

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment business, telecommunication business, and entertainment media business. During the year ended 31 December 2004, the Group ceased its fire protection and suppression business in Mainland China.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of HK\$17,973,000 as at 31 December 2004. The Group is dependent upon the financial support of its banks. In April 2005, the Group obtained a facility letter for a revolving term loan facility from a financial institution, which is also a substantial shareholder of the Company as defined under Securities and Future Ordinance, to fund the general working capital of the Group. Against this background, the directors consider that, with continuing financial support of the Group’s banks and the financial institution, the Group will have sufficient working capital to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group’s financial position and cash flows as at 31 December 2004.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accountings periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Revenue from telecommunication services, media and content services is recognised when the services are rendered.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, accumulated amortisation and accumulated impairment losses.

Depreciation or amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	5% or where shorter, the terms of the relevant lease
Furniture, fixtures and equipment	20% to 33%
Motor vehicles	20%

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve on a portfolio basis unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets are measured initially at cost and amortised on a straight-line basis over their estimated useful lives, as follows:

Patents	20 years
Cable use rights	14 years
Website software	5 years

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries after 1 January 2001 is capitalised and amortised on a straight-line basis over its economic useful life of 5 to 10 years. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet. The Group has no goodwill on acquisition occurring prior to 1 January 2001.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Inventories

Inventories were stated at the lower of cost and net realisable value. Cost was calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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 year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements 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 to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or 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 taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profit 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 is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating leases

All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On consolidation, the assets and liabilities of operations outside Hong Kong are translated into Hong Kong dollars at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to exchange reserve, if any. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

Borrowing costs are charged to income statement in the period in which they are incurred.

Retirement benefit schemes

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.

5. SEGMENT INFORMATION

Business segments

For management purpose, the Group is currently organised into three business divisions – property investment, telecommunication, and entertainment media businesses. These divisions are the basis on which the Group reports its primary segment information.

On 30 June 2004, the Group disposed of its entire interest in its subsidiary which was principally engaged in the manufacturing of fire protection and suppression systems and equipment in Mainland China (notes 6 and 29).

Subsequent to the disposal, the Group has classified its operations into the following continuing business segments:

- (i) property investment;
- (ii) telecommunication services including provision of IDD retail and wholesale services; and
- (iii) entertainment media services, including telecommunication value added services.

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	For the year ended 31 December 2004					
	Continuing operations			Discontinuing operation		Total
	Property investment	Telecom- munication	Entertainment media	Fire protection and suppression	Elimination	
						HK\$'000
Turnover						
External sales	2,743	4,434	31,665	9,424	-	48,266
Inter-segment sales	367	170	-	-	(537)	-
Total	3,110	4,604	31,665	9,424	(537)	48,266
Segment results	(1,467)	(10,765)	(71,586)	(1,313)	-	(85,131)
Other operating income						397
Unallocated corporate expenses						(14,753)
Loss from operations						(99,487)
Finance costs						(2,350)
Loss on disposal of discontinuing operations				(1,006)		(1,006)
Loss before taxation						(102,843)
Tax credit						12
Loss after taxation						(102,831)
Minority interests						4,707
Net loss for the year						(98,124)

Intersegment sales are charged at cost plus mark-up basis.

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Continuing operations			Discontinuing operation	Total HK\$'000
	Property investment HK\$'000	Telecom- munication HK\$'000	Entertainment media HK\$'000	Fire protection and suppression HK\$'000	
<u>As at 31 December 2004</u>					
Assets					
Segment assets	133,762	9,512	16,774	-	160,048
Unallocated assets					10,138
Total assets					<u>170,186</u>
Liabilities					
Segment liabilities	1,629	7,253	14,904	-	23,786
Unallocated liabilities					99,009
Total liabilities					<u>122,795</u>
<u>For the year ended 31 December 2004</u>					
Other information					
Additions to property, plant and equipment	-	4,697	2,238	11	6,946
Unallocated					567
					<u>7,513</u>
Additions to goodwill	-	3,105	-	-	3,105
Additions to intangible assets	-	3,486	777	-	4,263
Segment depreciation	1,549	1,273	577	493	3,892
Unallocated depreciation					438
					<u>4,330</u>
Amortisation of goodwill and intangible assets	-	823	9,345	47	10,215
Deficit on revaluation of investment properties	1,070	-	-	-	1,070
Impairment of goodwill	-	2,536	52,413	-	54,949
Allowance for bad and doubtful debts	-	-	581	-	581

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	For the year ended 31 December 2003				
	Continuing operations			Discontinuing operation	Total HK\$'000
	Property investment HK\$'000	Telecom- munication HK\$'000	Entertainment media HK\$'000	Fire protection and suppression HK\$'000	
Turnover	3,252	438	1,215	39,248	44,153
Segment results	(4,849)	(2,658)	(763)	(11,487)	(19,757)
Other operating income					980
Unallocated corporate expenses					(13,871)
Loss from operations					(32,648)
Finance costs					(883)
Loss on disposal of discontinuing operations				(14,309)	(14,309)
Loss before taxation					(47,840)
Tax credit					493
Loss after taxation					(47,347)
Minority interests					620
Net loss for the year					(46,727)

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

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Continuing operations			Discontinuing operation	Total HK\$'000
	Property investment HK\$'000	Telecom- munication HK\$'000	Entertainment media HK\$'000	Fire protection and suppression HK\$'000	
<u>As at 31 December 2003</u>					
Assets					
Segment assets	137,877	525	76,048	24,982	239,432
Unallocated assets					22,728
Total assets					262,160
Liabilities					
Segment liabilities	1,981	2,202	9,872	10,078	24,133
Unallocated liabilities					100,385
Total liabilities					124,518
<u>For the year ended 31 December 2003</u>					
Other information					
Additions to property, plant and equipment	7,898	212	1,011	277	9,398
Unallocated					145
					9,543
Additions to goodwill	-	-	62,264	-	62,264
Segment depreciation	2,227	44	-	1,392	3,663
Unallocated depreciation					1,116
					4,779
Impairment of property, plant and equipment	5,704	-	-	-	5,704
Amortisation of goodwill and intangible assets	-	-	519	4,005	4,524
Impairment of goodwill	-	-	-	5,109	5,109
Allowance for bad and doubtful debts	190	-	-	1,169	1,359
Unallocated allowance for bad and doubtful debts					1,783
					3,142
Allowance for obsolete inventory	-	-	-	1,863	1,863

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)**Geographical segments**

The Group's operations and assets are located in Hong Kong, other regions in the People's Republic of China ("Mainland China"), United States of America ("USA") and Japan.

