



2005
INTERIM REPORT



Sun Innovation Holdings Limited
(Incorporated in Bermuda with limited liability)

The Board of Directors of Sun Innovation Holdings Limited (the "Company") presents the unaudited interim financial reports for the six months ended 30 June 2005 of the Company and its subsidiaries ("the Group") together with the comparative figures in 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Six months ended 30 June	
		2005	2004
	Note	HK\$'000	HK\$'000
			As restated
Turnover	4	25,803	33,097
Cost of sales		(15,231)	(18,021)
Gross profit		10,572	15,076
Other operating income		199	996
Selling and distribution expenses		(7,414)	(3,647)
Administrative and operating expenses		(22,343)	(29,202)
Impairment of goodwill		–	(27,978)
Fair value changes on investment properties	9	(1,320)	–
Operating loss	5	(20,306)	(44,755)
Finance costs	6	(2,468)	(2,628)
Loss on disposal of discontinued operations relating to fire protection and suppression business in Mainland China		–	(1,006)
Loss before taxation		(22,774)	(48,389)
Tax credit	7	–	(4)
Loss for the period		(22,774)	(48,393)
Attributable to:			
Equity holders of the parent		(22,830)	(47,344)
Minority interests		56	(1,049)
		(22,774)	(48,393)
Loss per share	8		
From continuing operations:			
– Basic		0.4 cents	1.0 cents
– Diluted		0.4 cents	1.0 cents
From continuing and discontinued operations:			
– Basic		0.4 cents	1.0 cents
– Diluted		0.4 cents	1.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2005

	Notes	Unaudited 30 June 2005 HK\$'000	Restated and unaudited 31 December 2004 HK\$'000
Non-current Assets			
Property, plant and equipment		11,644	12,531
Investment properties	9	88,926	90,246
Prepaid lease payment		37,779	38,159
Intangible assets	10	15,135	3,996
Finance lease receivable		1,276	1,328
Pledged bank deposits		8,611	8,603
		163,371	154,863
Current Assets			
Trade, other receivables and prepayments	11	16,352	10,564
Finance lease receivable		253	187
Tax recoverable		54	54
Bank balances and cash		6,202	5,467
		22,861	16,272
Current Liabilities			
Trade, other payables and accruals	12	21,939	19,461
Borrowings – due within one year, secured		21,871	14,784
		43,810	34,245
Net Current Liabilities		(20,949)	(17,973)
Total Assets less Current Liabilities		142,422	136,890
Non-current Liabilities			
Borrowings – due after one year, secured		18,735	19,550
Convertible preference shares	13	33,121	69,000
		51,856	88,550
Net Assets		90,566	48,340
Capital and Reserves			
Share capital	14	65,968	51,009
Reserves		24,538	(2,673)
Equity attributable to equity holders of the parent		90,506	48,336
Minority interests		60	4
Total equity		90,566	48,340

