



**enewmedia**

e-New Media Company Limited

annual report

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## CHAIRMAN'S STATEMENT

I am pleased to present the annual report of e-New Media Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004.

The Group entered into the fashion retail business after the acquisition of a 60% equity interest in The Swank Shop Limited ("Swank") in October 2003. The 2004 full year result of Swank was accounted for in these financial statements.

### RESULTS

For the year ended 31 December 2004, the Group recorded a turnover of HK\$221,273,000 (2003: HK\$138,600,000), representing a substantial increase of 60% as compared with last year. The significant increase in turnover was mainly attributable to the fashion retail business.

The Group achieved a turnaround in 2004 and posted a net profit attributable to shareholders of HK\$13,616,000 as compared to a loss in last year. Several lines of our business contributed to this turnaround. The Clubs experienced an increase in their property value as a result of the improvement of property market and significant expansion and upgrade of their facilities, the International Premium Rate Services business collected and recovered certain prior years' outstanding sums owed to it and the fashion retail business performed well amid robust retail climate and recorded improved performance.

### LOOKING AHEAD

#### SHANGHAI HILLTOP COUNTRY CLUB

The Group has co-operated with a hotel management company, in which the Group owns 35%, to convert the Shanghai Hilltop Country Club ("Shanghai Hilltop") into a Spa and 4-Star resort hotel. Shanghai Hilltop's expansion and upgrading is now at the final stage and is scheduled for soft opening in mid 2005. Shanghai Hilltop will be renamed "Vivasha" thereafter.

Shanghai has been growing at the rapid pace and the demand for leisure and hospitality facilities continues to rise. The Board is optimistic about the prospect of Shanghai Hilltop.

#### FASHION RETAIL

As at 31 December 2004, Swank had 14 stores and department store counters of which 3 new stores and department store counters were opened during the year under review. In the coming year, certain stores with low profitability will be strategically closed when their leases expire, while continuing to open new stores at prime locations to enhance Swank's profitability.

Given the sustainable growth of the Hong Kong's economy and the robust retail climate, the Board is confident that our fashion retail business will continue to grow and be a contributor to the Group's turnover and profits. The Group will also continue to look for expansion opportunities in the fashion retail business.

**APPRECIATION**

I would like to take this opportunity to thank my fellow directors, dedicated employees, our supportive shareholders and our business partners for their confidence and continued support to the Group.

**Joseph Wing Kong LEUNG**

*Chairman*

Hong Kong, 15 April 2005

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## FINANCIAL REVIEW

The Group reported a turnover of HK\$221,273,000 (2003: HK\$138,600,000) and consolidated profit attributable to shareholders amounted to HK\$13,616,000 (2003: Loss of HK\$34,069,000) for the year ended 31 December 2004. Basic and diluted earnings per share was 0.8 HK cents (2003: Loss of 2.1 HK cents).

Several lines of business contributed to the improvement of the Group's performance. In the Resort and recreational club operations sector, the Clubs experienced a substantial appreciation in capital value for their premises due to current improvement efforts, promising future prospects and improved market conditions, and write backs of certain revaluation deficit are also implemented. In the International Premium Rate Services business, Management was able to successfully collect certain prior years' outstanding debts and recovered several overdue sums. Swank performed satisfactorily amid the robust retail climate in Hong Kong and recorded improved results. Certain strategic investments that the Group made also appreciated in value.

## LIQUIDITY AND FINANCIAL POSITION

At 31 December 2004, the Group was in a solid financial position with cash and deposit holdings of HK\$581,349,000 (2003: HK\$635,058,000). At 31 December 2004, total borrowings stood at HK\$21,308,000 (2003: HK\$61,931,000) with HK\$12,758,000 (2003: HK\$52,787,000) repayment falling due within one year. The Group's gearing ratio (a comparison of total borrowings with total equity) was 2.3% at the balance sheet date (2003: 6.8%). The current ratio at 31 December 2004 was 6.7 times (31 December 2003: 4.7 times).

At 31 December 2004, the Group's borrowings and bank balances were primarily denominated in Hong Kong dollars, United States dollars and Euros and exchange differences were reflected in the audited financial statements. All borrowings of the Group are either interest-free or on a floating rate basis. During the year, the bank loans of HK\$46,680,000 (US\$6,000,000) was repaid in full from its internal resources. Accordingly, pledges of the Company's fixed deposits given to secure such bank loans have been reduced by an equivalent amount.

The Group's imported purchases are mainly denominated in Euros and United States dollars. The Group will from time to time review its foreign exchange position, when it considers appropriate, will hedge its foreign exchange exposure by way of forward foreign exchange contract.

## PLEDGE OF ASSETS

Pledges of the Group's fixed deposits of US\$44,000 (2003: US\$6,110,000) was given to bankers to secure general banking facilities to the extent of US\$44,000 as at 31 December 2004 (2003: US\$6,110,000).

**BUSINESS REVIEW****RESORT AND RECREATIONAL CLUB OPERATIONS***Shanghai Hilltop Country Club ("Shanghai Hilltop")*

The expansion and upgrade of Shanghai Hilltop progressed on schedule. Upon completion of such works, Shanghai Hilltop will mainly comprise a hotel building, a clubhouse building, other ancillary structures and certain outdoor recreational facilities including a 200-meter golf driving range, tennis courts and outdoor swimming pool. Shanghai Hilltop will be renamed "Vivasha" after completion of the upgrading process.

The hotel building is a four-star resort hotel, which provides around 300 guest rooms. It will be facilitated with Chinese and Western restaurants and multi-purpose conference rooms. The clubhouse Building will be facilitated with indoor swimming pools, spa, gymnasium, a multi-function sport centre with badminton courts, table-tennis room, chess room and activity centre, etc.

Management expects that Shanghai Hilltop will have a soft opening in mid 2005 and Shanghai Hilltop would become one of the largest and leading Club Resorts in Shanghai in terms of scale and functions provided. Based upon the high occupancy rate in hotels in Shanghai last year, Management believes this trend will continue for the next few years and benefit our new hotel. In addition, Management believes that the current solid demand of quality residential properties in Shanghai is an indication that Shanghai residents are more concerned about living quality than ever, especially given that the expectation for economic growth would remain high in this decade. Consequently, Management is optimistic about the business development of Shanghai Hilltop.

In view of the above factors, Management decided to acquire an additional 15% shareholdings of Shanghai Landis Hospitality Management Co. Ltd, the management company of Shanghai Hilltop, resulting in a total shareholdings of 35% upon completion in February 2005.

*Hong Kong Hilltop Country Club ("Hilltop")*

Hilltop's performance in 2004 was largely in line with Management's expectation. The accommodation facility performed satisfactorily and recorded a significant increase in revenue, due largely to the influx of tourists from China starting in March. Both the Chinese Restaurant and Banquet and the European Restaurant and Banquet performed below expectation, as the fierce competition and a decrease in meetings and training activities affected the restaurant's performance. Sports and Recreation performed largely in line with Management's expectations.

Hilltop is expected to maintain its competitiveness as a result of the renovation works and dedication to cater to customer's demands. The upgrading of facilities at Hilltop is ongoing in order to keep the facility in good shape.

### TELECOMMUNICATIONS

#### *International Premium Rate Services ("IPRS")*

The traditional IPRS voice market did not show any signs of recovery in 2004 as market conditions continued to be difficult. One major reason for such steep decline is that U.S. and Japan, two of the biggest IPRS voice markets, have virtually become extinct. The U.S. market was affected by various regulatory issues and Japan was affected by the introduction of other new types of "value added services" (mainly coming from the mobile sector). As a result, both margin and revenue were further reduced.

Growing demand for "infotainment" in Mainland China represents a growing demand for premium rate calls. The Group will, in the coming year, begin to look for business opportunities for entering into the market.

Another major task for the coming year is to continue to exercise diligent and unrelenting efforts to collect outstanding and overdue payments from its debtors. In addition, even amidst difficult market conditions and fierce competition, Management is pleased to report that the Group was able to maintain its existing termination points.

Management believes that despite the same difficult trading conditions will remain ahead, it envisages that the opening up of the Mainland China market will not only revitalize the premium rate voice services, but will also open doors for the Group to attempt in different areas in the "value added service" sector such as premium data calls, Premium SMS etc.

#### *Wireless Network Card Business*

Shanghai ENM Telecom & Technologies Limited ("SENMTT")'s core business is providing wireless internet access services through mobile network and cooperates with China Mobile Shanghai and China Unicom Shanghai to distribute GPRS and CDMA1X network cards in the Shanghai region. SENMTT has developed solid business collaborations with local business partners and operators' retail shops and become one of the major CDMA1X distributors of China Unicom Shanghai. In 2005, Management plans to explore new opportunities to apply the current business model to other consumer products/services.

### FASHION RETAIL

#### *The Swank Shop Limited ("Swank")*

Swank continued to benefit from the rebound in consumer confidence in Hong Kong. Its business maintained the momentum seen in the first half of 2004 and recorded improved results in 2004.

A total of four new retail outlets with an aggregate floor area of over 6,500 square feet were established in the second half of 2004 and first quarter of 2005: Givenchy at Sogo Department Store, Givenchy at ifc mall, Swank Ladies at Gateway and Kenzo at ifc mall. Swank will also add to its retail network another renowned boutique in the second quarter of 2005, the Roberto Cavalli flagship store in ifc mall. Management believes that the expanded retail portfolio in prime retail locations will further enhance Swank's business and is conducting further studies of expansion plans.