Segment information of the Group by geographical location same as customers and location of asset is presented as below:

	For the year ended 31 December 2004					
	Hong Kong	Mainland		USA	Others	Consolidated
		China	USA			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover						
- continuing operations	27,758	7,414	3,666	4	38,842	
- discontinuing operation	-	9,424	-	-	9,424	
					48,266	
Additions to property, plant and equipment						
- continuing operations	1,278	67	4,707	1,450	7,502	
- discontinuing operation	-	11	-	-	11	
					7,513	
Additions to goodwill	-	-	3,105	-	3,105	
Additions to intangible assets	-	3,486	777	-	4,263	

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

	Hong Kong	Mainland China	USA	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

At 31 December 2004

Total assets					
– continuing operations	147,689	12,100	8,914	1,483	170,186
– discontinuing operation	-	-	-	-	-
					<u>170,186</u>

	Hong Kong	Mainland China	Consolidated
	HK\$'000	HK\$'000	HK\$'000

For the year ended 31 December 2003

Turnover			
– continuing operations	3,908	997	4,905
– discontinuing operations	19,956	19,292	39,248
			<u>44,153</u>

Additions to property, plant and equipment			
– continuing operations	8,585	681	9,266
– discontinuing operations	94	183	277
			<u>9,543</u>

Additions to goodwill	13,409	48,855	62,264
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Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION *(Continued)***Geographical segments** *(Continued)*

	Hong Kong	Mainland China	Consolidated
	HK\$'000	HK\$'000	HK\$'000
<u>At 31 December 2003</u>			
Total assets			
– continuing operations	222,280	14,898	237,178
– discounting operations	–	24,982	24,982
			<u>262,160</u>

6. DISCONTINUING OPERATIONS

In March 2004, the Group entered into a sale agreement to dispose of a subsidiary, Mansion Fire International Limited (“MFIL”) which holds investment in Shanghai Mansion Wananda Fire System Company Limited (“SMFS”), which was principally engaged in the manufacturing of fire protection and suppression systems and equipment in Mainland China (“Discontinuing Segment”) to the ultimate beneficial owner of SMFS. The disposal was effected in order to generate cash flows for the expansion of the Group’s other businesses. The disposal was completed on 30 June 2004, on which date control of MFIL passed to the acquirer.

Notes to the Financial Statements

For the year ended 31 December 2004

6. DISCONTINUING OPERATIONS *(Continued)*

The results of the Discontinuing Segment for the period from 1 January 2004 to 30 June 2004, which have been included in the consolidated financial statements, were as follows:

	Period ended 30.6.2004 HK\$'000	Year ended 31.12.2003 HK\$'000
Turnover	9,424	19,292
Other income	39	91
Operating costs	(10,737)	(30,570)
Finance costs	(28)	(33)
Loss before taxation	(1,302)	(11,220)
Taxation	-	-
Loss after taxation	(1,302)	(11,220)

During the year, the Discontinuing Segment paid HK\$107,000 (2003: HK\$359,000) to the Group's net operating cash flows, paid HK\$11,000 (2003: generated HK\$183,000) in respect of investing activities.

The carrying amounts of the assets and liabilities of Discontinuing Segment at the date of disposal, and at 31 December 2003, are disclosed in note 29.

A loss of HK\$1,006,000 arose on the disposal of MFIL, being the proceeds of disposal less the carrying amount of the net liabilities of the subsidiaries after adjusted for the waiver of debts with subsidiaries. No tax charge or credit arose on loss on the disposal of MFIL.

7. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	12	7
Management fee income	385	973
	397	980

Notes to the Financial Statements

For the year ended 31 December 2004

8. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	572	602
– underprovision in respect of the prior year	142	–
	714	602
Amortisation of goodwill (charged to other operating expenses)	9,901	4,381
Amortisation of intangible assets (charged to administrative and operating expenses)	314	143
Depreciation and amortisation of property, plant and equipment	4,330	4,779
Impairment loss recognised in respect of property, plant and equipment	–	5,704
Loss on disposal of property, plant and equipment	258	31
Operating lease rentals in respect of rented premises	1,742	709
Revaluation decrease of investment properties (charged to other operating expenses)	1,070	–
Net exchange losses	1	6
Allowance for bad and doubtful debts	581	3,142
Allowance for obsolete inventory	–	1,863
Cost of inventories recognised as expense	6,373	18,061
Staff costs		
– Directors' emoluments (<i>note 10</i>)	8,310	4,409
– Other staff costs		
– Salaries, wages and other benefits	17,913	10,237
– Retirement benefit scheme contribution net of forfeited contribution of HK\$116,000 (2003: HK\$271,000)	267	264
	26,490	14,910
and after crediting:		
Revaluation increase of investment properties with deficit previously charged to consolidated income statement	–	1,666

Notes to the Financial Statements

For the year ended 31 December 2004

9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interests on:		
Borrowings wholly repayable within five years	334	174
Borrowings not wholly repayable within five years	2,016	709
	<u>2,350</u>	<u>883</u>

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Independent non-executive directors	141	120
Other emoluments paid to executive directors:		
Salaries and other benefits	5,597	4,148
Bonuses	2,500	83
Retirement benefit scheme contributions	72	58
	<u>8,169</u>	<u>4,289</u>
	<u>8,310</u>	<u>4,409</u>

No directors waived any emoluments in respect of the year ended 31 December 2004 and 2003.

