to be more familiar and commercial successful. The Group considers the VAS market in PRC will become healthier after the market consolidation.

In relation to the Japanese market, the Group believes that Y.K. Drive will bring substantial revenue to the Group in the coming years. The development of the content services provided by Y.K. Drive to the Digi Raku Kiosk Machines will accompany the growth in numbers of these machines in Japan. The number of these machines increased from 30 in January 2005 to 190 in March 2005. Freeparenetworks Inc. plans to install more than 5,000 kiosks machines in Japan in the next five years.

The Group has successfully diversified the businesses out of Hong Kong through acquisition of various subsidiaries in Hawaii and Japan and also successfully implemented new corporate identity and direction for the Group. Looking ahead, the Group believes that most of the developing business units will start to contribute to the Group in the second half of 2005.