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Attributable to equity holders of the parent									Total equity	
	Share capital	Share premium	Convertible preference shares reserve	Capital reserve	Share-based payment reserve	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total		Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	43,824	-	-	3,000	-	120,930	-	(38,723)	129,051	8,611	137,642
Issue of shares	4,750	6,650	-	-	-	-	-	-	11,400	-	11,400
Issue of shares on the exercise of share options	238	238	-	-	-	-	-	-	476	-	476
Issue of subsidiary's shares to minority interest	-	-	-	-	-	-	-	-	-	4,161	4,161
Disposal of non-wholly own subsidiaries	-	-	-	-	-	-	-	-	-	(8,045)	(8,045)
Net loss not recognized in the consolidated income statement – Exchange difference	-	-	-	-	-	-	(12)	-	(12)	(2)	(14)
Loss for the period (restated)	-	-	-	-	-	-	-	(47,344)	(47,344)	(1,049)	(48,393)
At 30 June 2004 (restated)	48,812	6,888	-	3,000	-	120,930	(12)	(86,067)	93,551	3,676	97,227
Issue of shares on the exercise of share options	2,197	2,407	-	-	-	-	-	-	4,604	-	4,604
Net loss not recognized in the consolidated income statement – Exchange difference	-	-	-	-	-	-	12	-	12	(14)	(2)
Loss for the period (restated)	-	-	-	-	-	-	-	(49,831)	(49,831)	(3,658)	(53,489)
At 31 December 2004 (restated)	51,009	9,295	-	3,000	-	120,930	-	(135,898)	48,336	4	48,340
At 31 December 2004 (restated) and 1 January 2005	51,009	9,295	-	3,000	-	120,930	-	(135,898)	48,336	4	48,340
Effects of changes in accounting policies (see Note 3b)											
- Derecognition of negative goodwill	-	-	-	(3,000)	-	-	-	3,000	-	-	-
- Convertible preference shares (equity portion)	-	-	23,100	-	-	-	-	-	23,100	-	23,100
At 1 January 2005	51,009	9,295	23,100	-	-	120,930	-	(132,898)	71,436	4	71,440
Issue of shares on acquisition of subsidiary	1,960	10,584	-	-	-	-	-	-	12,544	-	12,544
Conversion of convertible preferences shares	9,667	12,208	(7,282)	-	-	-	-	-	14,593	-	14,593
Issue of shares on the exercise of share options	3,332	3,432	-	-	-	-	-	-	6,764	-	6,764
Recognition of equity-settled share-based payment	-	-	-	-	8,042	-	-	-	8,042	-	8,042
Net loss not recognized in the consolidated income statement – Exchange difference	-	-	-	-	-	-	(43)	-	(43)	-	(43)
Loss for the period	-	-	-	-	-	-	-	(22,830)	(22,830)	56	(22,774)
At 30 June 2005	65,968	35,519	15,818	-	8,042	120,930	(43)	(155,728)	90,506	60	90,566

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Net cash used in operating activities	(11,931)	(13,497)
Net cash (used in) generated from investing activities	(346)	1,823
Net cash generated from financing activities	12,166	4,637
Effects of foreign exchange rates changes	(24)	(18)
Decrease in cash and cash equivalents	(135)	(7,055)
Cash and cash equivalents at 1 January	5,467	11,404
Cash and cash equivalents at 30 June	5,332	4,349
Analysis of balances of cash and cash equivalents		
Bank balances and cash	6,202	4,881
Bank overdraft	(870)	(532)
	5,332	4,349

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				Total effect HK\$'000
	HKAS 17 HK\$'000 (Note 2b)	32 & 39 HK\$'000 (Note 2c)	HKAS 40 HK\$'000 (Note 2d)	HKFRS 2 HK\$'000 (Note 2e)	
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)				As at 31 December 2004 (Restated)			As at 1 January 2005 (Restated)	
	HKAS 1	HKAS 17	HKFRS 2	HKAS 32 & 39	HKFRS 3				
	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 Decommissioning, 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				Total HK\$'000
	Media and Content Services HK\$'000	Property Investment HK\$'000	Telecom- munication HK\$'000	Elimination 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		Total
	Media and Content Services	Property Investment	Telecommunication	Total Continuing Operations	Fire Protection and Suppression	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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		Contribution to operating loss	
	Six months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	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
<i>Crediting</i>		
Interest income	19	7
<i>Charging</i>		
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)
	<hr/>	<hr/>
	–	(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)
	<hr/>	<hr/>
	(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)
	<hr/>
At 30 June 2005	88,926
	<hr/>

10. Intangible assets

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

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).

BUSINESS REVIEW

The consolidated turnover of the Group for the six months ended 30 June 2005 amounted to approximately HK\$25.8 million, decreased by 22% when compared to that of the corresponding period last year. The consolidated turnover from the continuing operations of the Group for the six months ended 30 June 2005 increased by 9% from approximately HK\$23.7 million to approximately HK\$25.8 million. Gross profit was approximately HK\$10.6 million, decreased by 30%. Loss for the period amounted to approximately HK\$22.8 million, decreased by 53% as compared to that of the corresponding period last year.