Notes to the Financial Statements

For the year ended 31 December 2004

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Directors' emoluments (Continued)

	2004 HK\$'000	2003 HK\$'000
Michele Matsuda		
– Salaries and other benefits	1,586	1,033
– Stay-on and 13th month bonuses	200	83
– Performance bonus	2,300	–
– Retirement benefit scheme contributions	20	–
	<u>4,106</u>	<u>1,116</u>
Pursuant to the employment agreement entered in 2003, performance bonus is payable to Michele Matsuda annually. The performance bonus for the years ended 31 December 2003 and 2004 were concluded in year of 2004 at HK\$800,000 and HK\$1,500,000 respectively.		
Leung To Kwong, Valiant		
– Salaries and other benefits	1,392	1,160
– Retirement benefit scheme contributions	12	8
	<u>1,404</u>	<u>1,168</u>
Cheung Chi Fai, Frank		
– Salaries and other benefits	1,080	–
– Retirement benefit scheme contributions	9	–
	<u>1,089</u>	<u>–</u>
Yiu Ying Fai		
– Salaries and other benefits	1,539	1,955
– Retirement benefit scheme contributions	31	50
	<u>1,570</u>	<u>2,005</u>

Notes to the Financial Statements

For the year ended 31 December 2004

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES *(Continued)*

Directors' emoluments *(Continued)*

	2004 HK\$'000	2003 HK\$'000
Zhou Ji, Jason		
– Fee	60	60
Keijiro Hasegawa		
– Fee	21	–
Chen Tien-yiu, Theodore		
– Fee	16	–
To King Yan, Adam		
– Fee	44	60

Highest paid employees

The five highest paid individuals of the Group included four (2003: three) executive directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one (2003: two) highest paid employees, other than directors of the Company, are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,011	804
Retirement benefit scheme contributions	–	37
	1,011	841

The emoluments of the highest paid employees were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	1	–

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For the year ended 31 December 2004

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The tax credit comprises:		
Current taxation		
Hong Kong Profits Tax		
– Overprovision in prior years	12	493

No provision for Hong Kong Profits Tax or Mainland China Enterprise Income Tax has been made as the Group has no assessable profit. The tax credit represents overprovision in prior years.

The tax credit for the year can be reconciled to loss before taxation per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(102,843)	(47,840)
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	17,998	8,372
Tax effect of expenses not deductible for tax purpose	(12,707)	(6,585)
Tax effect of income not taxable for tax purpose	131	823
Overprovision in respect of prior years	12	493
Tax effect of tax losses utilised	332	–
Tax effect of tax losses and other deductible temporary differences not recognised	(5,595)	(2,610)
Others	(159)	–
Tax credit for the year	12	493

Notes to the Financial Statements

For the year ended 31 December 2004

11. TAXATION (Continued)

Deferred taxation

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2003	(1,785)	1,785	–
(Charge) credit to consolidated income statement for the year	(753)	753	–
At 31 December 2003	(2,538)	2,538	–
(Charge) credit to consolidated income statement for the year	68	(68)	–
Acquisition of a subsidiary	932	(932)	–
At 31 December 2004	(1,538)	1,538	–

There were no material unprovided deferred tax liabilities as at 31 December 2004 and 2003.

At the balance sheet date, the Group has unused tax losses of HK\$56,749,000 (2003: HK\$25,696,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$8,790,000 (2003: HK\$14,501,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$47,959,000 (2003: HK\$11,195,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$12,009,000 (2003: Nil) that will expire in 2022 to 2024. Other tax losses may be carried forward indefinitely.

At the balance sheet date, the Group has other deductible temporary differences of HK\$5,640,000 (2003: Nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

12. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Loss for the purpose of basic and diluted loss per share		
– Net loss for the year	98,124	46,727

Notes to the Financial Statements

For the year ended 31 December 2004

12. LOSS PER SHARE (Continued)

	Number of shares	
	2004	2003
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	4,829,729,410	4,342,438,973

The computation of diluted loss per share does not assume the conversion of convertible preference shares and share options since their exercise would result in a decrease in the loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP			THE COMPANY	
	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Furniture, fixtures and equipment HK\$'000
COST					
As at 1 January 2004	11,334	16,215	872	28,421	31
Additions	-	4,296	7	4,303	-
Acquisition of a subsidiary (note 28)	-	3,641	48	3,689	-
Transfer from investment properties	43,950	-	-	43,950	-
Disposals	(5,000)	(1,959)	(226)	(7,185)	-
Disposal of subsidiaries (note 29)	(4,591)	(3,390)	(701)	(8,682)	-
As at 31 December 2004	45,693	18,803	-	64,496	31
ACCUMULATED DEPRECIATION					
As at 1 January 2004	3,198	12,190	436	15,824	1
Acquisition of a subsidiary (note 28)	-	468	11	479	-
Provided for the year	1,825	2,437	68	4,330	8
Disposals	(1,667)	(1,529)	(193)	(3,389)	-
Disposal of subsidiaries (note 29)	(574)	(1,593)	(322)	(2,489)	-
As at 31 December 2004	2,782	11,973	-	14,755	9
NET BOOK VALUE					
As at 31 December 2004	42,911	6,830	-	49,741	22
As at 31 December 2003	8,136	4,025	436	12,597	30

Notes to the Financial Statements

For the year ended 31 December 2004

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

The net book value of properties shown above comprises:

	Leasehold land and buildings	
	2004 HK\$'000	2003 HK\$'000
Properties held under medium term leases situated in:		
– Mainland China	476	4,636
– Hong Kong	42,435	3,500
	<u>42,911</u>	<u>8,136</u>

As at 31 December 2004, leasehold land and buildings with carrying value of HK\$42,435,000 (2003: Nil) were pledged as security for facilities granted by a bank.

14. INVESTMENT PROPERTIES

	HK\$'000
At 1 January 2004	135,266
Transfer to property, plant and equipment	(43,950)
Revaluation decrease	<u>(1,070)</u>
At 31 December 2004	<u>90,246</u>

Investment properties were valued at their open market value at 31 December 2004 by Vigers Hong Kong Limited, an independent professional valuer. This valuation gave rise to a revaluation decrease of HK\$1,070,000 (2003: a revaluation increase of HK\$1,666,000) which has been charged to the consolidated income statement.