## BIO-MEDICAL

*Genovate Biotechnology Company Limited ("Genovate")*

Genovate (founded in Taiwan in 1993 by Genelabs Technologies, Inc. of the USA) is a fully integrated pharmaceutical company, encompassing in its operation: new drug development and new formulation capability; clinical trials for local and international pharmaceutical companies; drug manufacturing; drug marketing and distribution in Taiwan.

Genovate has a range of new drug products in the pipeline. "Genetaxyl" is an improved version of Paclitaxel (BMS' Taxol) developed by Genovate for treatment of breast cancer, and its market share in Taiwan has increased favourably. In addition, two marketed new drugs, Urotrol and Glusafes, received positive market acceptance in Taiwan. Furthermore, in early 2005, for the first time Taiwan has granted approval for the sale of two "once a day" new drugs, Loxol SR and Diabetrol SR. The drugs are expected to launch shortly in Taiwan. Such flow of new drugs will further strengthen Genovate's sales.

*Cardima, Inc. ("Cardima")*

Cardima is a public company involved in medical devices for minimally invasive treatment of atrial fibrillation by utilising its Surgical Ablation System ("SAS") during heart surgery. The SAS, a combination of devices including Revelation Tx microcatheter system, has already received marketing clearance through CE Mark approval in Europe. As for the U.S. market, Cardima has yet to secure Pre-Market Approval from the U.S. Food and Drug Administration for SAS to proceed to marketing; to support its efforts, Cardima is exploring various opportunities.

## OTHER INVESTMENTS

*SinoPay.com Holdings Limited ("SinoPay"), formerly known as ChinaPay.com Holdings Limited*

SinoPay's main business is providing B2C electronic payment and intra-bank fund transfer solution services in Mainland China through its Joint Venture (the "JV") in Shanghai with China UnionPay. In June 2004, the JV has completed a capital increase transaction and SinoPay shareholdings in the JV have been reduced from 49% to 40%. The Group's interest in the JV has been diluted from 3.43% to 2.8% accordingly.

In response to the gradual opening of financial services in Mainland China, China UnionPay proposed a new merger transaction between the JV and 廣州好易聯支付網絡公司 ("Easylink"), a counterpart of the JV in Guangdong controlled by China UnionPay at present for higher operating efficiency and market share. After the proposed merger, the two companies may share resources and join forces to further expand into a nationwide interoperable bankcards network and further develop China's bankcard industry. Management believes that the proposed merger between the two companies is highly synergistic and the resulting performance of the JV should have a significant improvement. The proposed merger is targeted to be completed in 2005.

## CHIEF EXECUTIVE OFFICER'S STATEMENT

### OTHER INVESTMENTS (CONTINUED)

#### *Beijing Smartdot Technologies Co. Ltd. ("Smartdot")*

Smartdot engages in software development and solutions projects in Mainland China and its primary focus is in the area of e-Government projects and office automation systems for the corporate sector in Beijing. Over the reporting period, Smartdot has set up 2 subsidiaries in Guangdong and Zhejiang to try to capture businesses in other regions.

### EMPLOYEE AND REMUNERATION POLICIES

At the date of this report, the Group employs a total of 286 full time staff with its main workforce stationed in the Group's offices in Hong Kong. The Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, external training support, and a performance based share option scheme.

#### **James C. NG**

*Chief Executive Officer*

Hong Kong, 15 April 2005

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Joseph Wing Kong LEUNG**, 58, is the Chairman of the Group. Mr. Leung joined the Group in December 2000 as Executive Director and became Chairman in March 2001. Mr. Leung is a Director of Chinachem Group companies. He has over 30 years of experience in finance and management in property development. Mr. Leung is a fellow of the Hong Kong Institute of Real Estate Administration and a member of the executive committee of Real Estate Developers Association of Hong Kong.

**Mr. James C. NG**, 61, is the Chief Executive Officer of the Group. Prior to joining the Group in March 2001, Mr. Ng served as the CEO of the former First Pacific Bank in Hong Kong. He is a director of Chinachem Group companies and an Adviser of the Employer's Federation of Hong Kong.

**Mr. Derek Wai Choi LEUNG**, 54, joined the Group in December 2000. He holds a BSc (Engineering) degree and is also a chartered accountant. Mr. Leung had been in the banking industry for 16 years and in charge of the treasury and capital markets division of a banking subsidiary of one of the largest banks in the world for about ten years. He joined Chinachem Group in early 1997 and is responsible for the international investments of Chinachem Group companies.

**Mr. Wing Tung YEUNG**, 50, joined the Group as Executive Vice President in October 2001 and became Director in November 2002. Mr. Yeung is responsible for the investments of the Group. Prior to his appointment, Mr. Yeung was the Personal Assistant to the Managing Director of a listed company in Hong Kong for more than ten years, in charge of project investments and developments in Hong Kong, PRC and South East Asia. He had also worked in an American Bank as Manager of Commercial Banking and an international audit firm as Auditor. Mr. Yeung obtained his MBA from Indiana University, USA in 1978 and passed the board examination of the American Institute of Certified Public Accountants in the same year.

## NON-EXECUTIVE DIRECTOR

**Mr. Raymond Wai Pun LAU**, 55, joined the Group in March 2001. He is the Senior Partner of Ford, Kwan & Co. Solicitors & Notaries. He is a solicitor of the High Court of Hong Kong and is also qualified to practise in the United Kingdom and the Australian Capital Territory. He is also a notary public and China-appointed Attesting Officer.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Cecil Sze Tsung CHAO**, 68, joined the Group in September 2004. Dr. Chao is the founder and Executive Chairman of Cheuk Nang (Holdings) Limited. Dr. Chao obtained a Bachelor of architecture degree, with honours, from The University of Durham, England and subsequently worked in the field of property, investment, finance, architecture and construction for forty years. He also worked for Hong Kong Government Building Department and Architectural Office and was elected as director of Hong Kong Real Estate Developers' Association for over 20 years. Dr. Chao is a Hong Kong registered architect and a member of the Royal Institute of British Architect and has obtained Honorary Doctor Degree (Ph. D.) from the U.S. Morrison University. Dr. Chao is also awarded 2004's World Outstanding Chinese.

**Dr. Jen CHEN**, 50, joined the Group in February 2003. He has extensive experience and professional knowledge in the biopharmaceutical industry. Dr. Chen is the General Manager of Genovate Biotechnology Company Limited in Taiwan. Prior to this appointment, Dr Chen was the Vice President of Asian Operation in Genelabs Technologies, Inc. in the US. He had also worked in Novartis Pharmaceuticals Corporation for eight years in areas of new drug discovery and research. He is the author or co-author of more than 30 papers and ten patents in the field. Dr. Chen obtained his Ph.D. (Chemistry) from University of Rochester in New York, USA.

**Mr. Ian Grant ROBINSON**, 65, joined the Group in September 2004. He heads up Robinson Management Limited, a consulting and management company. Prior to setting up his own firm in 1995, he has had 39 years of experience as a professional accountant and was a Senior Partner with Ernst and Young, one of the largest international accounting firms. He has been based in Hong Kong since 1980, servicing the Asian region, and has accounting experience in major countries around the world. He is the Chairman of Brek Energy Inc., a Nasdaq listed company and is a member of the Executive Committee of the Hong Kong Housing Society.

## SENIOR MANAGEMENT

**Mr. David Kin Hay HONG**, 57, is the Managing Director of The Swank Shop Limited (“Swank”). Mr. Hong joined the family business in 1974 after his graduation from business studies in England. He was in charge of the manufacturing arm of Swank in the first few years. In the early 1980’s, Mr. Hong moved on to the retail business unit and has headed Swank since 1991. Mr. Hong has valuable experience in high fashion retailing.

Mr. Hong was awarded by the French President with the titles of *Chevalier de l’Ordre National du Merite* in July 1996 and *Chevalier de la Legion d’Honneur* in June 2003.

**Mr. Kenneth Sai Lai WONG**, 43, joined the Group in July 2001 as Vice President - Investments. He is responsible for the Group’s investment in Healthcare area. Prior to this appointment, Mr. Wong was the Vice President of Commercial Banking Business of First Pacific Bank, and Corporate Banking Officer of a major US bank where he gained international finance exposure in Chicago and New York. Before joining the banking industry, Mr. Wong had worked for an international accounting firm in performing project investment evaluation and feasibility study. Mr. Wong holds a Bachelor of Social Sciences Degree from the University of Hong Kong.

**Ms. Gladys C. CHEN**, 54, joined the Group as Chief Financial Officer in June 2001. Prior to her appointment, Ms. Chen was the Senior Vice President and Chief Financial Officer of a local bank in Hong Kong. She is a member of the American Institute of Certified Public Accountants.

**Mr. Victor Yiu Keung CHIANG**, 40, joined the Group in November 2003 as Financial Controller of the Group overseeing the financial management of the Group. He has over 15 years’ experience in professional accountancy practice and financial management experience with listed companies. Graduated from the Chinese University of Hong Kong with a bachelor’s degree in business administration, he is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chiang is also a Certified Public Accountant practising in Hong Kong.

**Mr. Alex C.H. YIP**, 32, joined the Group as General Counsel in September 2003. Prior to joining the Group, Mr. Yip practised corporate and commercial law in New York and Hong Kong and was associated with the New York law firms of Simpson Thacher & Bartlett LLP and Milbank, Tweed, Hadley & McCloy LLP. Mr. Yip worked on multiple billion US dollar transactions and has experience in mergers and acquisitions, private equity, securities and banking. He received his Juris Doctor degree from Boston College Law School in the US and his Bachelor of Arts degree in Economics and Political Science from University of Rochester in the US.

