



UNIVERSAL HOLDINGS LIMITED

ANNUAL REPORT 2004

友利控股

CONTENTS

	<i>Pages</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3-4
CHIEF EXECUTIVE OFFICER'S REPORT	5-7
MANAGEMENT DISCUSSION AND ANALYSIS	8
REPORT OF THE DIRECTORS	9-19
AUDITORS' REPORT	20
AUDITED ACCOUNTS	
Consolidated Profit and Loss Account	21
Consolidated Balance Sheet	22
Balance Sheet	23
Consolidated Cash Flow Statement	24
Consolidated Statement of Changes in Equity	25
NOTES TO THE ACCOUNTS	26-65
FIVE YEAR FINANCIAL SUMMARY	66

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Ko Chun Shun, Johnson
Mr. Tsoi Tong Hoo, Tony
Mr. Shen Ka Yip, Timothy
Mr. Cheong Chow Yin
Mr. Wilton Timothy Carr Ingram
Dr. Wong Yau Kar, David
Mr. Yuen Kin

COMPANY SECRETARY

Mr. Chan Kam Kwan, Jason

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SOLICITORS

Baker & McKenzie

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies
Cayman Islands

PRINCIPAL OFFICE IN HONG KONG

Unit 4306-07, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited
G/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

CHAIRMAN'S STATEMENT

BUSINESS FOCUS IN TUNE WITH MACRO AND MICRO DEVELOPMENTS

2004 has been a challenging year for most businesses including ours. The global economy has enjoyed another year of satisfactory growth under the backdrop of rising cost of raw materials (including the record crude oil prices) and increasing interest rates. In the case of the China and Hong Kong markets, both have thrived; with the Per Capita GDP for China rising and the unemployment rate in Hong Kong declining, complemented by the substantial influx of Chinese tourists into Hong Kong invigorating cross border tourism and the retail trade.

What is obvious is the willingness of consumers to invest and spend in both China and Hong Kong. Real estate prices in tier one Chinese cities, including Hong Kong, have shown strong momentum from the immediate post-SARS level which translates into on average, mid to high double digit housing price increases in 2004. Historically, Asia Pacific countries, especially the seven economic dragons, all have exhibited a similar growth pattern spilling over from exports to tourism, then to consumer spending; and in the case of China, the substantial improvement in consumer (including luxury) goods sales are good indications of this similar pattern will take place also in China.

In addition to these positive developments on the macro and regional front that provides a favorable backdrop for the future development of the Company, other relevant events will include the opening up of more commercial sectors in China; the rapid development of network technology through digitalization leading to affordable bandwidth supply creating a huge demand for content deliver through broadband TV and video streaming; and the continuing developments in the communications sectors exemplifying the significance of the media and digital convergence, i.e. the convergence of different media and the ultimate goal of delivering content of interests to consumers. These factors have motivated the Group to restructure its business focus to be involved in the China Media sector. We have announced on 2nd February 2005 for the proposed conditional acquisition of the Anglo Alliance Co. Ltd. ("Anglo Alliance"). Upon the successful acquisition of Anglo Alliance, it is expected that not only will there be an immediate re-rating of the Group, but it is also expected that this acquisition will be synergistic to DVN's business, which in turn enhances our investment in DVN.

FUTURE AND OUTLOOK

UHL is positioned strategically to participate in the new business sector of China Media, an important part of the consumer sector that is still expected to maintain a strong "outperformance" going forward both in 2005 and at least to 2008 — The Year of the Olympics in China. We are confident that this strategy will be a rewarding experience for our shareholders and also prove to be the most important turning point in Universal's recent history.