All of the Group's investment properties are rented out under operating leases.

The Group's investment properties with carrying value of approximately HK\$81,850,000 (2003: HK\$124,700,000) have been pledged to secure banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2004

14. INVESTMENT PROPERTIES (Continued)

The carrying amount of investment properties comprises land and buildings held under the respective term of remaining leases are as follows:

	2004 HK\$'000	2003 HK\$'000
Mainland China		
– medium term leases	8,396	10,566
Hong Kong		
– long term leases	–	124,700
– medium term leases	81,850	–
	90,246	135,266

15. INTANGIBLE ASSETS

	Patents HK\$'000	Cable use rights HK\$'000	Website software HK\$'000	Total HK\$'000
COST				
As at 1 January 2004	943	–	–	943
Purchase	–	–	777	777
Acquisition of a subsidiary (note 28)	–	3,636	–	3,636
Disposal of subsidiaries (note 29)	(943)	–	–	(943)
As at 31 December 2004	–	3,636	777	4,413
ACCUMULATED AMORTISATION				
As at 1 January 2004	188	–	–	188
Amortisation	47	254	13	314
Acquisition of a subsidiary (note 28)	–	150	–	150
Disposal of subsidiaries (note 29)	(235)	–	–	(235)
As at 31 December 2004	–	404	13	417
NET BOOK VALUE				
As at 31 December 2004	–	3,232	764	3,996
As at 31 December 2003	755	–	–	755

All of the Group's cable use rights and website software were acquired from third parties.

Notes to the Financial Statements

For the year ended 31 December 2004

16. GOODWILL

	HK\$'000
COST	
At 1 January 2004	70,778
Arising on acquisition of a subsidiary (<i>note 28</i>)	3,105
Eliminated on disposal of subsidiaries	(8,514)
	<u>65,369</u>
At 31 December 2004	65,369
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	9,033
Charge for the year	9,901
Eliminated on disposals during the year	(8,514)
Impairment loss recognised in the year	54,949
	<u>65,369</u>
At 31 December 2004	65,369
NET BOOK VALUE	
At 31 December 2004	–
At 31 December 2003	<u>61,745</u>

Due to rapid changes of market conditions in telecommunication value added services in Hong Kong and Mainland China, particularly, tighter statutory regulations and prolonged cycle of approval of launch of new products in Mainland China market, the management performed an assessment of the businesses with reference to the value in use as at 31 December 2004. As a result, based on the estimated value, the Group recognised impairment loss for goodwill of HK\$52.4 million in the Entertainment Media segment.

In second half of 2004, a Japan strategic partner of a Hawaii Telecommunication subsidiary 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 that subsidiary. The management reviewed the performance of that subsidiary with reference to the value in use as at 31 December 2004 and subsequently recognised impairment loss for goodwill at HK\$2.5 million in the Telecommunication segment.

Notes to the Financial Statements

For the year ended 31 December 2004

17. FINANCE LEASE RECEIVABLE

	Minimum lease receivable		Present value of minimum lease receivable	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance lease:				
Within one year	252	–	187	–
In the second to fifth year inclusive	1,419	–	1,240	–
Over five years	89	–	88	–
	1,760	–	1,515	–
Less: unearned finance income	(245)	–	N/A	N/A
Present value of minimum lease receivable	1,515	–	1,515	–
Analysed as:				
Non-current finance lease receivable (recoverable after 12 months)			1,328	–
Current finance lease receivable (recoverable within 12 months)			187	–
			1,515	–

The Group entered into a finance leasing arrangement for certain telecommunication equipment. The term of finance lease entered into is 5.5 years. The interest rate inherent in the lease is fixed at the contract date for the lease term. The interest rate on finance lease at 31 December 2004 was 6%. Estimated unguaranteed residual values of asset leased under finance leases is nil.

Notes to the Financial Statements

For the year ended 31 December 2004

18. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares/investments, at cost	11,500	78,501
Loans to subsidiaries	22,000	22,000
Amounts due from subsidiaries	672,959	647,035
	706,459	747,536
Less:		
– impairment loss on cost of investments	–	(1)
– Allowance for amounts due from subsidiaries	(588,726)	(558,192)
	117,733	189,343

Loans to subsidiaries are unsecured, bearing interest at 6.5% and have no fixed terms of repayment.

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

In the opinion of the directors of the Company, these amounts will not be demanded for repayment within twelve months from the balance sheet date, accordingly these amounts are classified as non-current.

Particulars of the Company's principal subsidiaries as at 31 December 2004 are as follows:

Company	Place of incorporation/ operation	Issued share capital/ registered capital	Effective equity interest attributable to the Group		Nature of business
			Direct	Indirect	
Sun Innovation 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

Notes to the Financial Statements

For the year ended 31 December 2004

18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 31 December 2004 are as follows: (Continued)

Company	Place of incorporation/ operation	Issued share capital/ registered capital	Effective equity interest attributable		Nature of business
			to the Group		
			Direct	Indirect	
Sai Chak Company Limited	Hong Kong	HK\$100,000	-	100%	Holding investment properties in Hong Kong
Sun Innovation Media Group Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1,000	-	100%	Investment holding
Cellcast (Asia) Limited	BVI/Hong Kong	US\$37,525	-	99.93%	Provision of content and information services
Media Elite Limited (formerly known as Smart Drive Advertising Limited)	BVI/Hong Kong	US\$16,000	-	100%	Provision of advertising agency services and magazine publishing
New Multimedia Limited	BVI/Hong Kong	US\$1	-	100%	Provision of content and information services
Cellcast Technology (Shenzhen) Limited (i)	Mainland China	HK\$1,000,000	-	100%	Investment holding
New Power Limited (ii)	Mainland China	RMB10,100,000	-	51%	Provision of content and information services
Telecom Innovation Limited	Hong Kong	HK\$100	-	100%	Provision of telecommunication service
TelecomInno (Macau) Company Limited	Macau	MOP100,000	-	100%	Provision of mobile and internet services
Wide Profit Enterprises Limited	BVI/Hong Kong	US\$100	-	100%	Investment holding
Circle Telecom USA Inc.	USA	US\$10	-	100%	Provision of telecommunication services

