

# Consolidated Profit and Loss Account

for the year ended 30th September, 2004

|   | Note | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|------|--------------------------------|------------------|
| Turnover  | 2    | <b>1,895,976</b>               | 2,678,332        |
| Cost of sales   |      | <b>(1,887,248)</b>             | (2,561,341)      |
| Gross profit  |      | <b>8,728</b>                   | 116,991          |
| Other revenues  | 2    | <b>3,923</b>                   | 12,446           |
| Selling and distribution expenses   |      | <b>(31,726)</b>                | (23,457)         |
| Administrative expenses   |      | <b>(95,120)</b>                | (113,719)        |
| Other operating expenses  |      | <b>(68,930)</b>                | (118,348)        |
| Operating loss  | 3    | <b>(183,125)</b>               | (126,087)        |
| Finance costs   | 4    | <b>(336)</b>                   | (4,516)          |
| Gain on discontinuance of business on television<br>programme syndication and events management | 5    | <b>–</b>                       | 17,944           |
| Loss before taxation  |      | <b>(183,461)</b>               | (112,659)        |
| Taxation  | 6    | <b>(1,016)</b>                 | (2,073)          |
| Loss after taxation   |      | <b>(184,477)</b>               | (114,732)        |
| Loss attributable to shareholders   | 7    | <b>(184,477)</b>               | (114,732)        |
| Dividends   |      | <b>–</b>                       | –                |
| Basic loss per share  | 8    | <b>HK\$(0.036)</b>             | HK\$(0.022)      |
| Fully diluted loss per share  | 8    | <b>HK\$(0.036)</b>             | HK\$(0.022)      |

# Consolidated Balance Sheet

as at 30th September, 2004

|   | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------|------------------|------------------|
| Non-current assets                          |      |                  |                  |
| Fixed assets                                | 10   | 15,423           | 14,765           |
| Club debentures                             |      | 12,301           | 12,301           |
| Current assets                              |      |                  |                  |
| Inventories                                 | 12   | 145,368          | 137,690          |
| Trade receivables                           | 13   | 244,619          | 418,744          |
| Deposits, prepayments and other receivables |      | 162,340          | 159,737          |
| Cash and bank balances                      |      | 118,071          | 192,322          |
|   |      | <b>670,398</b>   | <b>908,493</b>   |
| Current liabilities                         |      |                  |                  |
| Trade payables                              | 14   | 13,344           | 57,154           |
| Other payables and accrued charges          | 15   | 34,034           | 42,639           |
| Taxation                                    | 6    | 119,926          | 121,630          |
| Short-term bank loans                       |      | –                | 3,878            |
| Current portion of long-term liabilities    | 16   | 30               | 26               |
|   |      | <b>167,334</b>   | <b>225,327</b>   |
| Net current assets                          |      | <b>503,064</b>   | <b>683,166</b>   |
| Total assets less current liabilities       |      | <b>530,788</b>   | <b>710,232</b>   |
| Financed by:                                |      |                  |                  |
| Share capital                               | 17   | 51,659           | 51,659           |
| Reserves                                    | 19   | 478,337          | 658,295          |
| Shareholders' funds                         |      | <b>529,996</b>   | <b>709,954</b>   |
| Long-term liabilities                       | 16   | 117              | 147              |
| Deferred tax                                | 20   | 675              | 131              |
|   |      | <b>530,788</b>   | <b>710,232</b>   |

On behalf of the Board

**SY Ethan, Timothy**  
Chairman

**CHEUNG Wing Yin, Vigny Wiley**  
Director

# Balance Sheet

as at 30th September, 2004

|   | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------|------------------|------------------|
| Non-current assets                          |      |                  |                  |
| Fixed assets                                | 10   | –                | 356              |
| Subsidiaries                                | 11   | 554,048          | 608,073          |
| Club debentures                             |      | 10,500           | 10,500           |
| Current assets                              |      |                  |                  |
| Deposits, prepayments and other receivables |      | 31,411           | 773              |
| Cash and bank balances                      |      | 1,085            | 1,116            |
|   |      | <b>32,496</b>    | <b>1,889</b>     |
| Current liabilities                         |      |                  |                  |
| Other payables and accrued charges          |      | 9,769            | 23,015           |
| Net current assets/(liabilities)            |      | <b>22,727</b>    | <b>(21,126)</b>  |
| Total assets less current liabilities       |      | <b>587,275</b>   | <b>597,803</b>   |
| Financed by:                                |      |                  |                  |
| Share capital                               | 17   | 51,659           | 51,659           |
| Reserves                                    | 19   | 535,616          | 546,144          |
| Shareholders' funds                         |      | <b>587,275</b>   | <b>597,803</b>   |
| On behalf of the Board                      |      |                  |                  |

**SY Ethan, Timothy**

Chairman

**CHEUNG Wing Yin, Vignya Wiley**

Director

# Consolidated Cash Flow Statement

for the year ended 30th September, 2004

|   | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------|------------------|------------------|
| Net cash outflow from operating activities          | 21   | <b>(71,057)</b>  | (914,151)        |
| Cash flows from investing activities                |      |                  |                  |
| Purchase of fixed assets                            |      | <b>(2,577)</b>   | (3,537)          |
| Proceeds from disposals of fixed assets             |      | <b>172</b>       | 1,233            |
| Purchase of trading investments                     |      | –                | (457,873)        |
| Proceeds from disposals of trading investments      |      | –                | 717,073          |
| Interest received                                   |      | <b>474</b>       | 10,405           |
| Dividends received                                  |      | –                | 8                |
| Net cash (outflow)/inflow from investing activities |      | <b>(1,931)</b>   | 267,309          |
| Cash flows from financing activities                |      |                  |                  |
| New bank loan raised                                |      | –                | 3,878            |
| Bank loan repaid                                    |      | <b>(3,878)</b>   | (235,099)        |
| Payment of capital element of finance leases        |      | <b>(26)</b>      | (105)            |
| Net cash outflow from financing activities          |      | <b>(3,904)</b>   | (231,326)        |
| Net decrease in cash and cash equivalents           |      | <b>(76,892)</b>  | (878,168)        |
| Cash and cash equivalents at 1st October            |      | <b>192,322</b>   | 1,070,490        |
| Effect of foreign exchange rate changes             |      | <b>2,641</b>     | –                |
| Cash and cash equivalents at 30th September         |      | <b>118,071</b>   | 192,322          |

# Consolidated Statement of Changes in Equity

for the year ended 30th September, 2004

|                                  | Note    | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|----------------------------------|---------|--------------------------------|------------------|
| Total equity at 1st October      | 17 & 19 | <b>709,954</b>                 | 824,686          |
| Currency translation differences | 19      | <b>4,519</b>                   | –                |
| Net loss for the year            | 19      | <b>(184,477)</b>               | (114,732)        |
| Total equity at 30th September   | 17 & 19 | <b>529,996</b>                 | 709,954          |

## 1 PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain leasehold land and buildings and club debentures are stated at fair value.