The Group has adopted a number of new/revised accounting standards generally accepted in Hong Kong in the year of 2005. The Group, having adopted these accounting standards, recorded loss of approximately HK\$10.2 million for the six months ended 30 June 2005 which all are non-cash item or notional interest adjustments. These adjustments include the costs of issue of share options at approximately HK\$8.0 million, increase in imputed interest expenses on convertible preference shares (debt portion) at approximately HK\$1.8 million, decrease in fair value of investment properties at approximately HK\$1.3 million and reduction of amortisation of prepaid lease payment for a property in Hong Kong at approximately HK\$0.9 million.

The equity attributable to equity holders of the parent were increased to approximately HK\$90.5 million and the net current liabilities were amounted to approximately HK\$20.9 million as at 30 June 2005.

Entertainment Media Division

The turnover of this Division in the first six months of 2005 was approximately HK\$21.4 million, increase of 19% when compared to the corresponding period of last year. The loss of this Division in the first six months of 2005 was approximately HK\$3.3 million, decrease of 91% when compared to the corresponding period of last year. Last year, this Division had written off goodwill at approximately HK\$28 million. By excluding this goodwill write-off, this Division still reduced its loss by 52%.

In Hong Kong and Macau, Cellcast (Asia) Limited ("CAL") continued to contribute majority of the revenue in this Division. CAL, which trades under the brand "Yeahmobile", continues to maintain the leading position in the telecommunication value-added services ("VAS") industry. It continues to offer ring tone, MP3 ring tone, connecting tones, wallpaper, Java games download, sports information, personalized voice mail and community services. The delivery means continued to shift from voice based triggered to Short Message Services ("SMS") based or WAP based triggered as mobile data usage continues to grow. The VAS market has changed in such a way that usage is driven more by mobile operators rather than service providers ("SP's"). This was due to increased customers sophistications, aggressive pricing and promotion by mobile operators. The above factors have pressured the performance of CAL.

BUSINESS REVIEW (continued)

Entertainment Media Division (continued)

In addition to content provisioning, CAL continues to provide Interactive Voice Response (“IVR”) platform for certain mobile network operators in Hong Kong and Macau. CAL also continues to provide IVR and SMS platform for TVB and RTHK. CAL also provided mobile platform solutions for corporate clients.

In Macau, TelecomInno (Macau) Company Limited provided the on-line gaming services under the brand name of “www.gamedegift.com”. Although it had 3,800 registered customers, due to the high marketing cost and barrier in fund collection via internet credit card payment method, the growth of this business was not satisfactory and its contribution to the revenue of the Group was insignificant. The Group will cease this service in the second half year of 2005 and will deploy the resources to other profitable businesses of the Group.

In PRC, New Power Limited (“NPL”) continues to offer services in Java games, community, graphics, sports information, jokes and certain ring tone. Following the tightening of control over SP’s by Ministry of Information Industry (“MII”) and China Mobile, the VAS market in PRC has gone through substantial consolidation with the number of SP’s operating on a national basis greatly reduced to fewer than 500. Reduced competition and the introduction of Multi-Media Services (“MMS”) products have brought considerable improvement to the results of NPL. Coupled with the early introduction of new MMS products, the performance of NPL has been impressive during the first half of 2005. However, the same growth rate in the first half of 2005 might not substantiate throughout the year as China Mobile has implemented the Mobile Internet Service Centre (“MISC”) platform for MMS products in the second half.

In Japan, Drive Limited (previously known as “Limited Liability Company Prehit”) has started the contents distribution business through the digital content downloading kiosk machines, namely “DigiRaku”, located in book stores, video rental shops and other chain stores in various major cities in Japan since February 2005. As at 30 June 2005, 200 units of DigiRaku have been installed in Japan. DigiRaku enables Japan customers to download entertainment contents, including movies, pictures, music, games in a quick, easy and secure way and avoid personal information leakage problem. It is expected that Drive Limited will contribute significant revenue to the Group in the coming years.

