



## 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 2006 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 2005.

The unaudited 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 unaudited condensed consolidated financial statements are consistent with those used in the financial statements as at and for the year ended 31 December 2005 except in relation to the following new and revised HKFRSs that are adopted for the first time for the current period’s unaudited consolidated financial statements:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment



## 2. Turnover and segment information

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

- (i) entertainment media including telecommunication value added services;
- (ii) media shopping;
- (iii) property investment;
- (iv) financial services; and
- (v) telecommunication.

These segments are the basis on which the Group reports its primary segment information.

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

	Six months ended 30 June 2006						
	Entertainment Media HK\$'000	Media Shopping HK\$'000	Property Investment HK\$'000	Financial Services HK\$'000	Telecom- munication HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover							
External sales	48,955	894	2,219	68	1,576	–	53,712
Inter-segment sales	23	–	–	–	–	(23)	–
Total	48,978	894	2,219	68	1,576	(23)	53,712
Segment results	2,898	(1,449)	647	5	(200)	–	1,901
Other operating income							923
Unallocated corporate expenses							(14,301)
Operating loss							(11,477)
Finance costs							(6,982)
Loss before taxation							(18,459)
Taxation							(6)
Loss for the period							(18,465)



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

	Six months ended 30 June 2005				
	Entertainment Media 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 costs					(13,167)
Operating loss					(20,306)
Finance costs					(2,468)
Loss before taxation					(22,774)
Taxation					–
Loss for the period					(22,774)



## 2. Turnover and segment information *(continued)*

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

	Turnover		Contribution to loss for the period	
	Six months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing Operations				
Hong Kong	10,913	13,458	(14,435)	(14,648)
Mainland China	3,744	4,913	(2,951)	(511)
United States of America	1,576	2,030	(202)	(3,062)
Japan	37,579	5,510	(877)	(4,553)
Elimination	(100)	(108)	–	–
	53,712	25,803	(18,465)	(22,774)

## 3. Operating loss

Operating loss is stated after crediting/charging the following:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
<i>Crediting</i>		
Interest income	121	19
<i>Charging</i>		
Staff costs (including directors' emoluments)	13,287	14,395
Amortisation of intangible assets	2,425	1,230
Depreciation of property, plant and equipment	1,253	1,780



#### 4. Finance costs

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Imputed interest on convertible preference shares	319	1,814
Finance charges on obligations under finance leases	5,837	—
Interest on:		
Borrowings wholly repayable within five years	288	321
Borrowings not wholly repayable within five years	538	333
	<b>6,982</b>	<b>2,468</b>

#### 5. Taxation

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

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Current tax		
Hong Kong profits tax		
— current period	—	—
— over provision in prior years	—	—
Overseas tax	6	—
	<b>6</b>	<b>—</b>

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.



## 6. Loss per share

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Loss for the purpose of basic and diluted loss per share		
– Net loss for the period	<b>18,264</b>	22,830
	<b>Number of shares</b>	
	<b>2006</b>	2005
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>85,302,051</b>	62,286,599

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

The Company had consolidated every 100 issued shares of HK\$0.01 each into one new issued share of HK\$1 each on 13 December 2005. The weighted average number of ordinary shares for period 2005 is adjusted accordingly.

## 7. Intangible assets

	<b>Cable use rights</b>	<b>Website software</b>	<b>Licensing rights</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>				
Balance at 1 January 2006	3,626	727	22,055	26,408
Exchange fluctuation	6	21	–	27
Balance at 30 June 2006	3,632	748	22,055	26,435
<b>ACCUMULATED AMORTISATION</b>				
Balance at 1 January 2006	672	159	4,050	4,881
Amortization charge	134	82	2,209	2,425
Exchange fluctuation	1	–	–	1
Balance at 30 June 2006	807	241	6,259	7,307
<b>NET BOOK VALUE</b>				
As at 30 June 2006	2,825	507	15,796	19,128
As at 31 December 2005	2,954	568	18,005	21,527