In the current year, the Group adopted the revised Statements of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKICPA which is effective for accounting periods commencing on or after 1st January, 2003. The effect of adopting this revised standard is as follows:

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st October, 2003, in order to comply with the revised SSAP 12 issued by the HKICPA, the Group has adopted a new accounting policy for deferred tax as set out in note 1(l) to the accounts. This change in accounting policy does not have any significant impact to the Group and no prior year adjustment is therefore required.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

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

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

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (b) Consolidation (cont'd)

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

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

### (c) Fixed assets

#### (i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed on a regular basis. In the intervening years, the directors of the Group review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

#### (ii) Depreciation

Leasehold land and buildings are depreciated over the period of the leases or their expected useful lives to the Group, whichever is shorter, to write off their valuation less accumulated impairment losses on a straight-line basis. The principal annual rate used for this purpose is 2%.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their expected useful lives to the Group on the straight-line basis. The principal annual rates used for this purpose are:

|                         |            |
|-------------------------|------------|
| Leasehold improvements  | 20%        |
| Furniture and fixtures  | 20%        |
| Computers and equipment | 20% to 30% |
| Motor vehicles          | 30%        |

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (c) Fixed assets (cont'd)

#### (iii) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and shown as a movement in reserves.

#### (iv) Cost of restoring and improving fixed assets

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

### (d) Leased assets

#### (i) Finance leases

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

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

#### (ii) Operating leases

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



## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (e) Impairment of assets

At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication that any assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying amount of the assets to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

### (f) Club debentures

Club debentures are carried at fair value.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost represents the invoiced cost of inventories. In general, costs are assigned to individual items on a weighted average basis. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation.

### (h) Trade receivables

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

### (i) Cash and cash equivalents

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

### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (k) Contingent liabilities

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

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### (l) Taxation

Income tax comprises current tax and deferred tax.

The charge for current income tax is based on the results for the year as adjusted for items that are taxable or deductible in other years or items that are never taxable or deductible. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the accounts. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

### (m) Translation of foreign currencies

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

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

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (n) Revenue recognition

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

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

Service and commission income are recognised when the services are rendered.

Dividend income is recognised when the right to receive payment is established.

### (o) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### (ii) *Retirement benefits costs*

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. All contributions to the scheme are charged to the profit and loss account as incurred and reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The Group also undertakes mandatory labour insurance schemes covering retirement benefits for its Taiwan employees as required by the Taiwan Employment Ordinance.

### (p) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (q) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment assets consist primarily of fixed assets, inventories, receivables, deposits, prepayments and operating cash, and mainly exclude investments in jointly controlled entities and club debentures. Segment liabilities comprise mainly of operating liabilities and exclude items such as deferred taxation and certain corporate provisions and borrowings. Capital expenditure comprises additions to fixed assets.

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

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Company is engaged in investment holding and its subsidiaries are principally engaged in trading of telecommunication products. Revenues recognised during the year are as follows:

|  | <b>Group</b>     |           |
|--|------------------|-----------|
|  | <b>2004</b>      | 2003      |
|  | <b>HK\$'000</b>  | HK\$'000  |
| Turnover   |                  |           |
| Sales of goods                                     | <b>1,883,886</b> | 2,670,478 |
| Other operations income                            | <b>12,090</b>    | 7,854     |
|  | <b>1,895,976</b> | 2,678,332 |
| Other revenues                                     |                  |           |
| Interest income                                    | <b>474</b>       | 10,405    |
| Commission income                                  | –                | 168       |
| Dividend income from trading investments           | –                | 8         |
| Gain on revaluation of leasehold land and building | <b>3,026</b>     | –         |
| Others   | <b>423</b>       | 1,865     |
|  | <b>3,923</b>     | 12,446    |
| Total revenues                                     | <b>1,899,899</b> | 2,690,778 |

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments

The Group is principally engaged in the trading of telecommunication products. Other operations of the Group mainly comprise provision of repair services of telecommunication products.

The Group's inter-segment transactions mainly consist of provision of repair services of telecommunication products between different business segments. The transactions were entered into at similar terms as that contracted with independent third parties and were eliminated on consolidation.

|                                   | Trading of<br>telecommunication<br>products<br>2004<br>HK\$'000 | Other<br>operations<br>2004<br>HK\$'000 | Inter-segment<br>elimination<br>2004<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|-----------------------------------|---|---|--|---------------------------|
| Turnover from external customers  | 1,873,921   | 22,055                                  | -  | 1,895,976                 |
| Inter-segment turnover            | -   | 11,809                                  | (11,809)   | -                         |
| Total turnover                    | <u>1,873,921</u>  | <u>33,864</u>                           | <u>(11,809)</u>                                  | <u>1,895,976</u>          |
| Segment results                   | <u>(167,687)</u>  | <u>(15,438)</u>                         |  | (183,125)                 |
| Finance costs                     |   |   |  | <u>(336)</u>              |
| Loss before taxation              |   |   |  | (183,461)                 |
| Taxation                          |   |   |  | <u>(1,016)</u>            |
| Loss after taxation               |   |   |  | <u>(184,477)</u>          |
| Loss attributable to shareholders |   |   |  | <u>(184,477)</u>          |
| Segment assets                    | 669,713   | 13,256                                  |  | 682,969                   |
| Club debentures                   |   |   |  | 12,301                    |
| Other unallocated assets          |   |   |  | <u>2,852</u>              |
| Total assets                      |   |   |  | <u>698,122</u>            |
| Segment liabilities               | 38,674  | 6,510                                   |  | 45,184                    |
| Unallocated liabilities           |   |   |  | <u>122,942</u>            |
| Total liabilities                 |   |   |  | <u>168,126</u>            |
| Capital expenditure               | 1,781   | 796                                     |  | 2,577                     |
| Depreciation                      | 2,698   | 643                                     |  | 3,341                     |
| Other non-cash expenses           |   |   |  | 75,282                    |