## **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The principal activities of the Company are investment holding and securities trading. The principal activities of the subsidiaries comprise the wholesale and retail of fashion wear and accessories, provision of telecommunications services, resort and recreational club operations, and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 68.

The directors do not recommend the payment of any dividend for the year ended 31 December 2004 (2003: Nil).

### **SUMMARY FINANCIAL INFORMATION**

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 69. This summary does not form part of the audited financial statements.

### **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 13 to the financial statements.

### **DEBENTURES**

Particulars of the club debentures of the Group are set out in note 25 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year, together with the reasons therefore, are set out in note 29 to the financial statements.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity on page 22, respectively.

**DISTRIBUTABLE RESERVES**

At 31 December 2004, the Company had no reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance (2003: Nil).

**MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 10% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for 39% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

**DIRECTORS**

The directors of the Company during the year were:

**EXECUTIVE DIRECTORS:**

Mr. Joseph Wing Kong LEUNG  
Mr. James C. NG  
Mr. Derek Wai Choi LEUNG  
Mr. Wing Tung YEUNG

**NON-EXECUTIVE DIRECTOR:**

Mr. Raymond Wai Pun LAU

**INDEPENDENT NON-EXECUTIVE DIRECTORS:**

Dr. Jen CHEN  
Mr. Ian Grant ROBINSON (appointed on 1 September 2004)  
Dr. Cecil Sze Tsung CHAO (appointed on 21 September 2004)

In accordance with article 101 of the Company's articles of association, Mr. James C. NG and Mr. Raymond Wai Pun LAU will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

## REPORT OF THE DIRECTORS

### DIRECTORS (CONTINUED)

In accordance with article 92 of the Company's articles of association, Dr. Cecil Sze Tsung CHAO and Mr. Ian Grant ROBINSON, having been appointed to the Board since the date of the last annual general meeting, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors to be independent.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 11 of the annual report.

### DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTEREST IN SHARES

At 31 December 2004, the interest of a director in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

*Long position in ordinary shares of HK\$0.01 each of the Company:*

<b>Name of director</b>	<b>Number of shares held through a controlled corporation</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Joseph Wing Kong LEUNG	<u>200,000</u>	<u>0.012%</u>

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading "Directors' interest in shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**SHARE OPTION SCHEMES**

Details of the Company's share option schemes are disclosed in note 29 to the financial statements.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES**

At 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions in ordinary shares of HK\$0.01 each of the Company:*

<b>Name</b>	<b>Direct interests</b>	<b>Indirect interests</b>	<b>Number of shares held</b>	<b>Percentage of the Company's issued share capital</b>
Diamond Leaf Limited	162,884,503	—	162,884,503	9.8%
Solution Bridge Limited	408,757,642	—	408,757,642	24.8%
Ms. Nina KUNG ( <i>note</i> )	—	571,642,145	571,642,145	34.6%
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

*Note:* The interest disclosed under Ms. Nina KUNG represents her deemed interests in the shares of the Company by virtue of her interests in Diamond Leaf Limited and Solution Bridge Limited.

Save as disclosed above, as at 31 December 2004, no person had registered an interest in the shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 26 August 2004, the Company entered into the surrender agreement with Hollywood Palace Company Limited (the “Landlord”), a company controlled by a substantial shareholder, to terminate a tenancy agreement dated 28 May 2003 (the “Old Tenancy Agreement”). On the same day, a new tenancy agreement (the “New Tenancy Agreement”) was entered into between the same parties in respect of the leases of certain premises under the Old Tenancy Agreement for a period of eight months from 1 September 2004 with the monthly rent reduced from HK\$157,948 under the Old Tenancy Agreement to HK\$113,260 as a result of a reduction in the total leased area from 11,282 square feet to 8,090 square feet under the New Tenancy Agreement.

### SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the non-executive and independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s articles of association. The Code contained in Appendix 14 of the Listing Rules has been replaced by the Code on Corporate Governance Practices (the “New Code”) with effect from 1 January 2005 and the New Code will apply for subsequent reporting periods.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established pursuant to the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises one non-executive director and three independent non-executive directors of the Company. The audited financial statements of the Group for the year ended 31 December 2004 have been reviewed by the Audit Committee.

## **AUDITORS**

During the year, KPMG resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Joseph Wing Kong LEUNG**

*Chairman*

Hong Kong, 15 April 2005

# REPORT OF THE AUDITORS



## TO THE MEMBERS

### e-NEW MEDIA COMPANY LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 19 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

## Ernst & Young

*Certified Public Accountants*

Hong Kong, 15 April 2005

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>TURNOVER</b>	5	<b>221,273</b>	138,600
<b>Cost of sales</b>		<b>(86,694)</b>	(42,848)
<b>Gross profit</b>		<b>134,579</b>	95,752
<b>Other revenue and gains</b>	5	<b>18,610</b>	4,496
<b>Selling and distribution costs</b>		<b>(55,808)</b>	(16,581)
<b>Administrative expenses</b>		<b>(80,548)</b>	(71,535)
<b>Other operating expenses, net</b>		<b>(28,390)</b>	(33,830)
<b>Write-back of deficits on revaluation of properties</b>	6	<b>35,780</b>	9,699
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	6	<b>24,223</b>	(11,999)
<b>Finance costs</b>	7	<b>(377)</b>	(969)
<b>Share of profits and losses of associates</b>		<b>(5,112)</b>	(19,472)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>18,734</b>	(32,440)
<b>Tax</b>	10	<b>159</b>	(111)
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>18,893</b>	(32,551)
<b>Minority interests</b>		<b>(5,277)</b>	(1,518)
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>	11	<b>13,616</b>	(34,069)
<b>EARNINGS/(LOSS) PER SHARE</b>	12		
Basic		<b>0.8 cents</b>	(2.1) cents
Diluted		<b>N/A</b>	N/A

# CONSOLIDATED BALANCE SHEET

31 December 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	224,398	174,317
Goodwill	14	6,610	8,667
Interests in jointly-controlled entities	16	—	—
Interests in associates	17	9,633	17,153
Long term investments	18	35,489	91,897
		<hr/>	<hr/>
		<b>276,130</b>	292,034
<b>CURRENT ASSETS</b>			
Inventories	19	33,910	30,341
Trade receivables	20	11,710	13,474
Prepayments, deposits and other receivables		28,651	34,709
Due from associates	17	641	2,229
Short term investments	21	149,296	108,821
Tax recoverable		—	331
Pledged deposits	22	342	47,536
Cash and cash equivalents	22	581,007	587,522
		<hr/>	<hr/>
		<b>805,557</b>	824,963
<b>CURRENT LIABILITIES</b>			
Trade and other payables	23	87,158	114,888
Due to an associate	17	15,531	3,248
Interest-bearing bank borrowings	24	6,597	46,680
Current portion of debentures	25	954	900
Other loans	26	5,207	5,207
Tax payable		5,436	5,496
		<hr/>	<hr/>
		<b>120,883</b>	176,419
<b>NET CURRENT ASSETS</b>		<hr/>	<hr/>
		<b>684,674</b>	648,544
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/>	<hr/>
		<b>960,804</b>	940,578

**CONSOLIDATED BALANCE SHEET**

31 December 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>960,804</b>	940,578
<b>NON-CURRENT LIABILITIES</b>			
Debentures	25	<b>8,550</b>	9,144
Deferred tax liabilities	27	—	117
		<u><b>8,550</b></u>	<u>9,261</u>
<b>MINORITY INTERESTS</b>		<b>26,182</b>	20,006
		<u><b>926,072</b></u>	<u>911,311</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	<b>16,507</b>	16,507
Reserves	30(a)	<b>909,565</b>	894,804
		<u><b>926,072</b></u>	<u>911,311</u>

**Joseph Wing Kong LEUNG**  
*Chairman*

**James C. NG**  
*Chief Executive Officer*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	Reserves								Total HK\$'000
	Issued share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Sub-total reserve HK\$'000	
				(note 28(b)(ii))					
At 1 January 2003	16,507	1,189,721	478	808,822	—	1,175	(1,072,189)	928,007	944,514
Surplus on revaluation	—	—	—	—	33	—	—	33	33
Exchange realignment	—	—	—	—	—	833	—	833	833
Net gains and losses not recognised in the profit and loss account	—	—	—	—	33	833	—	866	866
Net loss for the year	—	—	—	—	—	—	(34,069)	(34,069)	(34,069)
At 31 December 2003 and 1 January 2004	16,507	1,189,721	478	808,822	33	2,008	(1,106,258)	894,804	911,311
Surplus on revaluation	—	—	—	—	1,349	—	—	1,349	1,349
Exchange realignment	—	—	—	—	—	(204)	—	(204)	(204)
Net gains and losses not recognised in the profit and loss account	—	—	—	—	1,349	(204)	—	1,145	1,145
Net profit for the year	—	—	—	—	—	—	13,616	13,616	13,616
<b>At 31 December 2004</b>	<b>16,507</b>	<b>1,189,721</b>	<b>478</b>	<b>808,822</b>	<b>1,382</b>	<b>1,804</b>	<b>(1,092,642)</b>	<b>909,565</b>	<b>926,072</b>
Reserves retained by:									
Company and subsidiaries	16,507	1,189,721	478	808,822	1,382	1,804	(1,082,817)	919,390	935,897
Associates*	—	—	—	—	—	—	(9,825)	(9,825)	(9,825)
31 December 2004	16,507	1,189,721	478	808,822	1,382	1,804	(1,092,642)	909,565	926,072
Company and subsidiaries	16,507	1,189,721	478	808,822	33	2,008	(1,101,454)	899,608	916,115
Associates*	—	—	—	—	—	—	(4,804)	(4,804)	(4,804)
31 December 2003	16,507	1,189,721	478	808,822	33	2,008	(1,106,258)	894,804	911,311