BUSINESS REVIEW (continued)

Entertainment Media Division (continued)

In Hawaii, Visual Paradise Inc. ("VP") engaged in content aggregation business in U.S. so that the Group can obtain various types of video and audio contents and recordings and distribute via DigiRaku to Japanese market. Revenue generated was not significant since VP is still in the development stage. The Group will input more resources in this business and further effort will be put in aggregation of audio and video contents from U.S. and Asia for distribution in Japan through DigiRaku.

Property Investment Division

This Division continues to contribute stable revenue and cash flow to the Group through its properties situated in Hong Kong and Guangzhou, PRC. For the six months ended 30 June 2005, this Division generated total revenue at approximately HK\$2.1 million, an increase of approximately HK\$0.5 million comparing with that of 2004. However, this Division suffered a loss of approximately HK\$0.8 million (2004: profit at approximately HK\$0.8 million) because of property valuation losses in Guangzhou properties.

The Group had announced the disposal of two non-wholly owned subsidiaries which held all the Group's properties in Guangzhou, PRC. Details of the disposal were published on the announcement dated 29 June 2005 and the completion was taken placed on 29 August 2005. After the disposal of Guangzhou properties, the monthly rental income reduced by approximately HK\$60,000.

Telecommunication Division

In the first six months of 2005, the turnover of this Division amounted to approximately HK\$2.8 million. Due to the severe competition in the Hong Kong and the US telecommunication industries and the limited capital employed, the loss of this Division amounted to approximately HK\$3.2 million for the six month ended 30 June 2005.

In view of the investment return under the limited capital employed in this Division, the development of this Division was not satisfactory and limited. The Group will further restructure this Division in the second half of 2005 and would continue to provide maintenance and support services to its bilateral correspondent in Japan.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the period under review, the Group had issued 196,000,000 shares of the Company at HK\$0.064 each to Freparnetworks Inc. to acquire Drive Limited. The acquisition was completed in January 2005. Drive Limited generated turnover at approximately HK\$4.8 million and contributed gross profits at approximately HK\$11,000 to the Group.

In addition, the Group has entered into three agreements with Wansford Group Limited (“Wansford”), the minority shareholder of Mansion China Company Limited (“MCCL”), to dispose all the entire issued capital of two non wholly-owned subsidiaries, Alion Development Limited and Unique Profit Development Limited, and to acquire from Wansford 40% equity interest in MCCL. Details of the transaction are disclosed on the announcement dated 29 June 2005 and the circular dated 21 July 2005. The completion of this disposal has been taken place on 29 August 2005.

MAJOR TRANSACTIONS

In August 2005, the Group has entered into an equipment lease agreement with Quants Inc. (previously known as “e-Lux Corporation”), a shareholder of the Company holding 5.92% interest in the ordinary shares and 38.10% interest in the convertible preference shares of the Company as at the date of this report, pursuant to which the Group will lease 400 units of digital downloading machine, known as “H138R”, for an initial term of 5 years. The Group also has entered in a management agreement with Freparnetworks Inc., also a shareholder of the Company holding 2.97% interest in the ordinary shares of the Company as at the date of this report. Both of the transactions contemplated under the agreements constitute major transactions for the Company under the Listing Rules and will be subject to the approval of the Company’s shareholders at the special general meeting to be held on 23 September 2005. Details of the transactions are disclosed in the Company’s announcement dated 12 August 2005 and the circular dated 8 September 2005.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

As at 30 June 2005, the Group has cash and bank balances of approximately HK\$6.2 million, short-term bank loans at approximately HK\$20.1 million, long-term mortgage loans at approximately HK\$19.5 million, other long-term loan at approximately HK\$1 million and convertible preference shares at HK\$33.1 million. Most of the borrowings are denominated in Hong Kong dollars and only 0.37% of all borrowings are denominated in US dollars.