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments (cont'd)

|  | Trading of<br>telecommunication<br>products<br>2003<br>HK\$'000 | Other<br>operations<br>2003<br>HK\$'000 | Inter-segment<br>elimination<br>2003<br>HK\$'000 | Group<br>2003<br>HK\$'000 |
|--|---|---|--|---------------------------|
| Turnover from external customers   | 2,667,484   | 10,848                                  | –  | 2,678,332                 |
| Inter-segment turnover   | 35  | 702                                     | (737)  | –                         |
| Total turnover   | <u>2,667,519</u>  | <u>11,550</u>                           | <u>(737)</u>                                     | <u>2,678,332</u>          |
| Segment results  | <u>(106,384)</u>  | <u>(19,703)</u>                         |  | (126,087)                 |
| Finance costs  |   |   |  | (4,516)                   |
| Gain on discontinuance of television<br>programme syndication and<br>events management |   |   |  | <u>17,944</u>             |
| Loss before taxation   |   |   |  | (112,659)                 |
| Taxation   |   |   |  | <u>(2,073)</u>            |
| Loss after taxation  |   |   |  | <u>(114,732)</u>          |
| Loss attributable to shareholders  |   |   |  | <u>(114,732)</u>          |
| Segment assets   | 905,032   | 18,226                                  |  | 923,258                   |
| Club debentures  |   |   |  | 12,301                    |
| Other unallocated assets   |   |   |  | <u>–</u>                  |
| Total assets   |   |   |  | <u>935,559</u>            |
| Segment liabilities  | 77,906  | 2,528                                   |  | 80,434                    |
| Unallocated liabilities  |   |   |  | <u>145,171</u>            |
| Total liabilities  |   |   |  | <u>225,605</u>            |
| Capital expenditure  | 2,632   | 1,080                                   |  | 3,712                     |
| Depreciation   | 3,501   | 283                                     |  | 3,784                     |
| Other non-cash expenses  |   |   |  | 141,703                   |

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (cont'd)

### Secondary reporting format – geographical segments

The Group has operated mainly in the following geographical areas:

Hong Kong and Macau – trading of telecommunication products and provision of repair services of telecommunication products.

Taiwan – trading of telecommunication products and provision of repair services of telecommunication products.

In presenting geographical segments information of the Group, shown below are the turnover from external customers, total assets and capital expenditure of each geographical segment that comprises 10% or more of the Group's respective total turnover from external customers, total assets and capital expenditure. There are no sales and other transactions between the geographical segments.

|                     | <b>Turnover from<br/>external<br/>customers<br/>2004<br/>HK\$'000</b> | <b>Total assets<br/>2004<br/>HK\$'000</b> | <b>Capital<br/>expenditure<br/>2004<br/>HK\$'000</b> |
|---------------------|---|---|--|
| Hong Kong and Macau | <b>1,206,754</b>  | <b>568,018</b>                            | <b>1,973</b>   |
| Taiwan              | <b>643,782</b>  | <b>114,951</b>                            | <b>604</b>   |

  

|                     | <b>Turnover from<br/>external<br/>customers<br/>2003<br/>HK\$'000</b> | <b>Total assets<br/>2003<br/>HK\$'000</b> | <b>Capital<br/>expenditure<br/>2003<br/>HK\$'000</b> |
|---------------------|---|---|--|
| Hong Kong and Macau | 1,788,979   | 752,449                                   | 1,492  |
| Taiwan              | 735,088   | 170,809                                   | 2,220  |

# Notes to the Accounts

## 3 OPERATING LOSS

|  | <b>Group</b>     |           |
|--|------------------|-----------|
|  | <b>2004</b>      | 2003      |
|  | <b>HK\$'000</b>  | HK\$'000  |
| Operating loss is stated after crediting and charging the following:     |                  |           |
| <u>Crediting</u>   |                  |           |
| Net gain on disposals of fixed assets                                    | -                | 250       |
| Gain on revaluation of leasehold land and building                       | <b>3,026</b>     | -         |
| Gain on the early settlement of a finance lease                          | -                | 72        |
| Net exchange gain  | <b>6,213</b>     | -         |
| Net unrealised gain on trading investments                               | -                | 1         |
|  | <hr/>            | <hr/>     |
| <u>Charging</u>  |                  |           |
| Auditors' remuneration – current year                                    | <b>1,811</b>     | 1,408     |
| – prior years  | -                | 1,020     |
| Cost of trading inventories sold   | <b>1,851,434</b> | 2,457,632 |
| Provision for slow moving and net realisable values of inventories       | <b>22,140</b>    | 22,874    |
| Deficit on revaluation of leasehold land and building                    | -                | 364       |
| Depreciation   | <b>3,341</b>     | 3,784     |
| Net exchange loss  | -                | 26        |
| Written off of a jointly controlled entity                               | -                | 1,168     |
| Impairment of fixed assets   | <b>765</b>       | -         |
| Loss on disposals of trading investments                                 | -                | 2,902     |
| Loss on disposals of fixed assets  | <b>752</b>       | -         |
| Operating lease on land and buildings                                    | <b>17,179</b>    | 19,403    |
| Provision for bad and doubtful debts                                     | <b>72,578</b>    | 114,395   |
| Retirement benefit costs (including directors' retirement benefit costs) | <b>4,875</b>     | 1,964     |
| Staff costs including directors' emoluments (note 9)                     | <b>58,487</b>    | 65,431    |
|  | <hr/>            | <hr/>     |



## 4 FINANCE COSTS

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2004</b>     | 2003     |
|  | <b>HK\$'000</b> | HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | <b>314</b>      | 4,497    |
| Interest element of finance leases                                       | <b>22</b>       | 19       |
|  | <b>336</b>      | 4,516    |

## 5 DISCONTINUING OPERATION

During the year ended 30th September, 2003, the Group ceased to operate its television programme syndication and events management businesses. Procedures on winding up the operating subsidiaries of this segment are still in progress during the year. The Group reported the ceased business segment as a discontinuing operation in the accounts. The sales, results, cash flows and net assets of the television programme syndication and events management businesses were as follows:

|                                   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Turnover                          | -                | 528              |
| Cost of sales                     | -                | (12,630)         |
| Gross loss                        | -                | (12,102)         |
| Other revenues                    | -                | 106              |
| Selling and distribution expenses | -                | (192)            |
| Administrative expenses           | -                | (7,708)          |
| Other operating expenses          | -                | (616)            |
| Operating loss                    | -                | (20,512)         |
| Finance costs                     | -                | (6)              |
| Loss before taxation              | -                | (20,518)         |
| Taxation                          | -                | -                |
| Loss after taxation               | -                | (20,518)         |
| Loss attributable to shareholders | -                | (20,518)         |
| Net operating cash outflow        | -                | (1,655)          |
| Net investing cash inflow         | -                | 11               |
| Net financing cash outflow        | -                | (17)             |
| Total net cash outflow            | -                | (1,661)          |