\* Included profits of HK\$235,000 (2003: HK\$227,000) retained by associates

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>18,734</b>	(32,440)
Adjustments for:			
Depreciation	6	<b>9,217</b>	11,664
Goodwill amortisation and impairment	6	<b>2,057</b>	267
Goodwill amortisation and impairment included in share of profits and losses of associates	6	—	16,334
Finance costs	7	<b>377</b>	969
Dividend income from listed investments	5	<b>(5,624)</b>	(4,162)
Dividend income from unlisted investments	5	—	(3,409)
Interest income	5	<b>(7,767)</b>	(7,140)
Share of profits and losses of associates		<b>5,112</b>	3,138
Gain on disposal of an associate		<b>(23)</b>	—
Write-back of deficits on revaluation:			
Resort and recreational club properties	6	<b>(35,180)</b>	(9,699)
Investment properties	6	<b>(600)</b>	—
Provision for a loan to an associate	6	<b>1,365</b>	—
Provision for doubtful other receivable	6	<b>8,670</b>	—
Write-back of provision for amounts due from associates	6	—	(171)
Impairment of fixed assets	6	—	3,600
(Gain)/loss on disposal of fixed assets	6	<b>(333)</b>	258
Net realised and unrealised gains on investments in other securities	6	<b>(14,170)</b>	(15,093)
Impairment of long term investment securities	6	<b>22,988</b>	32,800
Foreign exchange (gains)/losses, net		<b>(239)</b>	122
<b>Operating profit/(loss) before working capital changes</b>		<b>4,584</b>	(2,962)
(Increase)/decrease in inventories		<b>(3,569)</b>	11,027
Decrease/(increase) in trade receivables		<b>1,764</b>	(8,124)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(172)</b>	14,284
Decrease in trade and other payables		<b>(33,461)</b>	(38,158)
Decrease/(increase) in amounts due from associates		<b>223</b>	(3,381)
(Decrease)/increase in amounts due to an associate		<b>(2,866)</b>	3,248
<b>Cash used in operations</b>		<b>(33,497)</b>	(24,066)
Interest received		<b>7,894</b>	7,490
Dividends received from listed investments		<b>5,624</b>	4,162
Dividends received from unlisted investments		—	3,409
Hong Kong profits tax refunded/(paid)		<b>328</b>	(3)
Overseas taxes paid		<b>(15)</b>	(74)
<b>Net cash outflow from operating activities</b>		<b>(19,666)</b>	(9,082)

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>Net cash outflow from operating activities</b>		<b>(19,666)</b>	(9,082)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		<b>(3,177)</b>	(4,229)
Acquisition of subsidiaries	31	—	9,253
(Deposits paid)/refunds received in respect of acquisitions of securities and associates		<b>(2,567)</b>	29,564
Increase in investment in an associate		—	(6,224)
Acquisition of a business		—	(754)
Repayment of amounts due from associates		<b>281</b>	1,018
Proceed from disposal of an associate		<b>2,150</b>	—
Proceeds from disposal of fixed assets		<b>3,136</b>	7
Proceeds from disposal of investments in other securities		<b>7,115</b>	—
Decrease in pledged deposits		<b>47,194</b>	—
<b>Net cash inflow from investing activities</b>		<b>54,132</b>	28,635
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		<b>12,269</b>	—
Repayment of bank loans		<b>(52,352)</b>	(2,948)
Redemption of debentures		<b>(540)</b>	(1,720)
Interest paid		<b>(377)</b>	(1,085)
<b>Net cash outflow from financing activities</b>		<b>(41,000)</b>	(5,753)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>(6,534)</b>	13,800
<b>Cash and cash equivalents at beginning of year</b>		<b>587,522</b>	573,576
<b>Effect of foreign exchange rate changes, net</b>		<b>19</b>	146
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>581,007</b>	587,522
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	22	<b>49,266</b>	34,880
Non-pledged time deposit with original maturity of less than three months when acquired		<b>531,741</b>	552,642
		<b>581,007</b>	587,522

# BALANCE SHEET

31 December 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	<b>118,200</b>	108,601
Interests in subsidiaries	15	<b>205,806</b>	174,543
Interests in associates	17	<b>274</b>	556
		<u><b>324,280</b></u>	<u>283,700</u>
<b>CURRENT ASSETS</b>			
Short term investments	21	<b>136,584</b>	106,328
Prepayments, deposits and other receivables		<b>1,448</b>	1,733
Pledged deposits	22	<b>342</b>	47,536
Cash and cash equivalents	22	<b>536,847</b>	555,872
		<u><b>675,221</b></u>	<u>711,469</u>
<b>CURRENT LIABILITIES</b>			
Due to subsidiaries	15	<b>77,992</b>	84,108
Trade and other payables	23	<b>3,352</b>	2,007
		<u><b>81,344</b></u>	<u>86,115</u>
<b>NET CURRENT ASSETS</b>		<u><b>593,877</b></u>	<u>625,354</u>
		<u><b>918,157</b></u>	<u>909,054</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	<b>16,507</b>	16,507
Reserves	30(b)	<b>901,650</b>	892,547
		<u><b>918,157</b></u>	<u>909,054</u>

**Joseph Wing Kong LEUNG**  
*Chairman*

**James C. NG**  
*Chief Executive Officer*

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 1. CORPORATE INFORMATION

The registered office of e-New Media Company Limited is located at Suite 1502, 15/F, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- wholesale and retail of fashion wear and accessories
- provision of telecommunications services
- resort and recreational club operations
- investment holding

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (“SSAPs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets and equity investments as further explained below.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****SUBSIDIARIES**

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**JOINTLY-CONTROLLED ENTITIES**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**ASSOCIATES**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****GOODWILL**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against the consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**NEGATIVE GOODWILL**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### NEGATIVE GOODWILL (CONTINUED)

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

#### RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FIXED ASSETS AND DEPRECIATION**

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life:

Leasehold land and buildings	Over the remaining lease terms
Resort and recreational club properties	Over the remaining lease terms
Leasehold improvements	Over the shorter of the remaining lease terms and 5 to 6 years
Furniture, fixtures and equipment	3 to 7 years
Communications equipment	6 years
Motor vehicles	3 to 5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### INVESTMENT PROPERTIES

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the lease assets.

Lease incentives received are recognized in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account for the period in which they are incurred.

#### LONG TERM INVESTMENTS

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis, and classified as investment securities.

When a decline in the fair value of an investment security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### LONG TERM INVESTMENTS (CONTINUED)

Other long term investments in listed and unlisted equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis, and classified as other securities.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The fair values of such unlisted securities are as estimated by the directors.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

#### SHORT TERM INVESTMENTS

Short term investments in listed equity securities, intended to be held for a trading purpose, are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or, where applicable, on a specific identification basis, and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

#### CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

#### INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****INCOME TAX (CONTINUED)**

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**REVENUE RECOGNITION**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

**(a) Wholesale and retail of fashion wear and accessories**

Revenue from the sale of fashion wear and accessories is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

**(b) Telecommunications services**

Telecommunication services include the provision of telecommunications services and marketing and distribution of network cards.

*Provision of telecommunications services*

Revenue from the provision of telecommunications services, comprising proprietary services and carrier operations, is recognised when the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers to the extent of the amounts expected to be received.

*Marketing and distribution of network cards*

Revenue from the marketing and distribution of network cards is recognised at the time when the services are rendered and the Group's right to receive payment has been established.

**(c) Resort and recreational club operations**

Entrance fees are recognised when the application for club membership is accepted and no significant uncertainty as to collectability exists. Annual subscription fees are recognised over the relevant period of the membership. Revenue from the provision of resort and club facilities, catering and other services is recognised when goods are delivered or services are rendered.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****REVENUE RECOGNITION (CONTINUED)****(d) Dividend income**

Dividend income is recognised when the shareholders' right to receive payment has been established.

**(e) Interest income**

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**(f) Rental income**

Rental income is recognised on a time proportion basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rental is recognised to the profit and loss account for the period in which it is earned.

**(g) Consulting, management and other services**

Revenue from the provision of consulting, management and other services is recognised when the relevant services have been provided and the Group's right to receive payment has been established.

**EMPLOYEE BENEFITS*****Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

***Employment Ordinance long service payments***

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****EMPLOYEE BENEFITS (CONTINUED)***Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In parallel with the MPF Scheme, the Group also operates separate defined contribution retirement benefits schemes under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. These separate schemes operate in a similar way to the MPF Scheme, except that when an employee leaves the scheme before his/her interest in the Group's employer contributions vests fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of the forfeited employer contributions.

*Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are 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 is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**FOREIGN CURRENCIES**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

<i>Wholesale and retail of fashion wear and accessories:</i>	Trading of fashion wear and accessories
<i>Telecommunications services:</i>	The provision of telecommunications services and marketing and distribution of network cards
<i>Resort and recreational club operations:</i>	The provision of resort and recreational facilities and catering services
<i>Investments and treasury:</i>	Treasury operations and the holding and trading of investments for short term and long term investment returns

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets and capital expenditure on fixed assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 4. SEGMENT INFORMATION (CONTINUED)

#### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	Wholesale and retail of fashion wear and accessories		Telecommunications services		Resort and recreational club operations		Investments and treasury		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:										
Sales to external customers	164,250	52,636	24,104	50,606	19,528	20,647	13,391	14,711	221,273	138,600
Other revenue	16,578	2,245	1,564	1,062	404	446	64	743	18,610	4,496
Total	<u>180,828</u>	<u>54,881</u>	<u>25,668</u>	<u>51,668</u>	<u>19,932</u>	<u>21,093</u>	<u>13,455</u>	<u>15,454</u>	<u>239,883</u>	<u>143,096</u>
Segment results	<u>13,546</u>	<u>3,745</u>	<u>3,820</u>	<u>4,922</u>	<u>(4,617)</u>	<u>(8,357)</u>	<u>(22,146)</u>	<u>(19,596)</u>	<u>(9,397)</u>	<u>(19,286)</u>
Unallocated expenses									(2,160)	(2,412)
Write-back of deficits on revaluation of:										
Resort and recreational club properties									35,180	9,699
Investments properties									600	—
Profit/(loss) from operating activities									24,223	(11,999)
Finance costs									(377)	(969)
Share of profits and losses of associates	—	—	—	—	(4,381)	(338)	(731)	(19,134)	(5,112)	(19,472)
Profit/(loss) before tax									18,734	(32,440)
Tax									159	(111)
Profit/(loss) before minority interests									18,893	(32,551)
Minority interests									(5,277)	(1,518)
Net profit/(loss) from ordinary activities attributable to shareholders									<u>13,616</u>	<u>(34,069)</u>

## 4. SEGMENT INFORMATION (CONTINUED)

## (a) Business segments (Continued)

## Group

	Wholesale and retail of fashion wear and accessories		Telecommunications services		Resort and recreational club operations		Investments and treasury		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	95,034	96,986	22,703	18,116	212,551	160,981	737,566	819,830	1,067,854	1,095,913
Interests in associates and jointly-controlled entities	—	2,127	—	—	1,504	5,886	8,129	9,140	9,633	17,153
Unallocated assets									4,200	3,931
Total assets									1,081,687	1,116,997
Segment liabilities	17,845	45,253	53,573	64,856	40,795	20,799	5,187	2,478	117,400	133,386
Unallocated liabilities									12,033	52,294
Total liabilities									129,433	185,680
Other segment information:										
Depreciation and amortisation	3,095	678	1,122	5,338	5,519	5,417	103	498	9,839	11,931
Impairment losses recognised in the profit and loss account	—	—	1,435	3,600	—	—	22,988	32,800	24,423	36,400
Other non-cash expenses	1,365	—	—	262	—	—	17,000	—	18,365	262
Capital expenditure on fixed assets	2,605	3,653	326	446	21,126	108	—	22	24,057	4,229
Surplus on revaluation of land and buildings recognised directly in equity	1,349	33	—	—	—	—	—	—	1,349	33

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 4. SEGMENT INFORMATION (CONTINUED)

#### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

#### Group

	Hong Kong		Mainland China		North America		European Union		Japan		Other Asia Pacific regions		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	195,662	82,443	3,214	2,836	11,102	35,689	6,138	13,396	2,573	922	2,578	3,271	6	43	221,273	138,600
Other segment information:																
Segment assets	910,562	941,723	120,615	79,574	10,709	58,033	2,048	2,563	—	—	37,753	35,104	—	—	1,081,687	1,116,997
Capital expenditure on fixed assets	2,896	3,783	21,101	163	—	—	—	—	—	—	60	283	—	—	24,057	4,229

**5. TURNOVER, OTHER REVENUE AND GAINS**

The principal activities of the Group are the wholesale and retail of fashion wear and accessories, provision of telecommunications services, resort and recreational club operations, and investment and treasury operations. An analysis of turnover, other revenue and gains is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<i>Turnover</i>		
Wholesale and retail of fashion wear and accessories	<b>164,250</b>	52,636
Telecommunications services*	<b>24,104</b>	50,606
Resort and recreational club operations	<b>19,528</b>	20,647
Dividend income from listed investments	<b>5,624</b>	4,162
Dividend income from unlisted investments	—	3,409
Interest income	<b>7,767</b>	7,140
	<b>221,273</b>	138,600
<i>Other revenue and gains</i>		
Sub-leasing rental income	<b>5,839</b>	1,244
Management fees	<b>3,599</b>	876
Consulting service fees	<b>257</b>	1,015
Gain on disposal of a franchise business	<b>4,519</b>	—
Gain on waiver of other loans	—	600
Commission income	<b>1,131</b>	65
Others	<b>3,265</b>	696
	<b>18,610</b>	4,496

\* Included in turnover from the provision of telecommunications services for the year ended 31 December 2004 is a sum of HK\$10,224,000 (2003: HK\$25,572,000) received from a final transit carrier in respect of traffic revenue generated in prior years which was not recognised previously in view of the uncertainty of its collectibility.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Cost of inventories sold		<b>84,017</b>	31,253
Depreciation	13	<b>9,217</b>	11,664
Auditors' remuneration		<b>1,334</b>	2,025
Goodwill arising from acquisition of subsidiaries:			
Amortisation for the year *	14	<b>622</b>	267
Impairment arising during the year *	14	<b>1,435</b>	—
		<b>2,057</b>	267
Goodwill arising from acquisition of associates:			
Amortisation for the year **		—	1,815
Impairment arising during the year **		—	14,519
		—	16,334
Operating lease payments for land and buildings:			
Minimum lease payments		<b>22,198</b>	9,419
Contingent rentals		<b>8,665</b>	3,046
Impairment of fixed assets		—	3,600
Provision for a loan to an associate		<b>1,365</b>	—
Provision for doubtful other receivable		<b>8,670</b>	—
Net realised and unrealised gains on investments in other securities		<b>(14,170)</b>	(15,093)
Impairment of long term investment securities		<b>22,988</b>	32,800
(Gain)/loss on disposal of fixed assets		<b>(333)</b>	258
Net rental income		<b>(2,871)</b>	(572)
Staff costs (including directors' remuneration ( <i>note 8</i> )):			
Salaries, wages and other benefits		<b>63,504</b>	48,034
Pension scheme contributions under defined contribution schemes, net of forfeited contributions of HK\$122,000 (2003: HK\$42,000) ***		<b>1,857</b>	1,342
		<b>65,361</b>	49,376
Exchange gains, net		<b>(3,503)</b>	(671)
Write-back of deficit on revaluation:			
Resort and recreational club properties		<b>(35,180)</b>	(9,699)
Investment properties		<b>(600)</b>	—
		<b>(35,780)</b>	(9,699)
Write-back of provision for amounts due from associates		—	(171)

31 December 2004

**6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (CONTINUED)**

- \* The balances are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.
- \*\* The balances are included in "Share of profits and losses of associates" on the face of the consolidated profit and loss account.
- \*\*\* At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2003: Nil).

**7. 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	<u>377</u>	<u>969</u>

**8. DIRECTORS' REMUNERATION**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees	<u>225</u>	<u>140</u>
Other emoluments:		
Salaries, allowances and benefits in kind	<u>5,806</u>	5,747
Pension scheme contributions	<u>36</u>	<u>36</u>
	<u>5,842</u>	5,783
	<u>6,067</u>	<u>5,923</u>

Fees include HK\$106,000 (2003: HK\$40,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 8. DIRECTORS' REMUNERATION (CONTINUED)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	5
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
	<u>8</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	4,849	3,274
Pension scheme contributions	144	34
	<u>4,993</u>	<u>3,308</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—
	<u>3</u>	<u>3</u>

**10. TAX**

No provision for Hong Kong profits tax at the rate of 17.5% and overseas income tax has been made for the year ended 31 December 2004 (2003: HK\$3,000) as the Company and its subsidiaries either did not generate any assessable profits for the year or had available tax losses brought forward from prior years to offset against any assessable profits generated during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Group:		
Current – Hong Kong		
Charge for the year	—	3
Current – Overseas		
Charge for the year	—	115
Overprovision in prior years	<b>(42)</b>	(7)
Deferred ( <i>note 27</i> )	<b>(117)</b>	—
	<u>          </u>	<u>          </u>
Total tax (credit)/charge for the year	<b>(159)</b>	111
	<u>          </u>	<u>          </u>

A reconciliation of the tax expense applicable to profit/(loss) before tax using the rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax (income)/expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	<b>Group</b>			
	<b>2004</b>		2003	
	<b>HK\$'000</b>	%	<i>HK\$'000</i>	%
Profit/(loss) before tax	<b>18,734</b>		(32,440)	
	<u>          </u>		<u>          </u>	
Tax charge/(credit) at the applicable tax rates	<b>2,935</b>	<b>15.7</b>	(6,897)	(21.3)
Income not subject to tax	<b>(11,277)</b>	<b>(60.2)</b>	(17,406)	(53.7)
Expenses not deductible for tax	<b>14,597</b>	<b>77.9</b>	20,262	62.5
Tax losses not recognised	<b>3,435</b>	<b>18.3</b>	6,933	21.4
Overprovision in prior years	<b>(42)</b>	<b>(0.2)</b>	(7)	—
Tax losses utilised from previous periods	<b>(9,807)</b>	<b>(52.3)</b>	(2,774)	(8.6)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Tax (credit)/charge at the Group's effective rates	<b>(159)</b>	<b>(0.8)</b>	111	0.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### **11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$9,103,000 (2003: loss of HK\$35,238,000) (note 30(b)).