CHAIRMAN'S STATEMENT

APPRECIATION

With this opportunity, I wish to extend my appreciation to all my fellow directors and employees for their commitment and dedications during the year. I would also like to thank our shareholders, partners and associates for their continuing support.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 15th April 2005

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

The Group's results for the year was encouraging as there have been a number of positive changes in terms of establishing the platform for material and positive growth in 2005. As continued from the prior year, the Group significantly reduced its operating costs as a part of its business strategy and costs savings initiatives to return the Group to operating profit position in 2004. However, this operating profit was not sufficient to offset our portion of the loss incurred by our associated company DVN (Holdings) Limited ("DVN"), a listed company in Hong Kong. In February 2005, the Board refocused the Group's strategy to enter the high growth media business in China through the proposed acquisition of the Anglo Alliance Group. This acquisition provides the Group the platform to expand its media business in China. While the Board and management of UHL is not satisfied with the overall results in 2004, significant benefits from the Company's efforts have been generated which is expected to lead to a positive results in 2005.

For 2004, there has been a substantial reduction in the losses as reported by the Group. The Group's turnover for the year was HK\$38,630,000 as compared to HK\$30,011,000 in the prior year. Net loss attributable to shareholders amounted to HK\$9,931,000 as compared against a net loss of HK\$70,046,000 in 2003.

Below is the operational review of each division.

DIGITAL BROADCASTING INVESTMENT

One of the Group's significant investments includes DVN which is now working with Motorola to become China's leading supplier of digital equipment and services. To date, Motorola has agreed to invest US\$15 million for a 20% equity stake in DVN. With this investment, DVN gained a strategic partner who is the world's leading provider of digital cable technology; and ensures that DVN remains a technology market leader in China. Motorola is involved in all aspects of digital broadband technology, from headend system solutions to consumer terminal products, and is the market leader for set-top terminals in the United States. With Motorola, DVN will now have a strategic partner with the requisite experience and expertise to help ensure that its digital cable deployments are successful.

According to the State Administration of Radio, Film and Television ("SARFT") of China, switching to digital has become the paramount opportunity for the radio and television industry. Many cable operators compete with telecom operators which offer interactivity through their fibre telecom network and could someday launch internet protocol TV ("IPTV") services. Therefore, SARFT realizes that it must make the transition to digital as quickly as possible, and has set 2015 as the date when the analog service is to be completely cut off. More urgently, SARFT would like to have a significant portion of the population receive digital signals in time for the Beijing Olympics in 2008. Given these urgencies, DVN expects cable operators to become increasingly more aggressive in promoting digital cable.

CHIEF EXECUTIVE OFFICER'S REPORT

Despite the potential competition from IPTV, DVN believes that digital cable will remain the most cost effective means to reach most viewers for the near future. However, DVN is prepared to also provide hardware and services for the IPTV industry should growth in this market segment also begin to grow rapidly. Already, DVN has prepared a dual mode set top box that can work on both cable and IPTV. Overall, DVN has taken positive steps in preparing itself to reap the rewards of China's push towards digitalization.

Communication Division

The Group's communication division suffered a set back in 2004 due to the intense competitive environment. Management is reviewing the business operation to determine the long term strategy, and refocusing this business to be aligned with our new core media business.

Audio and Video Trading Division

There was a marginal increase in the trading in the audio and video division. However due to competition in the market place, the profit margin was further squeezed. The Group will continue to seek new business products with higher profit margins.

Settlement of Legal Dispute

In January 2004, the Group entered into an agreement with a customer to settle all existing and potential claims arising between certain subsidiaries of the Group and the customer in consideration of a total payment of the Group of US\$2.1 million over 18 months. The last installment will be settled in August of 2005.

Acquisition of Anglo Alliance Co., Limited

In February 2005, the Group entered into an agreement to acquire the entire issued share capital of Anglo Alliance for HK\$550.0 million. Details of the transaction are disclosed in the Company's announcement dated 2nd February 2005. Anglo Alliance is in the media business providing content and advertising services. Anglo Alliance also involves in operating a "Travel" TV channel in China.

CHIEF EXECUTIVE OFFICER'S REPORT

Future Prospects

The Group will seek to refocus the Company in the high growth media business. It will seek to build on the acquisition of Anglo Alliance to enter into the media industry with lucrative advertising revenue growth. The Group will also explore other opportunities in the media industry to expand its core media business and to develop a total value chain platform.