## 5 DISCONTINUING OPERATION (cont'd)

|                   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|-------------------|--------------------------------|------------------|
| Fixed assets      | -                              | -                |
| Current assets    | -                              | 3,858            |
| Total assets      | -                              | 3,858            |
| Total liabilities | -                              | (21,802)         |
| Net liabilities   | -                              | (17,944)         |

The gain on discontinuance of the television programme syndication and events management businesses is as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Net liabilities discontinued                  | -                              | 17,944           |
| Proceeds from discontinuance of operation     | -                              | -                |
| Gain on discontinuance of operation           | -                              | 17,944           |
| Taxation thereon                              | -                              | -                |
| After-tax gain on discontinuance of operation | -                              | 17,944           |

## 6 TAXATION

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

|   | <b>Group</b><br><b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--|------------------|
| Current tax   |  |                  |
| Hong Kong profits tax (note (i))                          | <b>438</b>                                     | 371              |
| Overseas taxation (note (ii))                             | <b>34</b>                                      | 1,702            |
|   | <b>472</b>                                     | 2,073            |
| Deferred tax (note 20)                                    |  |                  |
| Current year  | <b>544</b>                                     | -                |
| Taxation attributable to the Company and its subsidiaries | <b>1,016</b>                                   | 2,073            |

## 6 TAXATION (cont'd)

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits of subsidiaries operating in Hong Kong for the year.
- (ii) Taxation on overseas profits has been provided on the estimated assessable profits for the year at the taxation rates prevailing in the countries in which the subsidiaries of the Group operate.

The tax expenses for the year can be reconciled to loss before taxation in the consolidated profit and loss account as follows:

|   | <b>Group</b>     |           |
|---|------------------|-----------|
|   | <b>2004</b>      | 2003      |
|   | <b>HK\$'000</b>  | HK\$'000  |
| Reconciliation of tax expenses                              |                  |           |
| Loss before taxation  | <b>(183,461)</b> | (112,659) |
| Income tax at applicable tax rate of 17.5%<br>(2003: 17.5%) | <b>(32,106)</b>  | (19,715)  |
| Non-deductible expenses                                     | <b>4,842</b>     | 17,998    |
| Tax exempt revenue  | <b>(2,492)</b>   | (16,026)  |
| Effect of overseas tax rates differences                    | <b>1</b>         | 729       |
| Unrecognised tax losses                                     | <b>54,460</b>    | 32,131    |
| Unrecognised temporary differences                          | <b>(23,809)</b>  | (12,464)  |
| Utilisation of previously unrecognised tax losses           | <b>447</b>       | (488)     |
| Withholding tax   | <b>33</b>        | –         |
| Over provision in prior years                               | <b>(377)</b>     | (84)      |
| Others  | <b>17</b>        | (8)       |
| Tax expenses for the year                                   | <b>1,016</b>     | 2,073     |

- (b) Taxation payable in the balance sheet represents liabilities of the Group in respect of Hong Kong profits tax and overseas taxation provided for the current and prior years less provisional tax paid.
- (c) In October 2002, the Inland Revenue Department of Hong Kong (the “IRD”) issued estimated assessments to certain subsidiaries of the Group in respect of their potential taxation liabilities for the years of assessment from 1996/1997 to 2001/2002. The concerned subsidiaries have formally objected to the estimated assessments as, in the opinion of the Directors of the Company, these estimated assessments are incorrect. The Directors of the Company consider appropriate provision for taxation has already been made in the accounts (note 23(c)).

## 6 TAXATION (cont'd)

At the request of the IRD, the Company has agreed to pay deposits totaling approximately HK\$108 million by way of purchase of tax reserve certificates and payment of instalments in cash. The outcome of the objection has yet to be determined. Such deposits shall be refunded to the Company in the event that the objection is successful.

## 7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the accounts of the Company is approximately HK\$10,307,000 (2003: HK\$639,000).

## 8 LOSS PER SHARE

The calculation of basic and fully diluted loss per share are based on the Group's loss attributable to shareholders of approximately HK\$184,477,000 (2003: 114,732,000).

The basis loss per share is based on 5,165,973,933 (2003: 5,165,973,933) ordinary shares in issue during the year.

The computation of fully diluted loss per share for 2004 and 2003 has not assumed the exercise of the Company's options and warrants since the exercise prices were higher than the average market price of the Company's shares for the two years.

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

|   | <b>Group</b>    |          |
|---|-----------------|----------|
|   | <b>2004</b>     | 2003     |
|   | <b>HK\$'000</b> | HK\$'000 |
| Independent Non-executive Directors' fees | <b>1,533</b>    | 381      |
| Executive Directors                       |                 |          |
| Basic salaries and allowances             | <b>26,788</b>   | 28,661   |
| Contributions to retirement fund          | <b>1,330</b>    | 1,394    |
| Discretionary bonuses                     | —               | 5,751    |
|   | <b>29,651</b>   | 36,187   |

During the year, none of the Directors of the Company had exercised their share options to subscribe ordinary shares of the Company.

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

### (a) Directors' emoluments (cont'd)

As at 30th September, 2004, the outstanding options granted by the Company to an Executive Director of the Company were as follows:

| Date of grant    | Exercise price<br>HK\$ | Exercisable period                  | Number of ordinary shares eligible for subscription under the share options |
|------------------|------------------------|-------------------------------------|---|
| 26th April, 1999 | 0.15                   | 25th May, 1999 to<br>24th May, 2009 | 100,000,000   |

The closing market price of the Company's shares immediately preceding to the suspension of trading at The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19th July, 2004 was HK\$0.05 per share.

Apart from the aforesaid, no other emoluments have been paid to the Directors for the years ended 30th September, 2004 and 2003.

The emoluments of the Directors fell within the following bands:

| Emolument bands                  | Number of Directors |      |
|----------------------------------|---------------------|------|
|                                  | 2004                | 2003 |
| Nil to HK\$1,000,000             | 9                   | 6    |
| HK\$1,000,001 to HK\$1,500,000   | -                   | 1    |
| HK\$1,500,001 to HK\$2,000,000   | -                   | 2    |
| HK\$2,000,001 to HK\$2,500,000   | -                   | 1    |
| HK\$2,500,001 to HK\$3,000,000   | -                   | 1    |
| HK\$25,000,001 to HK\$25,500,000 | 1                   | 1    |

No Directors have waived emoluments for the years ended 30th September, 2004 and 2003.

During the year, no amounts have been paid by the Group to the Directors as inducement to join the Group, as compensation for loss of office or as commitment fees to existing Executive Directors for entering into new service contracts with the Company (2003: Nil).