As at 30 June 2005, the Group has banking facilities totalling approximately HK\$57.4 million and unsecured revolving term loan at HK\$20 million from a substantial shareholder. All the bank facilities are secured by the Group's investment properties and leasehold land and buildings of aggregate net book value of approximately HK\$124.7 million and personal guarantee of a director of the Company and a director of a subsidiary upto the extent of totalling HK\$390,000. In addition, the Company and certain of its subsidiaries provide a bank of cross guarantees totalling HK\$35 million in respect of a shared banking facility to be used by the Company and these subsidiaries. The other long-term loan at approximately HK\$1 million was secured by the entire issued shares of a wholly-owned subsidiary of the Group which indirectly holds a property in Hong Kong and was fully repaid in July 2005. According to the principal terms of convertible preference shares, the Company shall redeem all convertible preference shares which have not been converted or redeemed on or before 29 January 2010.

The Group's current assets as at 30 June 2005 were approximately HK\$22.9 million while the current liabilities were approximately HK\$43.8 million. The Group continues to adopt conservative funding and treasury policies. As at 30 June 2005, the Group's current ratio was 0.52 (at 31 December 2004: 0.48).

The Group's gearing ratio, representing the Group's total liabilities divided by the total equity, as at 30 June 2005 was 1.06 (at 31 December 2004: 2.54).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's turnover, expenses, assets and liabilities are denominated in Hong Kong dollars, Japanese Yen, United States dollars and Renminbi. The Group's exposure to fluctuations in exchange rates during the period under review is considered minimal as the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable and the operations denominated in Japanese Yen were not significant to the Group. Accordingly, no financial instruments have been used for hedging purposes. The management of the Group has been monitoring the Group's exposure to fluctuations in exchanges rates of all these currencies and, if appropriate, will take out some actions to minimize the risk of exchange rates fluctuations.

CONTINGENT LIABILITIES

As at 30 June 2005, there existed an litigation which was commenced by a third party contractor in July 2002, claiming against a bank which had served a third party notice to the Company, for a performance bond amounting to HK\$8,600,000 given by the Company to a former subsidiary in order for it to undertake an installation project with the third party contractor. As at 30 June 2005, the Group's bank deposits of HK\$8,611,000 were pledged for the purpose of this performance bond. The Company issued a fourth party notice to seek recourse from the former subsidiary. The directors, having sought independent legal advice, are of the opinion that the case is unclear at this stage as the amount of liability could not be measured with sufficient reliability. Accordingly, no provision has been made in the accounts in respect of the claim. Furthermore, a strike out application has been filed by the Company and the respective court hearing is scheduled in early 2006.

Besides the aforesaid litigation case, there were also two civil litigation cases outstanding. One litigation case was commenced by a bankrupted third party for breach of an alleged agreement and claimed damages against the Company in respect of a joint venture formed in 1996 for construction projects. Another litigation case was commenced by a bank against the aforesaid bankrupted third party and joint venture, which had served a third party notice to the Company, for outstanding balance of overdraft facilities. After obtaining the advices from two counsels and a lawyer, the directors are of the opinion that these cases are remote and no provision has been made in the accounts in respect of the alleged claims.

Save as disclosed above, the Group did not have any material contingent liabilities.

EMPLOYEE OF THE GROUP

The Group has adopted competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies, study and examination leaves offered to all full-time staff.

As at 30 June 2005, the total headcount of the Group was 79.

PROSPECT

The Group will focus on the content aggregation and distribution businesses in the forthcoming future.

For the media contents market in Japan, advanced technology in digital equipment industries, strong consumption power and the trendy style of the younger generation in Japan create various business opportunities. Portable media devices, e.g. PSP (Sony), Nintendo DS, are very popular and they provide additional platform for distribution of digital contents.

For the VAS market in Hong Kong, there has been moderate growth in the number of 2.5G and 3G mobile subscribers. According to statistics of the Office of Telecommunications Authority ("OFTA"), the number of 2.5G and 3G mobile subscribers in Hong Kong has increased from 1.35 million in December 2004 to 1.52 million in May 2005. The increased number of 2.5G and 3G subscribers has increased the market size for products with larger file size involving delivery through General Packet Radio Services ("GPRS") and 3G mobile gateways.