Notes to the Financial Statements

For the year ended 31 December 2004

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2004 are as follows: *(Continued)*

Company	Place of incorporation/ operation	Issued share capital/ registered capital	Effective equity interest attributable		Nature of business
			to the Group		
			Direct	Indirect	
Visual Paradise Inc.	USA	US\$200,000	-	100%	Provision of content and information services
Drive Limited	Hong Kong	HK\$1	-	100%	Investment holding
Sun Innovation Management Services Limited	Hong Kong	HK\$2	100%	-	Provision of management services
Sun Innovation (China) Investments Limited	Hong Kong	HK\$100	-	100%	Provision of properties investment
Sun Innovation Leasing Limited (formerly known as Mansion Fire Engineering (H.K.) Company Limited)	Hong Kong	HK\$10,000	-	100%	Provision of capital leasing services
Mansion China Company Limited	BVI	US\$100	-	60%	Investment holding

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

(ii) New Power Limited is limited 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.

Notes to the Financial Statements

For the year ended 31 December 2004

19. INVENTORIES

	2004 HK\$'000	2003 HK\$'000
Raw materials	–	733
Work in progress	–	822
Finished goods	–	1,263
	–	2,818

As at 31 December 2003, inventories of HK\$2,818,000 were carried at net realisable value.

20. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables	7,601	16,072	–	–
Retention receivable	–	1,673	–	–
Prepayments and other receivables	2,963	5,198	76	202
	10,564	22,943	76	202

The Group normally allows an average credit period of 60 days to trade customers. As at 31 December 2004, the ageing analysis of the Group's trade receivables was as follows:

	2004 HK\$'000	2003 HK\$'000
Current	2,110	5,000
31 – 60 days	2,157	4,901
61 – 90 days	1,632	2,937
over 90 days	1,702	3,234
	7,601	16,072

Notes to the Financial Statements

For the year ended 31 December 2004

21. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

THE GROUP

As at 31 December 2004, no Group's bank deposits (2003: HK\$1,053,000) were pledged to secure banking facilities granted to the Group and approximately HK\$8,603,000 (2003: HK\$8,601,000) of the Group's deposits were pledged to a bank to secure for a performance bond issued by that bank (note 35(i)). As it is uncertain when the pledge in respect of the performance bond will be released within twelve months from the balance sheet date, the corresponding amount is classified as non-current asset.

Included in the balances of the Group is an amount of HK\$1,322,000 (2003: HK\$878,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

THE COMPANY

The amount represents bank deposits pledged to a bank to secure for a performance bond issued by that bank.

22. TRADE, OTHER PAYABLES AND ACCRUALS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	9,199	9,944	–	–
Other payables and accruals	10,262	13,136	2,884	2,125
	19,461	23,080	2,884	2,125

As at 31 December 2004, the ageing analysis the Group's trade payables was as follows:

	2004 HK\$'000	2003 HK\$'000
Current	1,733	2,453
31 – 60 days	774	1,418
61 – 90 days	321	1,961
Over 90 days	6,371	4,112
	9,199	9,944

Notes to the Financial Statements

For the year ended 31 December 2004

23. PAYABLE FOR ACQUISITION OF SUBSIDIARIES**THE GROUP AND THE COMPANY**

The amount represented the amount payable in connection with the acquisition of Sun Innovation Media Group Limited and its subsidiaries in the year ended 31 December 2003 (*note 24(b)*).

24. BORROWINGS – SECURED

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	–	4,978	–	4,947
Bank loans (<i>note (a)</i>)	33,334	15,583	8,000	5,000
Loan from a financial institution (<i>note (a)</i>)	–	12,377	–	–
Other loan (<i>note (b)</i>)	1,000	35,000	1,000	35,000
	34,334	67,938	9,000	44,947
Current portion of long-term loans	(14,784)	(12,439)	(8,000)	(9,947)
Amount due after one year	19,550	55,499	1,000	35,000

The maturity profile of the above borrowings and overdrafts are as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On demand or within one year	14,784	12,439	8,000	9,947
More than one year but not exceeding two years	1,834	1,579	–	–
More than two years but not exceeding five years	5,820	5,115	–	–
More than five years	11,896	48,805	1,000	35,000
	34,334	67,938	9,000	44,947
Less: Amounts due within one year shown under current liabilities				
Bank overdrafts	–	4,978	–	4,947
Bank loans	14,784	7,461	8,000	5,000
	14,784	12,439	8,000	9,947
Amount due after one year	19,550	55,499	1,000	35,000

Notes to the Financial Statements

For the year ended 31 December 2004

24. BORROWINGS – SECURED *(Continued)*

Notes:

- (a) The bank loans and loan from a financial institution are secured by bank deposits of a subsidiary in Mainland China of Nil (2003: HK\$1,053,000) and certain leasehold land and buildings and investment properties of the Group with a total net book value of HK\$124,285,000 (2003: HK\$124,700,000) (notes 13 and 14). These loans bear interest at the rates of 3% to 5% (2003: 3% to 5%) per annum.
- (b) Other loan

The Company had borrowed HK\$70,000,000 (the “Loan”) by two equal instalments from Station Investments Limited (“SIL”), a shareholder of the Company, to acquire a group of subsidiaries in 2003 at the consideration of HK\$67,000,000. The Company had drawn the first instalment of HK\$35,000,000 in 2003 and the final instalment of HK\$35,000,000 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 the entire issued shares of a wholly owned subsidiary of the Company which indirectly holds a property in Hong Kong (note 34 (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 25(i)) and as long as any of the Loan is still outstanding.

On 8 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.