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four Directors (2003: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

|                                  | <b>Group</b>    |          |
|----------------------------------|-----------------|----------|
|                                  | <b>2004</b>     | 2003     |
|                                  | <b>HK\$'000</b> | HK\$'000 |
| Basic salaries and allowances    | <b>423</b>      | 2,199    |
| Contributions to retirement fund | <b>13</b>       | 46       |
| Bonuses                          | <b>1,500</b>    | –        |
|                                  | <b>1,936</b>    | 2,245    |

The emoluments of the individual fall within the following bands:

|                                | <b>Number of individuals</b> |      |
|--------------------------------|------------------------------|------|
|                                | <b>2004</b>                  | 2003 |
| HK\$1,500,001 to HK\$2,000,000 | <b>1</b>                     | –    |
| HK\$2,000,001 to HK\$2,500,000 | <b>–</b>                     | 1    |

# Notes to the Accounts

## 10 FIXED ASSETS

### Group

|                                | Leasehold<br>land and<br>building<br>HK\$'000 | Leasehold<br>improve-<br>ments<br>HK\$'000 | Furniture<br>and<br>fixtures<br>HK\$'000 | Computers<br>and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------------|---|--|--|---|-------------------------------|-------------------|
| Cost or valuation              |   |  |  |   |                               |                   |
| At 1st October, 2003           | 6,300   | 4,951                                      | 4,339                                    | 7,284                                     | 2,751                         | 25,625            |
| Exchange difference            | –   | 18   | 10                                       | 16  | –                             | 44                |
| Additions                      | –   | 1,291                                      | 163                                      | 1,123                                     | –                             | 2,577             |
| Revaluation                    | 2,900   | –  | –  | –   | –                             | 2,900             |
| Disposals                      | –   | (318)                                      | (2,346)                                  | (2,120)                                   | (931)                         | (5,715)           |
| At 30th September, 2004        | 9,200   | 5,942                                      | 2,166                                    | 6,303                                     | 1,820                         | 25,431            |
| Accumulated depreciation       |   |  |  |   |                               |                   |
| At 1st October, 2003           | –   | 1,129                                      | 2,941                                    | 4,141                                     | 2,649                         | 10,860            |
| Exchange difference            | –   | (7)  | (17)                                     | (17)                                      | –                             | (41)              |
| Charge for the year            | 126   | 1,272                                      | 320                                      | 1,542                                     | 81                            | 3,341             |
| Revaluation                    | (126)   | –  | –  | –   | –                             | (126)             |
| Impairment charges             | –   | 200  | 302                                      | 263                                       | –                             | 765               |
| Written back on disposals      | –   | (138)                                      | (1,777)                                  | (1,945)                                   | (931)                         | (4,791)           |
| At 30th September, 2004        | –   | 2,456                                      | 1,769                                    | 3,984                                     | 1,799                         | 10,008            |
| Net book value                 |   |  |  |   |                               |                   |
| <b>At 30th September, 2004</b> | <b>9,200</b>                                  | <b>3,486</b>                               | <b>397</b>                               | <b>2,319</b>                              | <b>21</b>                     | <b>15,423</b>     |
| At 30th September, 2003        | 6,300   | 3,822                                      | 1,398                                    | 3,143                                     | 102                           | 14,765            |



**10 FIXED ASSETS (cont'd)****Group (cont'd)**

The analysis of the cost or valuation at 30th September, 2004 of the above assets is as follows:

|                | <b>Leasehold<br/>land and<br/>building</b> | <b>Leasehold<br/>improve-<br/>ments</b> | <b>Furniture<br/>and<br/>fixtures</b> | <b>Computers<br/>and<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Total</b>  |
|----------------|--|---|---------------------------------------|--|---------------------------|---------------|
|                | HK\$'000                                   | HK\$'000                                | HK\$'000                              | HK\$'000                               | HK\$'000                  | HK\$'000      |
| At cost        | -  | 5,942                                   | 2,166                                 | 6,303                                  | 1,820                     | 16,231        |
| At revaluation | 9,200                                      | -                                       | -                                     | -                                      | -                         | 9,200         |
|                | <u>9,200</u>                               | <u>5,942</u>                            | <u>2,166</u>                          | <u>6,303</u>                           | <u>1,820</u>              | <u>25,431</u> |

- (a) Leasehold land and building is situated in Hong Kong under long-term lease.
- (b) Leasehold land and building was revalued on an open market value basis as at 30th September, 2004 by DTZ Debenham Tie Leung, an independent firm of professional valuers. The gain on revaluation of approximately HK\$3,026,000 (2003: deficit of approximately HK\$364,000) was credited to the consolidated profit and loss account (note 3 to the accounts) to reverse deficits previously charged.
- (c) The carrying amount of the leasehold land and building that would be included in the accounts had they been carried at cost less depreciation is approximately HK\$9,501,000 (2003: HK\$9,727,000).
- (d) At 30th September, 2004, net book value of fixed assets held by the Group under finance leases amounted to approximately HK\$137,000 (2003: HK\$172,000).

# Notes to the Accounts

## 10 FIXED ASSETS (cont'd)

### Company

|                                | <b>Leasehold<br/>improvements</b> | <b>Furniture<br/>and<br/>fixtures</b> | <b>Computers<br/>and<br/>equipment</b> | <b>Total</b> |
|--------------------------------|-----------------------------------|---------------------------------------|--|--------------|
|                                | HK\$'000                          | HK\$'000                              | HK\$'000                               | HK\$'000     |
| Cost                           |                                   |                                       |  |              |
| At 1st October, 2003           | 298                               | 43                                    | 270                                    | 611          |
| Exchange difference            | 20                                | 2                                     | 18                                     | 40           |
| Disposals                      | (318)                             | (45)                                  | (288)                                  | (651)        |
| At 30th September, 2004        | –                                 | –                                     | –                                      | –            |
| Accumulated depreciation       |                                   |                                       |  |              |
| At 1st October, 2003           | 106                               | 13                                    | 136                                    | 255          |
| Exchange difference            | 11                                | –                                     | 6                                      | 17           |
| Charge for the year            | 21                                | 3                                     | 27                                     | 51           |
| Written back on disposals      | (138)                             | (16)                                  | (169)                                  | (323)        |
| At 30th September, 2004        | –                                 | –                                     | –                                      | –            |
| Net Book Value                 |                                   |                                       |  |              |
| <b>At 30th September, 2004</b> | <b>–</b>                          | <b>–</b>                              | <b>–</b>                               | <b>–</b>     |
| At 30th September, 2003        | 192                               | 30                                    | 134                                    | 356          |

