## NOTES

### 1. Basis of preparation and accounting policies

The unaudited condensed interim financial statements of Sun Innovation Holdings Limited and its subsidiaries (together the "Group") as at and for the six months ended 30 June 2005 have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 – "Interim Financial Reporting" and other relevant HKASs and the Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited condensed consolidated financial statements should be read in conjunction with the annual accounts of the Group as at and for the year ended 31 December 2004.

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are at fair values, as appropriate.

The accounting policies and method of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the financial statements as at and for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised HKFRSs and HKASs as disclosed in Note 2 below. Due to the new adoption of such HKFRSs and HKASs, certain comparative figures previously reported have been restated to comply with the new requirements.

**2. Impact of the new HKFRSs, HKASs and Interpretations**

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of the changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs, in particular the HKASs below, has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 17 | Leases |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Properties |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |

**(a) Presentation of Financial Statements**

The adoption of HKAS 1 Presentation of Financial Statements has affected the presentation of minority interests, which are now shown as equity. These changes have been applied retrospectively (see Note 3 for financial impact).

**(b) Owner-occupied Leasehold Interest in Land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at cost less impairment. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payment cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for financial impact).

## 2. Impact of the new HKFRSs, HKASs and Interpretations *(continued)*

### (c) Financial Instruments

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held to maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)".

The carrying amount of convertible preference shares ("CPS") in issue by the Company as at 1 January 2005 were split into the equity portion for the fair value of the conversion right by the CPS holders, and the liability portion of CPS which is adjusted for the effect of imputed interest based on the prevailing market rate as at the date of grant and are carried at amortised cost using the effective interest method subsequent to 1 January 2005 (see Note 3 for financial impact).

**2. Impact of the new HKFRSs, HKASs and Interpretations *(continued)***

**(d) Investment Properties**

In the current period, the Group has, for the first time, applied HKAS 40 Investment Properties. Under HKAS 40, land held for currently undetermined future use is treated as investment property. The Group was elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance of this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease has previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged (see Note 3 for financial impact).

**(e) Share-based Payment**

The adoption of HKFRS 2 Share-based Payment has resulted a change in accounting policy for employees and other options. The principal impact of HKFRS 2 on the Group is related to the expensing of the fair values of directors' and employees' share options and other share options of the Group determined at the date of grant of share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of all these share options until they were exercised. According to HKFRS 2 transitional provisions, the Group has applied HKFRS 2 to all options which were granted after 7 November 2002 and had not yet vested before 1 January 2005 (see Note 3 for financial impact).

**(f) Reserve on Consolidation – Negative Goodwill**

The transitional provision of HKFRS 3 Business Combinations has required the Group to derecognise the carrying amounts of the negative goodwill (including that in consolidated equity reserve) against retained earnings (see Note 3 for financial impact).

### 3. Summary of the effects of the changes in accounting policies

#### (a) Income statement items

| | HKAS 17<br>HK$'000<br>(Note 2b) | HKAS 32 & 39<br>HK$'000<br>(Note 2c) | HKAS 40<br>HK$'000<br>(Note 2d) | HKFRS 2<br>HK$'000<br>(Note 2e) | Total effect<br>HK$'000 |
|---|---|---|---|---|---|
| **For the six months ended 30 June 2005 (Unaudited)** | | | | | |
| Decrease in amortisation of prepaid lease payment | **949** | **–** | **–** | **–** | **949** |
| Increase in imputed interest expenses on convertible preference shares | **–** | **(1,814)** | **–** | **–** | **(1,814)** |
| Decrease in fair value of investment properties | **–** | **–** | **(1,320)** | **–** | **(1,320)** |
| Issue of share options | **–** | **–** | **–** | **(8,042)** | **(8,042)** |
| (Increase) decrease of net loss for the period | **949** | **(1,814)** | **(1,320)** | **(8,042)** | **(10,227)** |

The adoption of new HKFRSs and HKASs does not have financial impact to the income statement items for the six months ended 30 June 2004.