## 8. 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:

	<b>30 June 2006</b>	31 December 2005
	<b>HK\$'000</b>	HK\$'000
Current	<b>6,901</b>	12,458
31 – 60 days	<b>1,938</b>	892
61 – 90 days	<b>1,495</b>	1,211
Over 90 days	<b>569</b>	2,085
	<b>10,903</b>	16,646

## 9. Trade payables

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

	<b>30 June 2006</b>	31 December 2005
	<b>HK\$'000</b>	HK\$'000
Current	<b>7,172</b>	4,719
31 – 60 days	<b>720</b>	1,487
61 – 90 days	<b>306</b>	225
Over 90 days	<b>6,226</b>	6,821
	<b>14,424</b>	13,252

## 10. Convertible preference shares

During the six months ended 30 June 2006, all remaining 1,300,000,000 convertible preference shares were converted into ordinary shares at HK\$0.0225 each.



## **11. Share capital**

	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$1 each		
Authorised:		
At 31 December 2005 and 30 June 2006	730,000,000	730,000
Issued and fully paid:		
At 31 December 2005	76,955,056	76,955
Conversion of convertible preference shares	13,000,000	13,000
Exercise of share options	218,000	218
At 30 June 2006	90,173,056	90,173

## **12. Related party transactions**

During the six months ended 30 June 2006, the Group had the following material related party transactions:

- (a) A subsidiary of the Company has borne finance charges on obligations under finance leases due to a substantial shareholder of the Company of approximately HK\$5,837,000 (2005: nil).
- (b) A subsidiary of the Company has received service fee income of approximately HK\$591,000 (2005: nil) from a substantial shareholder of the Company for the provision of general administrative and corporate services provided.
- (c) A subsidiary of the Company has received service fee income of approximately HK\$125,000 (2005: nil) from a company wholly owned by a Director of the Company for the provision of general administrative and corporate services provided. The Director resigned from the position on 21 March 2006.
- (d) The Company has borne imputed interest on convertible preference shares of approximately HK\$237,000 (2005: HK\$187,000) payable to a substantial shareholder of the Company.
- (e) A substantial shareholder of the Company has granted a credit facility of HK\$20,000,000 (2005: HK\$20,000,000) to the Company. The loan bears commercial interest rate and is unsecured. The Company did not use the facility during the period (2005: nil).





## **12. Related party transactions (continued)**

As at balance sheet date, the Group had the following balances with related parties:

- (a) Amount due from related parties of the Company in respect of general administrative and corporate services provided of approximately HK\$275,000 (2005: nil) is included in the trade, other receivables and prepayments. The amount is unsecured, interest-free and with no fixed repayment terms.
- (b) The obligation under finance leases of a subsidiary of the Company of approximately HK\$245,610,000 (2005: HK\$94,991,000) is due to a substantial shareholder of the Company, for the leasing of digital kiosks.
- (c) As at 31 December 2005, the convertible preference shares of the Company included of approximately HK\$13,057,000 held by a substantial shareholder of the Company. During the six months ended 30 June 2006, the substantial shareholder had converted all convertible preference shares into ordinary shares of the Company.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

## **BUSINESS REVIEW**

For the six months ended 30 June 2006, the Group has recorded an unaudited consolidated turnover of approximately HK\$54 million increased by 108% when compared to that of the corresponding period last year. The gross profit for the period under review was approximately HK\$22 million, increased by 110%. Loss for the period amounted to approximately HK\$18 million represented decrease of 19% when compared to that of the corresponding period last year.

During the period under review, the administrative and operating expenses increased from approximately HK\$22 million to approximately HK\$28 million, increased by 27%. The main reason for such increase was due to legal and other expertise costs and settlement costs of two historical litigation cases commenced before 2003 regarding some construction projects. Such costs are about HK\$5 million for the period.