



## **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.



## **BUSINESS REVIEW (*continued*)**

In addition, the finance costs increased from HK\$2.5 million to approximately HK\$7 million, representing 183% increase when compared to that of the corresponding period last year. The increase was mainly due to the finance lease charges of kiosks which are deployed in content distribution business in Japan.

The equity attributable to equity holders of the parent were increased to approximately HK\$140 million, representing 4% increase when compared to that of the corresponding period last year and the net current assets were amounted to approximately HK\$4 million as at 30 June 2006.

### **Entertainment Media Segment**

The turnover of this Segment for the period under review was approximately HK\$49 million, representing increase of 129% when compared to the corresponding period of last year. The gross profit of this Segment for the period under review was approximately HK\$20 million, representing increase of 115% when compared to the corresponding period of last year.

In Japan, Drive Limited (“DJL”) operates contents aggregation business while Media Elite Japan Limited (“MEJL”) operates content distribution business through the DigiRaku machines – digital content downloading kiosks (“DigiRaku”), which located in various major cities in Japan and enables Japan customers to download variety of entertainment contents, e.g. movies, pictures, music and games in a quick, easy and secure way. As at 30 June 2006, 1,795 units of DigiRaku have been installed in Japan. During the period under review, DJL and MEJL have contributed more than 70% of total revenue to the Group.

In Hong Kong and Macau, Cellcast (Asia) Limited (“CAL”) trades under the brand “Yeahmobile” and offers a variety of value-added services, including mobile and MP3 ring tones, wallpaper, Java games download, etc. CAL also provides Interactive Voice Response platform for certain famous mobile network operators and mobile platform solutions for other corporate clients. During the period, the value-added services in Hong Kong has been plagued by product maturity, continuing margin erosion by music content owners and downward pressure on selling prices. CAL is combating the problem by means of product and service diversification to maintain the leading position in the industry. In the meantime, it will continue to streamline its operation to improve efficiency.



## **BUSINESS REVIEW (*continued*)**

### **Entertainment Media Segment (*continued*)**

In PRC, New Power Limited (“NPL”) continues to offer value-added telecommunication services and is participating in mobile interactive TV services to all PRC customers in the year 2006. The recent policy changed by China Mobile has significant adverse effect on all mobile content providers, including NPL. NPL will continue to develop and diversify its products and services.

In Hawaii, Visual Paradise Inc. and Channel Media Inc. engage in content aggregation business for aggregation of various contents distributed onto the DigiRaku machines for customers in Japan. The Group will further develop this content aggregation business in Asia Pacific region.

### **Media Shopping Segment**

This business segment is newly established in March 2006. The Group has entered into a co-operation agreement with a strategic partner, Feng Li Group of companies (“Feng Li”) who cooperates with certain TV channels in Guangdong Province in the PRC. Feng Li is being run by experienced media professionals. It has secured a TV shopping channel license in Guangdong Province with more than 100 hours of shopping airtime covering most part of Guangdong Province.

Under the co-operation agreement, the Group will provide merchandising and customers’ fulfillment services to Feng Li and will share profits on the merchandises. This Segment commenced operation in May and the initial revenue growth has been at an impressive rate of over 50% per month. In August, the Group has strengthened the co-operation with Feng Li by entering into a memorandum of understanding (“MOU”) on joint venture agreement on call centre operation. Under the MOU, the Group and Feng Li will establish jointly owned entity to operate call centers to handle calls from media shopping and related business.

The Group considers the media shopping business in PRC as a high potential business. Although this Segment is still in the early development stage and the revenue contribution is not significant during the period under review, the Group believes that this Segment will grow optimistically and substantially in the foreseeable future to be one of the growth engines of the Group and benefit to our Group and shareholders of the Company as a whole.



## **BUSINESS REVIEW *(continued)***

### **Property Investment Segment**

For the six months ended 30 June 2006, this Segment generated total revenue at approximately HK\$2 million, an increase of 4% comparing with that of 2005. The Group's properties in Hong Kong have undergone renovation at the end of 2005 and all units are leased out to third parties successfully to secure a stable income stream for the Group.

### **Financial Services Segment**

Although the turnover of this Segment was not significant to the Group during the period under review, the Group will continue to explore any potential business opportunity in the Year 2006 which will benefit to the Group as a whole.

### **Telecommunication Segment**

In the first six months of 2006, the turnover of this Segment amounted to approximately HK\$2 million. The loss of this Segment amounted to approximately HK\$0.2 million for the six months ended 30 June 2006. The Segment holds cable use right for a cable connected between Japan and Hawaii and continues to provide maintenance and support services to its bilateral correspondent in Japan.

## **MODIFICATION TO CERTAIN TERMS OF MANAGEMENT AGREEMENTS OF MAJOR TRANSACTION AND VSD TRANSACTION**

In August 2006, the Group has entered into supplement agreements with Freparnetworks Inc. ("Frepar"), a shareholder of the Company holding 5.56% interest in the ordinary shares of the Company as at the date of this report, and the Group has resumed the duty of certain service and also reduced the service fee and privilege fee payable to and by Frepar under the management agreements dated 12 August 2005 and 15 November 2005 respectively. Details of the modification are disclosed in the Company's announcement dated 8 August 2006.

## **DISTRIBUTION OF CONTRIBUTED SURPLUS**

The Company has declared and made the distribution of contributed surplus in the aggregated amount of HK\$9,017,305.60 to all shareholders of the Company on 21 August 2006. The contributed surplus was arisen from the excessive paid up capital resulting from the capital reduction of the share capital of the Company in May 2003 and December 2005 respectively. Details of the distribution are disclosed in the Company's announcement dated 27 July 2006.