### **12. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) attributable to shareholders for the year of HK\$13,616,000 (2003: loss of HK\$34,069,000), and the weighted average of 1,650,658,676 (2003: 1,650,658,676) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed as no diluting events existed during these years.

## 13. FIXED ASSETS

## Group

	Investment properties HK\$'000	Land and buildings HK\$'000	Resort and recreational club properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Communications equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At beginning of year	3,600	4,300	155,000	1,671	49,793	37,135	4,462	255,961
Additions	—	—	20,811	—	2,962	—	284	24,057
Disposals	—	—	—	—	(13,483)	(866)	(500)	(14,849)
Surplus on revaluation	600	2,248	35,180	—	—	—	—	38,028
Elimination of accumulated depreciation	—	(348)	(4,991)	—	—	—	—	(5,339)
Exchange realignment	—	—	—	—	150	1,296	19	1,465
At 31 December 2004	<u>4,200</u>	<u>6,200</u>	<u>206,000</u>	<u>1,671</u>	<u>39,422</u>	<u>37,565</u>	<u>4,265</u>	<u>299,323</u>
Analysis of cost or valuation:								
At cost	—	—	—	1,671	39,422	37,565	4,265	82,923
At 31 December 2004 valuation	<u>4,200</u>	<u>6,200</u>	<u>206,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>216,400</u>
	<u>4,200</u>	<u>6,200</u>	<u>206,000</u>	<u>1,671</u>	<u>39,422</u>	<u>37,565</u>	<u>4,265</u>	<u>299,323</u>
Accumulated depreciation and impairment:								
At beginning of year	—	—	—	975	39,258	37,135	4,276	81,644
Depreciation provided during the year	—	348	4,991	401	3,340	—	137	9,217
Written back on revaluation	—	(348)	(4,991)	—	—	—	—	(5,339)
Disposals	—	—	—	—	(10,680)	(866)	(500)	(12,046)
Exchange realignment	—	—	—	—	134	1,296	19	1,449
At 31 December 2004	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,376</u>	<u>32,052</u>	<u>37,565</u>	<u>3,932</u>	<u>74,925</u>
Net book value:								
At 31 December 2004	<u>4,200</u>	<u>6,200</u>	<u>206,000</u>	<u>295</u>	<u>7,370</u>	<u>—</u>	<u>333</u>	<u>224,398</u>
At 31 December 2003	<u>3,600</u>	<u>4,300</u>	<u>155,000</u>	<u>696</u>	<u>10,535</u>	<u>—</u>	<u>186</u>	<u>174,317</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 13. FIXED ASSETS (CONTINUED)

#### Company

	<b>Investment properties</b>	<b>Land and buildings*</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:				
At beginning of year	3,600	105,000	3	108,603
Surplus on revaluation	600	11,360	—	11,960
Elimination of accumulated depreciation	—	(2,360)	—	(2,360)
At 31 December 2004	<u>4,200</u>	<u>114,000</u>	<u>3</u>	<u>118,203</u>
Analysis of cost or valuation:				
At cost	—	—	3	3
At 31 December 2004 valuation	<u>4,200</u>	<u>114,000</u>	<u>—</u>	<u>118,200</u>
	<u>4,200</u>	<u>114,000</u>	<u>3</u>	<u>118,203</u>
Accumulated depreciation				
At beginning of year	—	—	2	2
Provided during the year	—	2,360	1	2,361
Written back on revaluation	—	(2,360)	—	(2,360)
At 31 December 2004	<u>—</u>	<u>—</u>	<u>3</u>	<u>3</u>
Net book value:				
At 31 December 2004	<u>4,200</u>	<u>114,000</u>	<u>—</u>	<u>118,200</u>
At 31 December 2003	<u>3,600</u>	<u>105,000</u>	<u>1</u>	<u>108,601</u>

\* During the year, the Company's land and buildings were leased to a wholly-owned subsidiary for the operation of a recreational club.

Had the Group's land and buildings and resort and recreational club properties been carried at historical cost less accumulated depreciation and impairment losses, their aggregate carrying amount would have been approximately HK\$126,966,000 (2003: HK\$133,042,000). Similarly, had the Company's land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their aggregate carrying amount would have been approximately HK\$32,938,000 (2003: HK\$33,713,000).

**13. FIXED ASSETS (CONTINUED)**

The Group's and the Company's land and buildings and resort and recreational club properties were revalued individually at 31 December 2004 and 2003 by independent professionally qualified valuers, DTZ Debenham Tie Leung Limited and Vigers Appraisal and Consulting Limited, on an open market value basis. Among the Group's revaluation surpluses of HK\$37,428,000 (2003: HK\$9,754,000), HK\$35,180,000 (2003: HK\$9,699,000) has been credited to the profit and loss account, and HK\$1,349,000 (2003: HK\$33,000) and HK\$899,000 (2003: HK\$22,000) of the remaining revaluation surplus of HK\$2,248,000 (2003: HK\$55,000) have been credited to the relevant asset revaluation reserve, and shared by minority interests, respectively. The revaluation surplus of HK\$11,360,000 (2003: HK\$7,198,000) for the Company's land and buildings has been credited to the profit and loss account.

An analysis by location of the land and buildings and resort and recreational club properties held under medium lease terms is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At valuation:				
Hong Kong	<b>120,200</b>	109,300	<b>114,000</b>	105,000
Elsewhere	<b>92,000</b>	50,000	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<b>212,200</b>	159,300	<b>114,000</b>	105,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group's and the Company's investment properties are situated in Hong Kong and are held under medium lease terms.

The Group's and the Company's investment properties were revalued on 31 December 2004 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$4,200,000 on an open market basis.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 14. GOODWILL

The amount of the goodwill capitalised as an asset of the Group in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2004	8,934
Accumulated amortisation and impairment:	
At beginning of year	267
Amortisation provided during the year	622
Impairment provided during the year	1,435
At 31 December 2004	2,324
Net book value:	
At 31 December 2004	<u>6,610</u>
At 31 December 2003	<u>8,667</u>

During the year, the Group recognized a provision for impairment of goodwill in the amount of HK\$1,435,000 based on an assessment of the recoverable amount for the business of marketing and distribution of network cards. The impairment loss is included in the telecommunications services segment.

### 15. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>12,700</b>	12,700
Due from subsidiaries	<b><u>1,221,422</u></b>	<u>1,139,989</u>
	<b>1,234,122</b>	1,152,689
Provision for impairment	<b><u>(1,028,316)</u></b>	<u>(978,146)</u>
	<b><u>205,806</u></b>	<u>174,543</u>

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment. Although all such amounts due from subsidiaries are technically currently repayable, they have been deferred or subordinated for the longer term and are therefore classified as non-current.

The amounts due to subsidiaries included in the Company's current liabilities are unsecured, interest-free and have no fixed terms of repayment.

**15. INTERESTS IN SUBSIDIARIES (CONTINUED)**

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Asia Pacific Telecommunications Limited	Hong Kong	HK\$2,000	—	100	Provision of telecommunications services
Christabel Trading Company Limited	Hong Kong	HK\$4,500,000	—	60	Retail and wholesale of fashion wear and accessories
e-New Media Technology Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
e-Media (Asia) Limited	Cayman Islands/ Hong Kong	US\$1	100	—	Investment holding
ENM Investments Limited	Cayman Islands/ Hong Kong	US\$1	100	—	Investment holding
Fortress Global Limited	Hong Kong	HK\$2	—	100	Investment holding
Hill Top Country Club Limited	Hong Kong	HK\$10,000,000	100	—	Recreational club operation
Jackpot International Business Inc.	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Kenmure Limited	Hong Kong	HK\$55,000,000	—	60	Investment holding
Lion Dragon Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
New Media Corporation	Cayman Islands/ Hong Kong	US\$2,227,280	—	100	Investment holding

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
New Media Telecom Asia Limited	Taiwan	NT\$8,000,000	—	100	Provision of telecommunications services
Powerbridge Limited	British Virgin Islands/ Hong Kong	US\$600,000	—	75	Investment holding
Richtime Management Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Shanghai ENM Telecom & Technology Limited **	People's Republic of China ("PRC")/ Mainland China	US\$500,000	—	75	Marketing and distribution of network cards
Shanghai Hilltop Country Club Ltd. ("Shanghai Hilltop") **	PRC/ Mainland China	US\$7,200,000	—	80	Resort and recreational club operations
The Swank Shop Limited	Hong Kong	HK\$104,500,000	—	60	Retail and wholesale of fashion wear and accessories
Ventures Triumph Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Voice Information Systems Limited	Hong Kong	Ordinary "A" HK\$3,000,000 Ordinary "B" HK\$2,000,000	—	100	Provision of telecommunications services
Wintalent International Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding

\* Registered as a wholly-foreign owned enterprise established in the PRC.

\*\* Registered as a sino-foreign co-operation joint venture established in the PRC.

\* As translated from chinese name.

The above table lists 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.