The Group's other significant investment in DVN is engaged in the digital broadcasting industry in China will enjoy significant potential in revenue and profits. The Group looks forward to the push for the digitalization of broadcasting in China and DVN's leading position in delivering digital solutions to the market place.

Lastly, the Group will seek to diversify its businesses and implement strategies to strengthen its revenue and asset base. The Group will continue to explore business opportunities in strategic acquisition in Hong Kong or abroad. In addition, the Group will look for opportunities to expand its capital base in the equity and capital markets.

Shen Ka Yip, Timothy

Acting Chief Executive Officer

Hong Kong, 15th April 2005

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2004, the Group held cash deposits totalling HK\$14.2 million, an decrease of HK\$2.2 million compared with that of 31st December 2003. A current ratio of 1.085 and a gearing ratio, representing long term liabilities to net worth, of 0.093 as at 31st December 2004 as compared to 1.222 and 0.157 as at 31st December 2003.

In addition to the internal generated cash flows and capital raising, the Group also made use of short-term borrowings to finance its operations during the year. All borrowings during the year were based on market interest rate. The short-term borrowings were secured against certain shares of an associated company which was fully repaid during the year. The Group had no long-term bank loan and no bank overdrafts outstanding as at year-end. There were no significant exposure to foreign currency exposure. The Group will continue to rely mainly on the internal generated cash flows and borrowings to fund its operation. The Group will also rely on the realization of its assets or capital raising.

Subsequent to the year end, the Group raised about HK\$76 million by placing additional shares in the Company.

SIGNIFICANT INVESTMENTS HELD

There was no change in significant investments held during the year. The Group has not acquired or disposed any material assets during the year. Save for the aforesaid, the Group does not have any charges over the assets of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

As at 31st December 2004, the Group employed a total of 6 full-time employees in Hong Kong and a work force of about 21 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development staff are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 34 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated profit and loss account on page 21.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2004.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the accounts.

SHARE OPTIONS

A share option scheme (the "Option Scheme") was adopted by the Company on 30th July 2002. The purpose of the Option Scheme is to recognise and acknowledge the contributions of the Qualified Persons (as defined in the Option Scheme, including but not limited to, the directors, employees, partners and associates of the Group) to the Group.

Pursuant to this 10-year term Option Scheme, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of options shares can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

REPORT OF THE DIRECTORS

SHARE OPTIONS (Continued)

Subscription price in relation to each option pursuant the Option Scheme shall be not less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to an Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the board of directors of the Company.

During the year, the Company granted 277,400,000 share options to Qualified Persons of the Group to subscribe for shares in the Company under the Option Scheme at an exercise price of HK\$0.054 during the exercise period from 1st January 2005 to 31st December 2009.

As of the date of this Annual Report, the Company can still grant 29,315 share options, representing less than 0.01% of the existing issued share capital.

The exercise is full of all outstanding share options as at 31st December 2004 would result in the issue of an additional 277,400,000 ordinary shares, representing approximately 8.47% of the issued share capital as at 31st December 2004, or approximately 7.06% of the issued share capital as at 15th April 2005.

Details of the share options outstanding as at 31st December 2004 which have been granted under the scheme are as follows:

	Date of share options granted	Number of share options outstanding as at 1st January 2004	Number of share options granted during the year*	Number of share options cancelled/lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2004	Exercise period	Exercise price per share HK\$
Qualified Persons (excluding directors)	1/12/2004	—	277,400,000	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
		—	277,400,000	—	—	277,400,000		

Note:

- * The directors are of the view that the value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the directors believe that any calculation of the value of the share options will not be meaningful and may be misleading to shareholders in the circumstances.

REPORT OF THE DIRECTORS

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2004, calculated pursuant to the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK\$24,482,000 (2003: HK\$26,309,000), representing the amount standing to the credit of the share premium of HK\$172,353,000 (2003: HK\$172,353,000) less the accumulated losses as at the date of HK\$147,871,000 (2003: HK\$146,044,000). The Company may make distributions to its members out of the share premium under certain prescribed circumstances.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	80%
— five largest suppliers combined	99%

Sales

— the largest customer	40%
— five largest customers combined	52%

As far as the directors are aware, none of the directors, their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the major suppliers or customers noted above.