## 11 SUBSIDIARIES

|                                     | <b>Company</b>  |          |
|-------------------------------------|-----------------|----------|
|                                     | <b>2004</b>     | 2003     |
|                                     | <b>HK\$'000</b> | HK\$'000 |
| Unlisted shares, at cost            | <b>191,093</b>  | 191,093  |
| Due from subsidiaries, net (note b) | <b>362,955</b>  | 416,980  |
|                                     | <b>554,048</b>  | 608,073  |

- (a) Details of the principal subsidiaries are set out in note 25 to the accounts.
- (b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 12 INVENTORIES

|                      | <b>Group</b>          |                |
|----------------------|-----------------------|----------------|
|                      | <b>2004</b>           | 2003           |
|                      | <b>HK\$'000</b>       | HK\$'000       |
| Merchandise, at cost | <b>170,635</b>        | 219,749        |
| Less: provision      | <b>(25,267)</b>       | (82,059)       |
|                      | <b><u>145,368</u></b> | <u>137,690</u> |

At 30th September, 2004, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$107,846,000 (2003: HK\$42,421,000).

## 13 TRADE RECEIVABLES

As at 30th September, 2004, the ageing analysis of the trade receivables (net of specific provisions) is as follows:

|  | <b>Group</b>          |                |
|--|-----------------------|----------------|
|  | <b>2004</b>           | 2003           |
|  | <b>HK\$'000</b>       | HK\$'000       |
| Current  | <b>187,750</b>        | 182,780        |
| 1 to 3 months overdue                              | <b>110,832</b>        | 158,560        |
| More than 3 months but less than 12 months overdue | <b>2,055</b>          | 160,009        |
| Over 12 months overdue                             | <b>5,668</b>          | 1,276          |
| Less: general provision                            | <b>(61,686)</b>       | (83,881)       |
|  | <b><u>244,619</u></b> | <u>418,744</u> |

The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers.

## 14 TRADE PAYABLES

As at 30th September, 2004, the ageing analysis of the trade payables is as follows:

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2004</b>     | 2003     |
|  | <b>HK\$'000</b> | HK\$'000 |
| Due within 1 month or on demand        | <b>13,344</b>   | 57,154   |
| Due after 1 month but within 3 months  | –               | –        |
| Due after 3 months but within 6 months | –               | –        |
|  | <b>13,344</b>   | 57,154   |

## 15 OTHER PAYABLES AND ACCRUED CHARGES

Included in other payables and accrued charges of the Group and the Company was an amount of approximately HK\$487,000 (2003: HK\$18,160,000) due to a Director of the Company. The amount was unsecured, interest free and has no fixed terms of repayment.

## 16 LONG-TERM LIABILITIES

As at 30th September, 2004, the Group's finance lease liabilities were repayable as follows:

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2004</b>     | 2003     |
|  | <b>HK\$'000</b> | HK\$'000 |
| Within one year                                | <b>49</b>       | 49       |
| In the second year                             | <b>49</b>       | 49       |
| In the third to fifth year                     | <b>93</b>       | 141      |
| Less: future finance charges                   | <b>(44)</b>     | (66)     |
| Total long-term liabilities                    | <b>147</b>      | 173      |
| Less: current portion of long-term liabilities | <b>(30)</b>     | (26)     |
|  | <b>117</b>      | 147      |

The present value of finance lease liabilities is as follows:

|                            | <b>Group</b>    |          |
|----------------------------|-----------------|----------|
|                            | <b>2004</b>     | 2003     |
|                            | <b>HK\$'000</b> | HK\$'000 |
| Within one year            | <b>30</b>       | 26       |
| In the second year         | <b>35</b>       | 30       |
| In the third to fifth year | <b>82</b>       | 117      |
|                            | <b>147</b>      | 173      |

## 17 SHARE CAPITAL

|   | <b>Authorised</b>                       |                |
|---|---|----------------|
|   | <b>Ordinary shares of HK\$0.01 each</b> |                |
|   | <b>No. of shares</b>                    |                |
|   | '000                                    | HK\$'000       |
| At 1st October, 2003 and 30th September, 2004 | <u>20,000,000</u>                       | <u>200,000</u> |
|   | <b>Issued and fully paid</b>            |                |
|   | <b>Ordinary shares of HK\$0.01 each</b> |                |
|   | <b>No. of shares</b>                    |                |
|   | '000                                    | HK\$'000       |
| At 1st October, 2003 and 30th September, 2004 | <u>5,165,974</u>                        | <u>51,659</u>  |

## 18 SHARE OPTIONS AND WARRANTS

### (a) Share options

On 16th March, 1999, the Company adopted a share option scheme for employees (the "Old Scheme") pursuant to which employees, including executive directors of the Group, were given opportunity to obtain equity holdings in the Company. The Old Scheme was subsequently terminated at the annual general meeting of the Company held on 27th March, 2003 whereby a new share option scheme (the "New Scheme") was adopted in compliance with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules.") Any share options which were granted under the Old Scheme prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

A summary of the Old Scheme and the New Scheme is set out as follows:

|                             | Old Scheme   | New Scheme   |
|-----------------------------|--|--|
| Purpose of the schemes      | As incentive to employees, including executive directors, of the Company or its subsidiaries | As incentive to employees and directors of the Company or its subsidiaries and other eligible persons who have made contribution to the Group  |
| Participants of the schemes | Full-time employees, including executive directors, of the Company or its subsidiaries       | Full-time or part-time employees, including directors, of the Company or its subsidiaries; advisers, consultants, suppliers and agents to the Company or its subsidiaries and such other persons who, at the sole determination of the Board of Directors, have contributed to the Group |

**18 SHARE OPTIONS AND WARRANTS (cont'd)****(a) Share options (cont'd)**

|  | <b>Old Scheme</b>   | <b>New Scheme</b>  |
|--|---|--|
| Total number of shares available for issue under the schemes and percentage of issued share capital as at the date of this annual report | The Company had granted share options representing the rights to subscribe for 101,800,000 shares of the Company under the Old Scheme, representing approximately 1.97% of the shares in issue as at the date of this report. No further options will be granted under the Old Scheme | No share option had been granted under the New Scheme. The Company may grant share options to subscribe for 516,597,393 shares of the Company, representing approximately 10.00% of the shares in issue as at the date of this report  |
| Maximum entitlement of each participant under the schemes  | 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme   | The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders in general meeting |
| The period within which the shares must be taken up under an option  | At any time during a period to be notified by the Board of Directors, which period not to exceed 10 years commencing on the date on which the option is accepted and expiring on a day not later than the last day of the 10-year period  | At any time during a period to be notified by the Board of Directors, which period not to exceed 10 years commencing on the date on which the option is accepted and expiring on a day not later than the last day of the 10-year period   |