The Group considers 3G services provide new business opportunities for community's applications involving video element. The Group will explore opportunities in these areas while continuing to secure our leading positions in telecommunication VAS and mobile platform provisioning. With the change in the Hong Kong VAS market, the Group shall focus on strengthening relationship with Network Operators and development of in-house content. The Group also considers the VAS market in PRC is still growing and the long term prospect of telecommunication VAS market is promising. Therefore, the Group shall monitor the market situation and develop new services when opportunities arise.

Regarding the property investment business, the Group believes the increasing demand of commercial shops, after the opening of Hong Kong Disneyland and the recovery of economy, will bring new opportunities. The Group will formulate suitable strategy to maximize the return of the property investment business.

SHARE OPTION SCHEMES

The movements in the options granted under the employee share option scheme for the six months ended 30 June 2005 were as follows:

	Subscription Price/share HK\$	Exercisable period	Option grant date	No. of options granted '000	No. of options held at 1 January 2005 '000	No. of options exercised/ lapsed during the period '000	No. of options outstanding at 30 June 2005 '000
Directors:							
Michele Matsuda	0.020	28/6/2004 – 27/6/2014	28/6/2004	200,000	200,000	200,000	–
	0.0578	25/5/2005 – 24/5/2015	25/5/2005	200,000	–	–	200,000
Leung To Kwong, Valiant	0.020	2/12/2003 – 1/6/2006	2/6/2003	43,800	11,800	–	11,800
	0.0346	28/10/2004 – 27/10/2006	28/10/2004	10,200	10,200	–	10,200
Cheung Chi Fai, Frank	0.022	18/3/2004 – 17/3/2006	18/3/2004	22,000	12,000	12,000	–
	0.0346	28/10/2004 – 27/10/2006	28/10/2004	10,000	10,000	–	10,000
Daijiro Nishihama	0.065	26/1/2005 – 25/1/2007	26/1/2005	30,000	–	–	30,000
Continuous contract employees (1)	0.020	2/12/2003 – 1/6/2006	2/6/2003	33,350	16,000	6,000	10,000
Continuous contract employees (2)	0.022	18/3/2004 – 17/3/2006	18/3/2004	70,350	26,450	23,200	3,250
Continuous contract employees (3)	0.0362	13/8/2004 – 12/8/2006	13/8/2004	1,750	1,000	–	1,000
Continuous contract employees (4)	0.0346	28/10/2004 – 27/10/2006	28/10/2004	12,500	4,250	2,000	2,250
Continuous contract employees (5)	0.069	5/1/2005 – 4/1/2007	5/1/2005	4,000	–	–	4,000
Continuous contract employees (6)	0.065	26/1/2005 – 25/1/2007	26/1/2005	5,500	–	1,000	4,500
Continuous contract employees (7)	0.055	26/4/2005 – 25/4/2007	26/4/2005	750	–	–	750
Others	0.069	5/1/2005 – 4/1/2007	5/1/2005	2,000	–	–	2,000

SHARE OPTION SCHEMES (continued)

The fair value of employee options granted during the six months ended 30 June 2005 were determined at approximately HK\$4,139,000 by using Black-Scholes-Merton Option Pricing Model. The key valuation parameters as adopted in assessing the fair value of the share options included the exercise price, risk free rate, nature of the share options, expect option period, volatility and expected dividend yield. The valuation assumed that there will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the Group's business and the price of the underlying securities. It also assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may significantly affect the continuity of the Group's business. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by the employees was HK\$0.0628.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2005, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares and underlying shares of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

(a) Ordinary shares of HK\$0.01 each of the Company

Name of Directors	Capacity	Total number of Shares	Approximate percentage of issued share capital of the Company (%)
Michele Matsuda	Beneficial owner and held by controlled corporation (Note)	805,580,000	12.21
Leung To Kwong, Valiant	Beneficial owner	5,500,000	0.08
Cheung Chi Fai, Frank	Beneficial owner	12,000,000	0.18