31 December 2004

**16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES**

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	—	—
Due from jointly-controlled entities	<b>36,141</b>	36,141
	<b>36,141</b>	36,141
Provision for impairment	<b>(36,141)</b>	(36,141)
	—	—
	<b>—</b>	<b>—</b>

The amounts due from the jointly-controlled entities are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation/ operations</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activities</b>
e-Brilliant Company Limited	Corporation	Cayman Islands/ Hong Kong	50%	Investment holding
e-Brilliant Pte Limited	Corporation	Singapore	50%	In liquidation

## NOTES TO FINANCIAL STATEMENTS

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### 17. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	—	1	1
Share of net assets	11,537	18,686	—	—
Goodwill on acquisition	14,519	14,519	—	—
	<b>26,056</b>	33,205	<b>1</b>	1
Loans to an associate	4,095	2,730	—	—
Due from associates	8,328	8,609	273	555
	<b>38,479</b>	44,544	<b>274</b>	556
Provision for impairment	(28,846)	(27,391)	—	—
	<b>9,633</b>	17,153	<b>274</b>	556

The balances with associates are unsecured, interest-free, and have no fixed terms of repayment, except for the unsecured loans to an associate which bear interest at a rate of 2.5% per annum.

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Smartdot Technologies Co. Ltd.	Corporation	PRC/ Mainland China	20	Software developer and solution project provider
Shanghai Landis Hospitality Management Co. Ltd. ("Shanghai Landis")#	Corporation	PRC/ Mainland China	20	Resort and recreational Club management
Ventile Investments Limited	Corporation	British Virgin Islands/ Hong Kong	35	Provision of finance
V.S. Limited	Corporation	Hong Kong	21	Retail of fashion wear

# as translated from Chinese name.

**17. INTERESTS IN ASSOCIATES (CONTINUED)**

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

**18. LONG TERM INVESTMENTS**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Investment securities, at cost:		
Equity investments listed overseas	<b>76,536</b>	76,536
Unlisted equity investments	<b>54,460</b>	54,460
	<b>130,996</b>	130,996
Provision for impairment	<b>(130,088)</b>	(107,100)
	<b>908</b>	23,896
Other securities, at fair value		
Equity investments listed overseas	—	33,420
Unlisted equity investments	<b>34,581</b>	34,581
	<b>34,581</b>	68,001
	<b>35,489</b>	91,897
Equity investments listed overseas, at market value	<b>908</b>	38,312

**19. INVENTORIES**

Included in inventories are finished goods held for resale amounting to HK\$33,059,000 (2003: HK\$29,108,000), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 20. TRADE RECEIVABLES

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at the respective credit terms. Reviews of major receivables are conducted regularly.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 to 1 month	7,305	6,171
2 to 3 months	993	2,002
Over 3 months	3,412	5,301
	<u>11,710</u>	<u>13,474</u>

### 21. SHORT TERM INVESTMENTS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Listed equity investments, at market value:				
Hong Kong	139,992	108,821	136,584	106,328
Elsewhere	9,304	—	—	—
	<u>149,296</u>	<u>108,821</u>	<u>136,584</u>	<u>106,328</u>

Included in the Group's and Company's listed equity investments are ordinary shares of HK\$2 each of China Motor Bus Company Limited, a company incorporated and listed in Hong Kong:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Market value of ordinary shares of China Motor Bus Company Limited	<u>117,271</u>	<u>100,874</u>	<u>116,571</u>	<u>100,272</u>
Proportion of ownership interest	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>

**22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		49,266	34,880	5,106	3,230
Time deposits		532,083	600,178	532,083	600,178
		<u>581,349</u>	<u>635,058</u>	<u>537,189</u>	<u>603,408</u>
Less: Pledged time deposits:					
Pledged for banking facilities		(342)	(856)	(342)	(856)
Pledged for a bank loan	24	—	(46,680)	—	(46,680)
		<u>(342)</u>	<u>(47,536)</u>	<u>(342)</u>	<u>(47,536)</u>
Cash and cash equivalents		<u>581,007</u>	<u>587,522</u>	<u>536,847</u>	<u>555,872</u>

**23. TRADE AND OTHER PAYABLES**

All trade and other payables are due within one month or on demand.

**24. INTEREST-BEARING BANK BORROWINGS**

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans repayable within one year:		
Secured	—	46,680
Unsecured	6,597	—
	<u>6,597</u>	<u>46,680</u>

The Group's outstanding bank loans as at 31 December 2003 were secured by the pledge of certain of the Group's time deposits amounting to HK\$46,680,000 (note 22) and were fully settled in the year ended 31 December 2004.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 25. DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") operated by Hill Top Country Club Limited subject to the Club Rules and By-laws so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from monthly subscription. At the balance sheet date, the redeemable periods of the Group's debentures were as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 1 year	<b>954</b>	900
In the second year	<b>1,690</b>	954
In the third to fifth years, inclusive	<b>6,860</b>	8,190
	<b>8,550</b>	9,144
	<b>9,504</b>	10,044

All redeemable debentures are non interest-bearing and may be renewed upon maturity subject to the Group's consent.

### 26. OTHER LOANS

The unsecured loans from a minority shareholder of a subsidiary are interest-free and have no fixed terms of repayment.

**27. DEFERRED TAX**

The movement in deferred tax liabilities and assets during the year is as follows:

**Group**

	<b>Accelerated tax depreciation</b>	<b>Loss available for offset against future taxable profit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	2,192	(2,103)	89
Deferred tax charged/(credited) to the profit and loss account during the year ( <i>note 10</i> )	(455)	455	—
Exchange differences	28	—	28
At 31 December 2003 and at 1 January 2004	1,765	(1,648)	117
Deferred tax charged/(credited) to the profit and loss account during the year ( <i>note 10</i> )	71	(188)	(117)
<b>At 31 December 2004</b>	<b>1,836</b>	<b>(1,836)</b>	<b>—</b>

The Group has tax losses arising in Hong Kong of HK\$220,260,000 (2003: HK\$269,653,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have either been loss-making for some time or whose availability of future taxable profits is unpredictable.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 28. SHARE CAPITAL

Shares	2004 HK\$'000	2003 HK\$'000
<b>Authorised:</b>		
100,000,000,000 (2003: 100,000,000,000) ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued and fully paid:</b>		
1,650,658,676 (2003: 1,650,658,676) ordinary shares of HK\$0.01 each	<u>16,507</u>	<u>16,507</u>

A capital reorganisation scheme was approved by the shareholders at an extraordinary general meeting on 11 July 2002 and was subsequently confirmed by the sanction of an order of the High Court of Hong Kong dated 6 August 2002. The details of the capital reorganisation scheme are as follows:

- (a) the authorised share capital of the Company was reduced from HK\$1,000,000,000, divided into 2,000,000,000 ordinary shares of HK\$0.50 each, to HK\$20,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.01 each. Such reduction was effected by cancelling paid-up capital per share by HK\$0.49 on each of the 1,650,658,676 ordinary shares in issue on 6 August 2002, being the date on which the court petition was heard, and by reducing the nominal value of all the issued and unissued ordinary shares of the Company from HK\$0.50 to HK\$0.01 per ordinary share; and
- (b) upon such reduction of capital taking effect:
  - (i) the authorised share capital of the Company was increased to its former amount of HK\$1,000,000,000 by the creation of additional 98,000,000,000 ordinary shares of HK\$0.01 each; and
  - (ii) a special capital reserve was created and credited with an amount equal to the credit arising from the said reduction of capital as detailed in (a) above, which amounted to HK\$808,822,751. Such reserve shall not be treated as realised profit and shall, for as long as the Company shall remain a listed company, be treated as an undistributable reserve. However, the special capital reserve may be reduced by the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves.

#### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

## 29. SHARE OPTION SCHEMES

In an Extraordinary General Meeting of the Company held on 14 June 2002, the shareholders of the Company formally approved the termination of the share option scheme adopted on 30 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"), in compliance with the amended Chapter 17 of the Listing Rules and for the purpose of providing the Company a flexible means of giving incentives and rewards to executive directors and employees for their contribution to the Group. All outstanding options granted under the Old Scheme shall remain valid and exercisable under the provisions of the Old Scheme.

Under the terms of the New Scheme, the Board may, at its discretion, invite executive directors and employees of the Group to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of 10 years ending on 13 June 2012, after which period no further options will be granted. The exercise price of options shall be determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (ii) a price being the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. A nominal consideration of HK\$1 is payable on acceptance of any options granted.

As at 31 December 2004, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the New Scheme and any other share option schemes of the Company was 243,415,800 (2003: 243,415,800) which represented 14.7% (2003: 14.7%) of the issued share capital of the Company on the same date. In respect of the maximum entitlement of each participant under the New Scheme, the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting.

At 31 December 2004, the employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2004 was HK\$0.265). The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 of the Company. No share options were granted during the year and outstanding to the directors at the balance sheet date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## NOTES TO FINANCIAL STATEMENTS

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### 29. SHARE OPTION SCHEMES (CONTINUED)

#### Granted to employees under the Old Scheme:

Date of grant of share options *	Exercise period of share options	Exercise price of share options ** <i>HK\$</i>	Number of share options		
			At 1 January 2004	Lapsed during the year	At 31 December 2004
11 October 1999	11 October 1999 to 29 December 2007	1.528	636,000	(336,000)	300,000
22 October 1999	22 October 1999 to 29 December 2007	1.530	300,000	(300,000)	—
1 December 1999	1 December 1999 to 29 December 2007	1.804	96,000	(48,000)	48,000
1 August 2000	1 August 2000 to 29 December 2007	0.630	288,000	—	288,000
			<u>1,320,000</u>	<u>(684,000)</u>	<u>636,000</u>

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No new options were granted during the year and outstanding as of the balance sheet date under the New Scheme.

At the balance sheet date, the Company had 636,000 share options outstanding under the Old Scheme, which represented approximately 0.04% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 636,000 additional ordinary shares of the Company and additional share capital of HK\$6,360 and share premium of HK\$720,000 (before issue expenses).