Notes to the Financial Statements

For the year ended 31 December 2004

25. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Authorised:				
At beginning of the year				
As at 1 January 2004 of HK\$0.01 each and 1 January 2003 of HK\$0.1 each	75,000,000,000	20,000,000,000	750,000	2,000,000
Share sub-division (<i>note (c)(i)</i>)	-	180,000,000,000	-	-
Authorised ordinary share capital reduction (<i>note (c)(ii)</i>)	-	(125,000,000,000)	-	(1,250,000)
Authorised ordinary share capital reclassified to convertible preference shares (<i>note (a)</i>)	(3,066,666,666)	-	(30,667)	-
At end of year, all ordinary shares of HK\$0.01 each	71,933,333,334	75,000,000,000	719,333	750,000
Issued and fully paid:				
At beginning of year				
As at 1 January 2004 of HK\$0.01 each and 1 January 2003 of HK\$0.1 each	4,382,438,973	4,182,438,973	43,824	418,243
Issue of ordinary shares (<i>notes (b) and (e)</i>)	718,450,000	200,000,000	7,185	20,000
Reduction in par value of ordinary shares (<i>note (c)(iii)</i>)	-	-	-	(394,419)
At end of year, all ordinary shares of HK\$0.01 each	5,100,888,973	4,382,438,973	51,009	43,824

Notes:

- (a) At the special general meeting of the Company held on 28 June 2004, the authorised capital of the Company was reclassified into 71,933,333,334 ordinary shares of HK\$0.01 each and 3,066,666,666 convertible preferences shares by redesignating 3,066,666,666 ordinary shares into 3,066,666,666 convertible preference shares of HK\$0.01 each and the existing issued shares would remain as share capital of ordinary shares of the Company (*note 27*).

Notes to the Financial Statements

For the year ended 31 December 2004

25. SHARE CAPITAL *(Continued)*

- (b) (i) In March 2004, the Company issued 475,000,000 ordinary shares of the Company at HK\$0.024 each as settlement to Circle Asia Inc. (renamed as Yasuko-No-Denwa, Inc. in August 2004) to repay a debt in the amount of approximately HK\$11,400,000.
- (ii) In December 2004, SIL exercised the option to subscribe for 90,000,000 shares of the Company at HK\$0.020 each.
- (iii) During the year, the Company issued 153,450,000 ordinary shares of the Company to the employees and a customer of the Group granted under the 2002 share option scheme. The market prices of the shares ranged from HK\$0.020 to HK\$0.086 on the exercise dates of the share options.
- (c) Capital reorganisation scheme was approved by the shareholders of the Company on 30 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;
 - (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.
- (d) 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 property, plant and equipment from a company beneficially owned by two former directors.

Notes to the Financial Statements

For the year ended 31 December 2004

25. SHARE CAPITAL (Continued)**(e) Share option schemes**

Movements of share options of the Company during the year are as follows:

	Number of Share Options							
	Outstanding	Granted	Lapsed	Outstanding	Granted	Exercised	Lapsed	Outstanding
	as at 1.1.2003 '000	during 2003 '000	during 2003 '000	as at 31.12.2003 '000	during 2004 '000	during the year '000	during 2004 '000	as at 31.12.2004 '000

Category:

2002 Option Scheme (note f)

Directors	-	87,600	-	87,600	242,200	(85,800)	-	244,000
Employees	-	33,350	(11,900)	21,450	94,600	(62,650)	(5,700)	47,700
Customer	-	5,000	-	5,000	-	(5,000)	-	-

	-	125,950	(11,900)	114,050	336,800	(153,450)	(5,700)	291,700
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2001 Option Scheme (note g)

	354,930	-	(354,930)	-	-	-	-	-
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Other

Strategic alliance (note h))	-	-	-	-	230,000	-	-	230,000
Lender (note i))	-	-	-	-	180,000	(90,000)	-	90,000

	354,930	125,950	(366,830)	114,050	746,800	(243,450)	(5,700)	611,700
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(f) 2002 Share Option Scheme

The Company adopted a share option scheme on 16 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 31 December 2004, options have already granted to employees, executive directors and a customer of the Company.

The outstanding share options under 2002 Option Scheme were granted on 2 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. The market price on the date of grant was HK\$0.019 per share.

On 18 March 2004, the Company 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. The market price on the date of grant was HK\$0.022.

Notes to the Financial Statements

For the year ended 31 December 2004

25. SHARE CAPITAL *(Continued)*

(f) **2002 Share Option Scheme** *(Continued)*

On 28 June 2004, the shareholders of the Company has approved and granted 200,000,000 options to Mr. Michele Matsuda, Chairman of the Company, at the exercise price of HK\$0.020 each for a period of ten years. The market price on the date of grant was HK\$0.019.

On 30 June 2004, the Company granted 10,000,000 options to the employees of the Group at the exercise price of HK\$0.020 each for period of two years. The market price on the date of grant was HK\$0.019.

On 13 August 2004, the Company also granted 1,750,000 options to the employees of the Group at the exercise price of HK\$0.0362 each for a period of two years. The market price on the date of grant was HK\$0.0360.

On 28 October 2004, the Company also granted 32,700,000 options to the directors and employees of the Group at the exercise price of HK\$0.0346 each for a period of two years. The market price on the date of grant was HK\$0.0340.

(g) **2001 Share Option Scheme**

In previous years, another share option scheme was also adopted on 18 May 2001 ("2001 Option Scheme"). Under the 2001 Share Option Scheme, the Company granted options on 2 August 2001 to the Group's employees (including executive directors) to subscribe for shares in the Company with option period expiring after 2 August 2001 with an exercise price of HK\$0.10 per share. All share options of 354,930,000 as at 1 January 2003 granted under the 2001 Share Option Scheme had lapsed during the year ended 31 December 2003. The market price on the date of grant was HK\$0.045.

(h) In December 2004, the Company granted an option to Knight Assets Limited, a strategic alliance, to require the Company to issue and allot up to 230,000,000 ordinary shares for a par value of HK\$0.01 in the Company at a price of HK\$0.0468 per share.

(i) In January 2004, the Company granted a non-transferrable option to SIL, a lender, 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 24(b)*).