## 18 SHARE OPTIONS AND WARRANTS (cont'd)

### (a) Share options (cont'd)

|   | Old Scheme   | New Scheme  |
|---|--|---|
| The minimum period for which an option must be held before it can be exercised  | None   | None  |
| The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid | HK\$1.00 is to be paid as consideration for the grant of option within 30 days from the date of offer  | HK\$1.00 is to be paid as consideration for the grant of option within 30 days from the date of offer   |
| The basis of determining the exercise price   | <p>The exercise price shall be determined by the Board of Directors but shall not be less than the higher of:</p> <p>(a) 80% of the average of the official closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the 5 trading days immediately preceding the date of offer; and</p> <p>(b) the nominal value of a share</p> | <p>The exercise price shall be determined by the Board of Directors but shall not be less than the highest of:</p> <p>(a) the official closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer;</p> <p>(b) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer; and</p> <p>(c) the nominal value of a share</p> |



**18 SHARE OPTIONS AND WARRANTS (cont'd)****(a) Share options (cont'd)**

|                                   | <b>Old Scheme</b>  | <b>New Scheme</b>  |
|-----------------------------------|--|--|
| The remaining life of the schemes | The Old Scheme would have been valid and effective for a period of 10 years commencing on the adoption date on 16th March, 1999. The Old Scheme was terminated by a shareholders' resolution on 27th March, 2003 | The New Scheme shall be valid and effective for a period of 10 years commencing on the adoption date on 27th March, 2003 |

Details of the share options outstanding as at 30th September, 2004 which were granted under the Old Scheme are as follows:

| <b>Grantees</b>                              | <b>Date of grant</b> | <b>Exercise price per share<br/>HK\$</b> | <b>Exercise period</b>                        | <b>Balance outstanding<br/>as at 1st October,<br/>2003 and 30th<br/>September, 2004</b> |
|--|----------------------|--|---|---|
| Executive Director,<br>Mr. SY Ethan, Timothy | 26th April, 1999     | 0.150                                    | 25th May, 1999 to<br>24th May, 2009           | 100,000,000   |
| Employees                                    | 15th November, 2000  | 0.715                                    | 15th November, 2000 to<br>14th November, 2010 | 1,800,000   |

The financial impact of the share options granted under the Old Scheme will not be recorded in the Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares in the Company issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which lapsed prior to their exercise date are reduced from the number of outstanding options.

## 18 SHARE OPTIONS AND WARRANTS (cont'd)

### (a) Share options (cont'd)

No share option had been granted, exercised, cancelled or lapsed under the Old Scheme during the financial year.

No share option had been granted under the New Scheme since its adoption.

### (b) Warrants

On 27th August, 2001, the Company issued warrants ("2004 Warrants"), at nil consideration, to the Company's shareholders conferring rights to subscribe for a total of 527,951,988 ordinary shares of HK\$0.01 each at the initial subscription price of HK\$0.68 per share. These 2004 Warrants were exercisable from 27th August, 2001 to 26th August, 2004, both dates inclusive. The total number of outstanding 2004 Warrants on 1st October, 2003 was 527,951,877. All these warrants expired at 5:00 p.m. on 26th August, 2004. None of the 2004 Warrants were exercised during the financial year before expiry.

## 19 RESERVES

### Group

|                                | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Exchange<br>difference<br>reserve<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------------|------------------------------|--------------------------------|--|---|----------------------------------|-------------------|
| At 1st October, 2002           | 457,804                      | 2,450                          | 160  | 101   | 312,512                          | 773,027           |
| Loss for the year              | -                            | -                              | -  | -   | (114,732)                        | (114,732)         |
| At 30th September, 2003        | 457,804                      | 2,450                          | 160  | 101   | 197,780                          | 658,295           |
| Company and subsidiaries       | 457,804                      | 2,450                          | 160  | 101   | 197,780                          | 658,295           |
| At 30th September, 2003        | 457,804                      | 2,450                          | 160  | 101   | 197,780                          | 658,295           |
| At 1st October, 2003           | 457,804                      | 2,450                          | 160  | 101   | 197,780                          | 658,295           |
| Exchange differences           | -                            | -                              | -  | 4,519   | -                                | 4,519             |
| Loss for the year              | -                            | -                              | -  | -   | (184,477)                        | (184,477)         |
| <b>At 30th September, 2004</b> | <b>457,804</b>               | <b>2,450</b>                   | <b>160</b>                                   | <b>4,620</b>                                  | <b>13,303</b>                    | <b>478,337</b>    |
| Company and subsidiaries       | 457,804                      | 2,450                          | 160  | 4,620   | 13,303                           | 478,337           |
| <b>At 30th September, 2004</b> | <b>457,804</b>               | <b>2,450</b>                   | <b>160</b>                                   | <b>4,620</b>                                  | <b>13,303</b>                    | <b>478,337</b>    |

## 19 RESERVES (cont'd)

### Company

|                                | Share<br>premium<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Exchange<br>difference<br>reserve<br>HK\$'000 | Accumulated<br>loss<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------------|------------------------------|--|---|---------------------------------|-------------------|
| At 1st October, 2002           | 648,897                      | 160  | 17  | (102,291)                       | 546,783           |
| Loss for the year              | –                            | –  | –   | (639)                           | (639)             |
| At 30th September, 2003        | 648,897                      | 160  | 17  | (102,930)                       | 546,144           |
| At 1st October, 2003           | 648,897                      | 160  | 17  | (102,930)                       | 546,144           |
| Exchange differences           | –                            | –  | (221)   | –                               | (221)             |
| Loss for the year              | –                            | –  | –   | (10,307)                        | (10,307)          |
| <b>At 30th September, 2004</b> | <b>648,897</b>               | <b>160</b>                                   | <b>(204)</b>                                  | <b>(113,237)</b>                | <b>535,616</b>    |

### Note:

The Company has a distributable reserve, of approximately HK\$536,000,000 as at 30th September, 2004 (2003: HK\$546,000,000), represented by share premium less accumulated losses of the Company. Under the Companies Law (2001 Second Revision) of the Cayman Islands, share premium of the Company is distributable to the members, subject to a solvency test.