### 3. Summary of the effects of the changes in accounting policies *(continued)*

#### (b) Balance sheet items

| | As at 31 December 2004 (Originally stated) | HKAS 1 | HKAS 17 | HKFRS 2 | As at 31 December 2004 (Restated) | HKAS 32 & 39 | HKFRS 3 | As at 1 January 2005 (Restated) |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | | | | | |
| Property, plant and equipment | 49,741 | – | (37,210) | – | 12,531 | – | – | 12,531 |
| Prepaid lease payment | – | – | 38,159 | – | 38,159 | – | – | 38,159 |
| **Liabilities** | | | | | | | | |
| Convertible preference shares | 69,000 | – | – | – | 69,000 | (23,100) | – | 45,900 |
| Minority interests | 4 | (4) | – | – | – | – | – | – |
| **Equity** | | | | | | | | |
| Capital reserve (negative goodwill) | 3,000 | – | – | – | 3,000 | – | (3,000) | – |
| Convertible preference shares reserve | – | – | – | – | – | 23,100 | – | 23,100 |
| Accumulated losses | (136,847) | – | 949 | – | (135,898) | – | 3,000 | (132,898) |
| Minority interests | – | 4 | – | – | 4 | – | – | 4 |

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 4 | Determining whether an Arrangement Contain a Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds |

**4. Turnover and segment information**

The Group was principally engaged in the following businesses during the period:–

(i) media and content services including telecommunication value-added services;

(ii) property investment; and

(iii) telecommunication.

These divisions are the basis on which the Group reports its primary segment information. The Group had disposed of fire protection and suppression business in Shanghai in June 2004. Comparative figures have been reclassified to conform to the current period's presentation.

An analysis of the Group's revenues and results for the period by business segment is as follows:

| | Six months ended 30 June 2005 | | | | |
|---|---|---|---|---|---|
| | **Media and Content Services HK$'000** | **Property Investment HK$'000** | **Telecom-munication HK$'000** | **Elimination HK$'000** | **Total HK$'000** |
| Turnover | | | | | |
| External sales | **21,420** | **1,698** | **2,685** | **–** | **25,803** |
| Inter- segment sales | **–** | **443** | **131** | **(574)** | **–** |
| Total | **21,420** | **2,141** | **2,816** | **(574)** | **25,803** |
| Segment results | **(3,305)** | **(799)** | **(3,234)** | | **(7,338)** |
| Other operating income | | | | | **199** |
| Unallocated corporate expenses | | | | | **(13,167)** |
| Operating loss | | | | | **(20,306)** |
| Finance costs | | | | | **(2,468)** |
| Loss before taxation | | | | | **(22,774)** |
| Taxation | | | | | **–** |
| Loss for the period | | | | | **(22,774)** |

**4. Turnover and segment information *(continued)***

| | Six months ended 30 June 2004 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing Operations | | | | Discontinued Operations | |
| | Media and Content Services HK$'000 | Property Investment HK$'000 | Telecom-munication HK$'000 | Total Continuing Operations HK$'000 | Fire Protection and Suppression HK$'000 | Total HK$'000 |
| Turnover | 18,053 | 1,602 | 4,018 | 23,673 | 9,424 | 33,097 |
| Segment results | (34,819) | 827 | (2,098) | (36,090) | (1,274) | (37,364) |
| Loss on disposal of discontinued operations | | | | | | (1,006) |
| Other operating income | | | | | | 945 |
| Unallocated corporate expenses | | | | | | (8,336) |
| Operating loss | | | | | | (45,761) |
| Finance costs | | | | | | (2,628) |
| Loss before taxation | | | | | | (48,389) |
| Taxation | | | | | | (4) |
| Loss for the period | | | | | | (48,393) |

An analysis of the Group's turnover and contribution to operating loss for the period by geographical segment is as follows:

| | **Turnover Six months ended 30 June** | | **Contribution to operating loss Six months ended 30 June** | |
|---|---|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| Continuing Operations | | | | |
| Hong Kong | **13,458** | 16,320 | **(14,648)** | (10,120) |
| Mainland China | **4,913** | 4,082 | **(511)** | (35,316) |
| United States of America | **2,030** | 3,271 | **(3,062)** | (649) |
| Japan | **5,510** | – | **(4,553)** | – |
| Elimination | **(108)** | – | **–** | – |
| | **25,803** | 23,673 | **(22,774)** | (46,085) |
| Discontinued Operations | | | | |
| Mainland China | **–** | 9,424 | **–** | (2,308) |
| | **25,803** | 33,097 | **(22,774)** | (48,393) |

### 5. Operating loss

Operating loss is stated after crediting/charging the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| *Crediting* | | |
| Interest income | **19** | 7 |
| *Charging* | | |
| Loss on disposal of property, plant and equipment | **–** | 182 |
| Provision for legal costs for litigation cases | **–** | 1,481 |
| Staff costs (including directors' emoluments) | **14,395** | 13,375 |
| Amortisation of intangible assets and goodwill | **1,230** | 6,532 |
| Depreciation of property, plant and equipment | **1,780** | 1,268 |