Notes to the Financial Statements

For the year ended 31 December 2004

26. RESERVES

	Share premium HK\$'000	Capital reserve (a) HK\$'000	Contributed surplus (b) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
GROUP					
At 1 January 2003	257,073	3,000	-	(522,558)	(262,485)
Capital reorganisation (<i>note 25(c)</i>)	(257,073)	-	651,492	-	394,419
Transfer (<i>note 25(c)</i>)	-	-	(530,562)	530,562	-
Loss for the year	-	-	-	(46,727)	(46,727)
At 31 December 2003	-	3,000	120,930	(38,723)	85,207
Issue of shares	9,295	-	-	-	9,295
Loss for the year	-	-	-	(98,124)	(98,124)
At 31 December 2004	9,295	3,000	120,930	(136,847)	(3,622)

	Share premium HK\$'000	Contributed surplus (c) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
COMPANY				
At 1 January 2003	257,073	16,714	(537,086)	(263,299)
Capital reorganisation (<i>note 25(c)</i>)	(257,073)	651,492	-	394,419
Transfer (<i>note 25(c)</i>)	-	(530,562)	530,562	-
Loss for the year	-	-	(48,332)	(48,332)
At 31 December 2003	-	137,644	(54,856)	82,788
Issue of shares	9,295	-	-	9,295
Loss for the year	-	-	(97,277)	(97,277)
At 31 December 2004	9,295	137,644	(152,133)	(5,194)

Notes:

- (a) Capital reserve represents negative goodwill arisen from acquisition of a subsidiary in prior years.
- (b) Contributed surplus of the Group represents the net effect of the capital reorganisation scheme in respect of share subdivision and reduction which took place in May 2003 (*note 25(c)*).

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For the year ended 31 December 2004

26. RESERVES (Continued)

- (c) 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 25 (c)*; and
 - (iii) the application of HK\$530,562,000 in contributed surplus to eliminate the accumulated losses of the Company (*note 25 (c)*).

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, there is no reserve available for distribution.

27. CONVERTIBLE PREFERENCE SHARES

	2004 Number of convertible preference shares	2003 Number of convertible preference shares
Authorised:		
Convertible preference shares of HK\$0.01 each		
Reclassified from ordinary shares (<i>note 25(a)</i>)	3,066,666,666	–
At the end of year	3,066,666,666	–

Notes to the Financial Statements

For the year ended 31 December 2004

27. CONVERTIBLE PREFERENCE SHARES (Continued)

	2004 Number of convertible preference shares	2004 HK\$'000
Issued and fully paid:		
Issue of convertible preference shares of HK\$0.01 each	3,066,666,666	69,000
At the end of year	3,066,666,666	69,000

On 12 July 2004, the Company issued 3,066,666,666 convertible preference shares to settle HK\$69,000,000 of the Loan due to Station (*note 24(b)*).

The principal terms of the convertible preference shares are set out below:

- The convertible preference shares rank in priority to any other class of shares in the capital of the Company, as to dividends and a return of capital on the winding up of the Company or otherwise.
- Subject to the requirements of the Companies Act 1981 of Bermuda, each convertible preference share will be entitled to a cumulative annual dividend of 1% on the principal amount payable annually in arrears commencing from 29 January 2007 up to the 29 January 2010 but will not be entitled to any further dividend distribution.
- Holders of the convertible preference shares will be entitled to convert their shares in multiples of 100,000,000 into ordinary shares at any time from the date of issue up to 29 January 2010 at a conversion price of HK\$0.0225 per share, subject to adjustment.
- Holders of the convertible preference shares shall be entitled to participate in any rights issue or open offer of shares made to shareholders but shall not be entitled to vote at any general meeting of the Company unless a resolution is to be proposed for the winding up of the Company or to vary or abrogate the rights of the holders of the convertible preference shares.
- To the extent that the convertible preference shares have not been converted or redeemed on or prior to 29 January 2010, they shall be, subject to the Companies Act 1981 of Bermuda, redeemed by the Company at par on 29 January 2010.

Notes to the Financial Statements

For the year ended 31 December 2004

28. ACQUISITION OF A SUBSIDIARY

In January 2004, the Group acquired the entire issued share capital of Circle Telecom USA Inc. for consideration of US\$1 from a company beneficially owned by a director of the Company. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$3.1 million.

	2004 HK\$'000	2003 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	3,210	1,011
Cable use rights	3,486	–
Trade and other receivables	1,035	10,489
Bank balances and cash	171	2,804
Trade and other payables	(10,727)	(9,562)
Bank loan	(280)	–
Minority interests	–	(6)
	(3,105)	4,736
Goodwill	3,105	62,264
Total consideration	–	67,000
Satisfied by:		
Cash	–	33,500
Payable for acquisition of subsidiaries	–	33,500
	–	67,000
Net cash inflow arising on acquisition:		
Cash consideration	–	(33,500)
Bank balances and cash acquired	171	2,804
Net inflow (outflow) of cash and cash equivalents in respect of the acquisition of a subsidiary	171	(30,696)

The subsidiary acquired during the year contributed HK\$3,666,000 to the Group's turnover, and resulted a loss of HK\$8,270,000 to the Group's loss from operations.

Notes to the Financial Statements

For the year ended 31 December 2004

29. DISPOSAL OF SUBSIDIARIES

As referred to in note 6, on 30 June 2004 the Group discontinued its fire protection and suppression business at the time of disposal of its subsidiary, MFIL. The net liabilities of MFIL at the date of disposal, and at 31 December 2003 were as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
NET LIABILITIES DISPOSED OF		
Property, plant and equipment	6,193	6,677
Intangible assets	708	755
Inventories	4,258	2,818
Trade and other receivables	9,805	9,916
Pledged bank deposits	1,053	1,054
Bank balances and cash	3,557	3,762
Trade and other payables	(10,895)	(9,135)
Bank loans	(943)	(943)
Amount due to holding company	(20,142)	(19,628)
Minority interests	(8,045)	(8,605)
Net liabilities	(14,451)	<u>(13,329)</u>
Waiver of net amounts due from subsidiaries upon disposal	20,142	
Loss on disposal	(1,006)	
Total consideration	<u>4,685</u>	
Satisfied by:		
Cash	<u>4,685</u>	
Net cash inflow arising on disposal:		
Cash consideration	4,685	
Bank balances and cash disposed of	(3,557)	
	<u>1,128</u>	

The subsidiaries disposed of during the year contributed HK\$9,424,000 (2003: HK\$19,292,000) to the Group's turnover and resulted loss of HK\$742,000 (2003: HK\$10,600,000) to the Group's loss from operations.