Note: Mr. Matsuda held 805,570,000 Shares through e-Compact Limited, a company wholly-owned by Anglo Japan Enterprises Limited, which is in turn beneficially owned by him, the remaining 10,000 shares are beneficially held by himself.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES (continued)**(b) Share Options**

Name of Directors	Capacity	Total number of Share options	Approximate percentage of issued share capital of the Company (%)
Michele Matsuda	Beneficial owner	200,000,000	3.03
Leung To Kwong, Valiant	Beneficial owner	22,000,000	0.33
Cheung Chi Fai, Frank	Beneficial owner	10,000,000	0.15
Daijuro Nishihama (<i>Note</i>)	Beneficial owner	30,000,000	0.45

Note:

The options held by Mr. Nishihama was granted to him when he was acting as an consultant to the Company in January 2005. He was appointed as an executive director of the Company on 18 June 2005.

Save as disclosed above, as at 30 June 2005, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the interests or short positions of the persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

(a) Ordinary shares of HK\$0.01 each of the Company

Name of Shareholders	Capacity	Total number of Shares	Approximate percentage of issued share capital of the Company (%)
Michele Matsuda	Beneficial owner & held by controlled corporation (<i>Note 1</i>)	1,005,580,000	15.24
Leung Kin Cheung, Patrick	Beneficial owner & held by controlled corporation (<i>Note 2</i>)	447,906,666	6.79
Quants Inc. (previously known as "e-Lux Corporation")	Beneficial owner	390,900,000	5.93
T&C Holdings Inc.	Held by controlled corporation (<i>Note 3</i>)	572,470,000	8.68

Note 1: Mr. Matsuda held 805,570,000 ordinary shares of the Company through e-Compact Limited which are beneficially owned by him and 10,000 ordinary shares of the Company in his own name and 200,000,000 share options of the Company.

Note 2: Mr. Leung held 12,470,000 Shares in his own name and also held 435,436,666 Shares through Station Investments Limited, beneficially owned by him.

Note 3: T&C Holdings Inc. held 572,470,000 Shares through its beneficially owned company, i.e. T&C Capital Limited.

SUBSTANTIAL SHAREHOLDERS (continued)**(b) Convertible preference shares ("CPS") of HK\$0.01 each of the Company**

Name of Shareholders	Capacity	Total number of CPS	Approximate percentage of total issued CPS of the Company (%)
Leung Kin Cheung, Patrick	Held by controlled corporation (<i>Note 1</i>)	900,000,000	42.86
Quants Inc. (previously known as "e-Lux Corporation")	Beneficial owner	800,000,000	38.09
T&C Holdings Inc.	Held by controlled corporation (<i>Note 2</i>)	400,000,000	19.05

Note 1: Mr. Leung held 900,000,000 CPS through his beneficially owned company, Station Investments Limited.

Note 2: T&C Holdings Inc. held 400,000,000 CPS through its beneficially owned company, i.e. T&C Capital Limited.

Save as disclosed above, as at 30 June 2005, the Company had not been notified of any persons who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the period under review.

CORPORATE GOVERNANCE

During the six months ended 30 June 2005, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the following:-

- (a) the chairman of the board of the Company is not subject to retirement by rotation pursuant to Bye-Law 87(1) of the Company's Bye-Laws.
- (b) there is no separation of the role of the chairman and the chief executive officer ("CEO"). Mr. Michele Matsuda currently is appointed as the Chairman and CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO to Mr. Michele Matsuda provides the Group with strong and consistent leadership and allows for more effective planning and prospective development for the Group.
- (c) a remuneration committee of the board comprising a majority of independent non-executive directors was formed on 6 September 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board had adopted the Model Code for securities transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code through the period under review.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2005 with the directors.

By Order of the Board

Michele Matsuda

Chairman

Hong Kong, 20 September 2005