## 20 DEFERRED TAX

As at 30th September, 2004, the movement of recognised deferred tax liabilities during the year is as follows:

|  | Accelerated tax<br>depreciation |                  | Revaluation of<br>properties |                  | Unrealised loss  |                  | Group            |                  |
|--|---------------------------------|------------------|------------------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2004<br>HK\$'000                | 2003<br>HK\$'000 | 2004<br>HK\$'000             | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| At 1st October                                   | 41                              | 41               | 90                           | 90               | –                | –                | 131              | 131              |
| Charged/(credited) to<br>profit and loss account | (41)                            | –                | 245                          | –                | 340              | –                | 544              | –                |
| <b>At 30th September</b>                         | <b>–</b>                        | <b>41</b>        | <b>335</b>                   | <b>90</b>        | <b>340</b>       | <b>–</b>         | <b>675</b>       | <b>131</b>       |

The Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$76,778,000 (2003: HK\$30,945,000).

## 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash outflow from operating activities:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Loss before taxation  | <b>(183,461)</b>               | (112,659)        |
| Adjustments for:  |                                |                  |
| (Gain)/Deficit on revaluation of leasehold land and building                  | <b>(3,026)</b>                 | 364              |
| Depreciation  | <b>3,341</b>                   | 3,784            |
| Dividend income from trading investments                                      | -                              | (8)              |
| Gain on the early settlement of a finance lease                               | -                              | (72)             |
| Written off of a jointly controlled entity                                    | -                              | 1,168            |
| Impairment of fixed assets  | <b>765</b>                     | -                |
| Net unrealised gain on trading investments                                    | -                              | (1)              |
| Loss on disposals of trading investments                                      | -                              | 2,902            |
| Loss/(Gain) on disposals of fixed assets                                      | <b>752</b>                     | (250)            |
| Interest income   | <b>(474)</b>                   | (10,405)         |
| Interest expense  | <b>336</b>                     | 4,516            |
| Operating loss before working capital changes                                 | <b>(181,767)</b>               | (110,661)        |
| (Increase)/Decrease in inventories  | <b>(9,192)</b>                 | 270,298          |
| Decrease in trade receivables, deposits, prepayments<br>and other receivables | <b>174,730</b>                 | 110,643          |
| Decrease in trade payables,<br>other payables and accrued charges             | <b>(52,316)</b>                | (1,119,034)      |
| Cash used in operating activities   | <b>(68,545)</b>                | (848,754)        |
| Interest expense  | <b>(336)</b>                   | (4,516)          |
| Tax paid  | <b>(2,176)</b>                 | (60,881)         |
| Net cash outflow from operating activities                                    | <b>(71,057)</b>                | (914,151)        |

### 22 BANKING FACILITIES

As at 30th September, 2004, banking facilities of approximately HK\$174,000,000 (2003: HK\$181,000,000) were granted by banks to the Group, and none of them have been utilised by the Group (2003: HK\$26,000,000).

### 23 CONTINGENT LIABILITIES

- (a) One of its subsidiaries provided corporate guarantees to several banks for securing banking facilities granted to another subsidiary of the Group.
- (b) Included in the terms of the sale and purchase agreement in connection with the acquisition of Calaview Assets Limited and SMG (the "Acquired Companies") in 2000, the Group is liable to pay the vendor approximately HK\$35,000,000, contingent on the successful listing on any recognised stock exchange by any one of the Acquired Companies. SMG has already begun statutory liquidation procedures and the Group has no plan to list either of the Acquired Companies.
- (c) As stated in note 6(c) to the accounts, the IRD issued estimated assessments to certain subsidiaries of the Group in respect of their potential taxation liabilities for the years of assessment from 1996/1997 to 2001/2002. However, no provision for tax penalties have been made in the accounts as in the opinion of the Directors of the Company, the estimated assessments were incorrect and it would be premature to endeavour to determine whether any tax penalty would arise.

## 24 OPERATING LEASE COMMITMENTS

As at 30th September, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

|   | <b>Group</b>                   |                  |
|---|--------------------------------|------------------|
|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
| Not later than one year                           | <b>10,515</b>                  | 14,538           |
| Later than one year and not later than five years | <b>10,092</b>                  | 1,948            |
|   | <b>20,607</b>                  | 16,486           |

## 25 PRINCIPAL SUBSIDIARIES

As at 30th September, 2004, the principal subsidiaries of the Company are as follows:

| Subsidiary                                  | Country/place of incorporation/<br>establishment and operation | Issued/<br>registered and full paid up capital | Percentage of equity held by the Company |          | Principal activities                  |
|---|--|--|--|----------|---------------------------------------|
|   |  |  | Direct                                   | Indirect |                                       |
|   |  |  | %  | %        |                                       |
| Advance Communication International Limited | Taiwan   | Ordinary<br>NT\$1,000,000                      | –  | 100      | Trading of telecommunication products |
| Bright Advance Group Limited                | British Virgin Islands/<br>Taiwan                              | Ordinary<br>US\$1                              | –  | 100      | Trading of telecommunication products |
| Linktech Hong Kong Limited                  | Hong Kong  | Ordinary<br>HK\$2                              | –  | 100      | Provision of repair services          |
| New Eagle Technology Limited                | Hong Kong  | Ordinary<br>HK\$10,000                         | –  | 100      | Trading of telecommunication products |
| Sun Brilliant Development Limited           | Hong Kong  | Ordinary<br>HK\$2                              | –  | 100      | Trading of telecommunication products |

**25 PRINCIPAL SUBSIDIARIES (cont'd)**

| Subsidiary                      | Country/place of incorporation/<br>establishment and operation | Issued/<br>registered and full paid up capital | Percentage of equity held by the Company |               | Principal activities                  |
|---------------------------------|--|--|--|---------------|---------------------------------------|
|                                 |  |  | Direct<br>%                              | Indirect<br>% |                                       |
| Techglory International Limited | Hong Kong  | Ordinary<br>HK\$1,388,000                      | -  | 100           | Trading of telecommunication products |
| Wide Tech Communication Limited | Taiwan   | Ordinary<br>NT\$500,000                        | -  | 100           | Provision of repair services          |

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

**26 SUBSEQUENT EVENTS**

In December 2004, the Board of Directors had resolved to significantly scale down the Group's operations of mobile handset distribution in Taiwan to a minimal operation. Cost arising from the scaling down, which can be estimated, is approximately HK\$2,400,000. Such cost has not been recognised in the accounts for the year ended 30th September, 2004.

**27 ULTIMATE HOLDING COMPANY**

The Directors regard Optimum Pace International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

**28 COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current year's presentation.

**29 APPROVAL OF ACCOUNTS**

The accounts on pages 31 to 69 were approved by the Board of Directors on 23rd August, 2005.