Notes to the Financial Statements

For the year ended 31 December 2004

30. MAJOR NON-CASH TRANSACTIONS

- (a) In March 2004, the Company issued 475,000,000 ordinary shares at HK\$0.024 each to settle the debt of HK\$11,400,000 owing to Circle Asia Inc. (Note 25 (b)(i)).
- (b) In April 2004, the Company issued 3,066,666,666 convertible preference shares to SIL to settle HK\$69,000,000 of the Loan.
- (c) During the year ended 31 December 2003, 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 property, plant and equipment, respectively.
- (d) During the year ended 31 December 2003, the Group acquired certain subsidiaries from a shareholder of the Company at a consideration of HK\$67,000,000 of which HK\$33,500,000 was settled in January 2004 (note 28).

31. RETIREMENT BENEFIT SCHEMES

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"). Selected employees can choose to make additional contributions and the employer will contribute the same amount of 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. 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\$383,000 (2003: HK\$535,000), after deduction of forfeited contribution of approximately HK\$116,000 (2003: HK\$271,000).

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement plan organised by the local government. The subsidiaries are required to make contributions to the retirement plan at certain percentage of basic salaries of each Mainland China employee of the Group.

Notes to the Financial Statements

For the year ended 31 December 2004

32. OPERATING LEASE COMMITMENTS

- (i) As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipment	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	536	396	14	–
Later than one year and not later than five years	–	231	48	–
	536	627	62	–

Leases are negotiated for an average term of one year.

- (ii) As at 31 December 2004, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases as follows:

	Investment properties		Equipment	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	2,537	3,446	70	–
Later than one year and not later than five years	3,592	3,879	59	–
	6,129	7,325	129	–

The properties held at balance sheet date have committed tenants for an average term of three years.

33. CAPITAL COMMITMENT

Save as disclosed in note 37, the Group did not have any significant capital commitment as at 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

34. PLEDGE OF ASSETS AND GUARANTEES

- (a) As at 31 December 2004, the Group had aggregate banking facilities of approximately HK\$57,390,000 (2003: HK\$37,960,000) from a bank for guarantees, bank overdrafts, short-term loan and long-term loan. Unused facilities as at the same date amounted to HK\$22,390,000 (2003: HK\$5,022,000). These facilities were secured by:
- (i) cross guarantees totalling HK\$35,000,000 (2003: 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) certain leasehold land and buildings and investment properties of the Group with a total net book value of approximately HK\$124,285,000 (2003: HK\$124,700,000) as at 31 December 2004 (*notes 13 and 14*).
 - (iii) bank deposit of Nil (2003: HK\$1,053,000).
 - (iv) personal guarantee of a director of the Company and a director of a subsidiary up to the extent of HK\$390,000 (2003: Nil).
- (b) As at 31 December 2004, the Group's other long-term loan of HK\$1,000,000 (2003: HK\$35,000,000) is secured by the entire issued shares of a wholly owned subsidiary of the Group which indirectly holds a property in Hong Kong.

35. CONTINGENT LIABILITIES

Save as disclosed in note 34, as at 31 December 2004 the Group has material outstanding litigations as follows:

- i) 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 contractors. As at 31 December 2004, the Group's bank deposits of HK\$8,603,000 were pledged for the purpose this performance bond. 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.

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For the year ended 31 December 2004

35. CONTINGENT LIABILITIES *(Continued)*

- ii) a statement of claim, which was lodged in July 2000, and subsequent amended statements of claim were filed against the Company for a sum of approximately HK\$18,979,000 and damages for breach of agreement allegedly made with a third party in respect of financial support for certain construction projects which the Company had allegedly agreed to undertake. 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.
- iii) a third party notice was served upon the Company in September 1998 to seek indemnity/contribution from the Company and was subsequently amended in October 1998. The Company is alleged to be in default of the co-operative agreement in respect of a corporate guarantee of HK\$2,000,000. As a result of the alleged breach, a claim is made against the Company for the suffered loss and damages including but not limited to the fact that the claimants' liability towards a bank. The directors, having sought independent legal advice, are of the opinion of the case has been dormant for a number of years and therefore no provision has been made in the financial statements in respect of the claim.

36. RELATED PARTY TRANSACTIONS

During the year, Circle Telecom USA Inc. had paid approximately HK\$978,000 for the content services and telecommunication networking services to a company which is owned by a director of the subsidiary. The transactions were made based on the contracts stipulated before Circle Telecom USA Inc became the subsidiary of the Group. All these contracts were terminated by the end of August 2004.

Save as disclosed in notes 6, 28, 34 and above, the Group did not have any significant related party transactions for the year ended 31 December 2004.

37. SIGNIFICANT SUBSEQUENT EVENTS

- (a) Pursuant to an agreement entered in December 2004, the Group acquired the entire issued capital of Y.K. Drive (formerly known as Limited Liability Company Prehit), a company incorporated in Japan, at a consideration of HK\$13,406,000 in January 2005 which was satisfied by the issue and allotment of 196,000,000 shares of the Company. In addition, on the first occasion whereby gross profit of Y.K. Drive reaches JP¥10 million (approximately HK\$750,000) for any one month after the completion of the acquisition, the Company will issue and allot the 294 million shares of the Company at an issue price of HK\$0.0684 per share.

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37. SIGNIFICANT SUBSEQUENT EVENTS *(Continued)*

- (b) Subsequent issue of shares and granting of options after 31 December 2004
 - (i) In January 2005, the Company has issued 196,000,000 shares of the Company at HK\$0.0684 each to Freparnetworks Inc. to acquire Y.K. Drive;
 - (ii) In January 2005, the Company has also granted in aggregate 225,000,000 options of the Company to Mr. Lai On Shing, Mr. Au Chung Kong and Sinoland International Limited.