### 6. Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Imputed interest on convertible preference shares | **1,814** | – |
| Interest on: | | |
| Borrowings wholly repayable within five years | **321** | 140 |
| Borrowings not wholly repayable within five years | **333** | 2,488 |
| | **2,468** | 2,628 |

**7. Taxation**

The comparative figures of the amount of tax credit in the unaudited condensed consolidated income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Current tax | | |
| Hong Kong profits tax | | |
| – current period | **–** | (1) |
| – over provision in prior years | **–** | – |
| Overseas tax | **–** | (3) |
| | **–** | (4) |

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group' subsidiaries operate.

**8. Loss per share**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Loss for the purpose of basic and diluted loss per share | | |
| – Net loss for the period | | |
| From continuing operations | **(22,830)** | (45,596) |
| From discontinued operations | **–** | (1,748) |
| | **(22,830)** | (47,344) |

| | Number of shares | |
|---|---|---|
| | **2005** | 2004 |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **6,228,659,876** | 4,690,113,698 |

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.

**9. Investment properties**

In June 2005, the Group announced to dispose of investment properties in Guangzhou, Mainland China by way of the disposal of two non-wholly owned subsidiaries and such investment properties were revalued on 17 June 2005 by Vigers Appraisals and Consulting Limited, an independent professional valuer.

| | HK$'000 |
|---|---|
| At 1 January 2005 | 90,246 |
| Decrease in fair value on investment properties | (1,320) |
| At 30 June 2005 | 88,926 |

**10. Intangible assets**

| | **Cable use rights** HK$'000 | **Website software** HK$'000 | **Licensing rights** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| Balance at 1 January 2005 | 3,636 | 777 | – | 4,413 |
| Acquisition of subsidiary | – | – | 12,388 | 12,388 |
| Exchange fluctuation | (1) | – | – | (1) |
| Balance at 30 June 2005 | 3,635 | 777 | 12,388 | 16,800 |
| ACCUMULATED AMORTISATION | | | | |
| Balance at 1 January 2005 | 404 | 13 | – | 417 |
| Amortization charge | 135 | 63 | 1,032 | 1,230 |
| Exchange fluctuation | – | – | 18 | 18 |
| Balance at 30 June 2005 | 539 | 76 | 1,050 | 1,665 |
| NET BOOK VALUE | | | | |
| As at 30 June 2005 | 3,096 | 701 | 11,338 | 15,135 |
| As at 31 December 2004 | 3,232 | 764 | – | 3,996 |

**11. Trade receivables**

The Group normally allows an average credit period of 60 days to trade customers. Included in trade and other receivables are trade receivables and their ageing analysis is as follows:

| | **30 June 2005 HK$'000** | 31 December 2004 HK$'000 |
|---|---|---|
| Current | **6,278** | 2,110 |
| 31 – 60 days | **3,146** | 2,157 |
| 61 – 90 days | **2,193** | 1,632 |
| Over 90 days | **1,771** | 1,702 |
| | **13,388** | 7,601 |

**12. Trade payables**

Included in trade and other payables are trade payables and their ageing analysis is as follows:

| | **30 June 2005 HK$'000** | 31 December 2004 HK$'000 |
|---|---|---|
| Current | **2,565** | 1,733 |
| 31 – 60 days | **7,054** | 774 |
| 61 – 90 days | **126** | 321 |
| Over 90 days | **1,115** | 6,371 |
| | **10,860** | 9,199 |

**13. Convertible preference shares**

During the six months ended 30 June 2005, totalling 966,666,666 convertible preference shares were converted into ordinary shares at HK$0.0225 each.

**14. Share capital**

| | Number of ordinary shares | Amount |
|---|---|---|
| | | HK$'000 |
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 31 December 2004 and 30 June 2005 | 71,933,333,334 | 719,333 |
| Issued and fully paid: | | |
| At 31 December 2004 | 5,100,888,973 | 51,009 |
| Shares issued for acquisition of subsidiary | 196,000,000 | 1,960 |
| Conversion of convertible preference shares | 966,666,666 | 9,667 |
| Exercise of share options | 333,200,000 | 3,332 |
| At 30 June 2005 | 6,596,755,639 | 65,968 |

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).