**30. RESERVES****(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

**(b) Company**

	<b>Share premium account</b>	<b>Special reserve account</b>	<b>Capital redemption reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(note 28(b)(ii))</i>				
At 1 January 2003	1,189,721	808,822	478	(1,071,236)	927,785
Net loss for the year	—	—	—	(35,238)	(35,238)
At 31 December 2003 and 1 January 2004	1,189,721	808,822	478	(1,106,474)	892,547
Net profit for the year	—	—	—	9,103	9,103
<b>At 31 December 2004</b>	<b>1,189,721</b>	<b>808,822</b>	<b>478</b>	<b>(1,097,371)</b>	<b>901,650</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Acquisition of subsidiaries

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	—	10,280
Interests in associates	—	2,127
Inventories	—	41,000
Trade receivables	—	8,297
Prepayments, deposits and other receivables	—	10,577
Due from associates	—	1,113
Tax recoverable	—	331
Cash and bank balances	—	42,253
Trade and other payables	—	(67,516)
Interest-bearing bank borrowings	—	(2,948)
Due to associates	—	(2,265)
Minority interests	—	(17,300)
	<u>—</u>	<u>25,949</u>
Goodwill on acquisition	—	7,051
	<u>—</u>	<u>33,000</u>
Satisfied by:		
Cash	—	33,000
	<u>—</u>	<u>33,000</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Cash consideration	—	(33,000)
Cash and bank balances acquired	—	42,253
	<u>—</u>	<u>9,253</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>—</u>	<u>9,253</u>

On 12 October 2003, the Group acquired a 60% interest in Kenmure Limited and its subsidiaries for a cash consideration of HK\$33,000,000. Kenmure Limited and its subsidiaries are principally engaged in investment holding and the wholesale and retail of fashion wear and accessories.

Kenmure Limited and its subsidiaries acquired in the prior year contributed HK\$52,636,000 to turnover and HK\$4,086,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

### 32. CONTINGENT LIABILITIES

At the balance sheet date, the Company or the Group had the following significant contingent liabilities:

- (a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$3,414,000 (2003: HK\$4,057,000) as at 31 December 2004. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (b) One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US\$1,500,000 (equivalent to HK\$11,670,000) from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputed traffic volumes generated in the past and claimed to have been underpaid by at least US\$2,736,000 (equivalent to HK\$21,286,000).

Management studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary sought to refute most of the allegations and has made a counterclaim of approximately US\$6,215,000 (equivalent to HK\$48,353,000) in September 2002 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items. Thereafter, there has been no communication in respect of the mentioned claims between the subsidiary and the content provider.

Based on the above, management considers that it is unlikely that any loss will arise and accordingly, no provision has been made in the financial statements.

- (c) During the year ended 31 December 2004, the Company executed corporate guarantees as part of the security for general banking facilities granted to certain subsidiaries to the extent of HK\$342,000 (2003: HK\$47,536,000) and for rental payable by a subsidiary to the extent of nil (2003: HK\$101,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 33. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group subleases certain shop units under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Within one year	<b>428</b>	4,911
In the second to fifth years, inclusive	—	428
	<u><b>428</b></u>	<u>5,339</u>

During the year, the Group recognised HK\$144,000 (2003: HK\$215,000) in respect of contingent rentals receivable.

#### (b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Within one year	<b>31,089</b>	23,672	<b>437</b>	1,986
In the second to fifth years, inclusive	<b>40,543</b>	25,946	—	609
	<u><b>71,632</b></u>	<u>49,618</u>	<u><b>437</b></u>	<u>2,595</u>

**34. COMMITMENTS**

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following commitments at the balance sheet date:

**(a) Capital commitments**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for:		
Development of resort properties	<b>7,904</b>	—
Renovation work on leased premises	<b>2,184</b>	—
	<b>10,088</b>	—
Contracted, but not provided for, capital contributions for:		
A long term investment	<b>798</b>	—
An associate	<b>2,567</b>	6,224
	<b>3,365</b>	6,224
	<b>13,453</b>	6,224

**(b) Other commitment**

As at 31 December 2004, the Company, acting on behalf of Hill Top Country Club Limited, was a party to a co-operative joint venture agreement with a mainland China joint venture partner in respect of Shanghai Hilltop. According to the terms of the co-operative joint venture agreement and supplementary agreement signed on 2 September 2002, the Company committed to pay the mainland China joint venture partner any shortfall in the profit distributed by Shanghai Hilltop to the mainland China joint venture partner below the amounts of RMB1,650,000 (equivalent to HK\$1,555,000) and US\$268,000 (equivalent to HK\$2,085,000) per annum from 2001 to 2008 and from 2009 to 2022, respectively. On 16 June 2003, the management and operation of Shanghai Hilltop were sub-contracted to Shanghai Landis, an associate of the Group, that has undertaken to absorb any such amounts payable to the mainland China joint venture partner up to 30 June 2016, the expiry date of the corresponding management sub-contracting agreement. As at 31 December 2004, the maximum amount payable by the Company to the mainland China joint venture partner up to 27 December 2022 was HK\$35,411,000 (2003: HK\$36,966,000), of which HK\$21,858,000 (2003: HK\$23,413,000) is expected to be absorbed by the Shanghai Landis.

In the year ended 31 December 2004, the shortfall in profit of Shanghai Hilltop which was absorbed by Shanghai Landis amounted to RMB1,650,000 (equivalent to HK\$1,555,000) (2003: RMB634,000 and equivalent to HK\$598,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Sub-leasing rental and management fee income	(i)	3,811	1,084
Consulting fees paid to a company in which the spouse of a director of a subsidiary of the Group has a controlling interest	(ii)	1,416	312
Rental expenses paid to a related company	(iii)	<u>1,655</u>	<u>2,166</u>

- (i) The sub-leasing rental and management fee income received from an associate arose from the sub-lease of a shop unit and the provision of shop management services to the associate in accordance with the agreements between the Group and the associate.
- (ii) The consultancy services provided to a subsidiary of the Group were charged at HK\$118,000 per month in accordance with the agreement between the subsidiary and the related company.
- (iii) The rental expenses paid to a company controlled by a substantial shareholder of the Company were determined by reference to relevant industry practice.

### 36. POST BALANCE SHEET EVENTS

On 3 November 2004, a wholly-owned subsidiary of the Company entered into a share purchase agreement with Shanghai Jiahwa Sales Limited ("Jiahwa"), a shareholder of Shanghai Landis, to acquire a 15% equity interest in Shanghai Landis held by Jiahwa for a consideration of HK\$5,135,000 (US\$660,000). The share purchase transaction was completed in February 2005 and the Group's equity interest in Shanghai Landis has been increased from 20% to 35%.

### 37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to current year's presentation. The directors consider that such reclassifications will allow a more appropriate presentation of the Group's and the Company's state of affairs and better reflect the nature of the transactions.

### 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below:

### RESULTS

	Year ended 31 December				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TURNOVER	<b>221,273</b>	138,600	193,359	419,450	878,169
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	<b>24,223</b>	(11,999)	(116,056)	(194,237)	(675,206)
Finance costs	<b>(377)</b>	(969)	(1,253)	(5,486)	(11,408)
Share of profits and losses of associates	<b>(5,112)</b>	(19,472)	(1,792)	405	(452)
PROFIT/(LOSS) BEFORE TAX	<b>18,734</b>	(32,440)	(119,101)	(199,318)	(687,066)
Tax	<b>159</b>	(111)	(334)	1,622	236
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>18,893</b>	(32,551)	(119,435)	(197,696)	(686,830)
Minority interests	<b>(5,277)</b>	(1,518)	—	—	9,209
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>13,616</b>	(34,069)	(119,435)	(197,696)	(677,621)

### ASSETS, LIABILITIES AND MINORITY INTERESTS

	As of 31 December				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TOTAL ASSETS	<b>1,081,687</b>	1,116,997	1,099,374	1,197,360	1,597,208
TOTAL LIABILITIES	<b>(129,433)</b>	(185,680)	(154,860)	(163,796)	(365,709)
MINORITY INTERESTS	<b>(26,182)</b>	(20,006)	—	—	—
	<b>926,072</b>	911,311	944,514	1,033,564	1,231,499

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Joseph Wing Kong LEUNG (*Chairman*)  
James C. NG (*Chief Executive Officer*)  
Derek Wai Choi LEUNG  
Wing Tung YEUNG

## NON-EXECUTIVE DIRECTOR

Raymond Wai Pun LAU

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Cecil Sze Tsung CHAO  
Jen CHEN  
Ian Grant ROBINSON

## QUALIFIED ACCOUNTANT

Gladys C. CHEN

## COMPANY SECRETARY

Pui Man CHENG

## AUDITORS

Ernst & Young  
15/F., Hutchison House,  
10 Harcourt Road,  
Central, Hong Kong.

## SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East, Hong Kong

## PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited  
JPMorgan Private Bank  
Fubon Bank (Hong Kong) Limited  
United Commercial Bank

## REGISTERED OFFICE

Suite 1502, 15th Floor  
Chinachem Golden Plaza  
77 Mody Road, Tsimshatsui East  
Kowloon, Hong Kong

## INCORPORATION IN HONG KONG

27 April 1966

## LISTING

16 November 1972

## NO. OF EMPLOYEES

286

## WEB SITE

[www.ewmedia.com](http://www.ewmedia.com)

## STOCK CODE

Hong Kong Stock Exchange: 0128  
American Depositary Receipt: ENEWY

## CORPORATE COMMUNICATIONS

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