REPORT OF THE DIRECTORS

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

Mr. Ko Chun Shun, Johnson

Mr. Shen Ka Yip, Timothy** (appointed on 14th March 2005)

Non-executive directors

Mr. Cheong Chow Yin

Mr. Tsoi Tong Hoo, Tony* (appointed on 12th October 2004)

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

Mr. Yuen Kin (appointed on 23rd September 2004)

* Mr. Tsoi was the Executive Director and Group Managing Director from 12th October 2004 to 14th March 2005.

** Mr. Shen is the Acting Chief Executive Officer.

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Messers. Tsoi Tong Hoo Tony, Shen Ka Yip Timothy, Yuen Kin and Wilton Timothy Carr Ingram will retire, and being eligible, offers themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Ko Chun Shun, Johnson	53	Chairman and Executive Director	11	Media and direct investment, and financial services
Mr. Tsoi Tong Hoo, Tony	40	Non-executive Director *	1	Media and corporate finance
Mr. Shen Ka Yip, Timothy	43	Acting Chief Executive Officer and Executive Director **	1	Corporate finance, investment, accounting
Mr. Cheong Chow Yin	49	Non-executive Director	5	Manufacturing
Mr. Wilton Timothy Carr Ingram	57	Independent Non-executive Director	9	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	47	Independent Non-executive Director	5	Manufacturing, international trade and corporate finance
Mr. Yuen Kin	50	Independent Non-executive Director	1	Finance and Accounting

* Mr. Tsoi was the Executive Director and Group Managing Director from 12th October 2004 to 14th March 2005.

** Mr. Shen is the Acting Chief Executive Officer.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior management staff

Name	Age	Position held	Number of years of service	Business experience
Mr. Wong Siu Kang	53	Managing Director of Netbroad Communication Limited	5	Telecommunication services, engineering and management
Mr. Zhang Bin	39	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	10	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	44	Group Financial Controller	11	Finance and accounting
Mr. Chan Kam Kwan, Jason	32	Company Secretary	5	Accounting, corporate finance

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in the sections "Directors' and chief executives' interests in the shares, underlying shares and debentures of the Company or any associated corporation" and "Connected transactions" below, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2004, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company, were as follows:

(A) The Company

Names	Notes	Number of ordinary shares of HK\$0.01 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	18,640,000	—	1,000,437,150

(B) DVN (Holdings) Limited ("DVN")

Names	Notes	Number of ordinary shares of HK\$0.10 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940

Notes:

- (i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.
- (ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagolda Incorporated ("Gold Pagolda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagolda is an indirect wholly owned subsidiary of the Company which in turn is controlled by Mr. Ko.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(B) DVN (Holdings) Limited ("DVN") *(Continued)*

Notes: *(Continued)*

(ii) *(Continued)*

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which is wholly owned by the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is indirectly wholly owned by the Company.

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

(iii) Million Way Enterprises Limited, a wholly owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly owned subsidiary of DVN. These preference shares are exchangeable, after current year adjustment, to approximately 26,420,000 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.40 per share, and are subject to adjustment.

(C) Rights to acquire ordinary shares of DVN

Movements of the share options of DVN granted to a director of the Company are as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2004	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options outstanding as at 31st December 2004	Exercise period	Exercise price per share HK\$
Mr. Ko	23/7/2002	3,000,000	—	—	3,000,000	24/7/2002 — 23/7/2005	1.470
	10/12/2003	450,000	—	—	450,000	1/1/2004 — 31/12/2006	0.824
		3,450,000	—	—	3,450,000		

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 31st December 2004, none of the directors, the chief executives (including their spouse and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company or any of its associated corporation (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December 2004, save as disclosed below and under the section "Directors' and chief executives' interest in the shares and underlying shares of the Company or any associated corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO:

a. Ordinary shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	82,654,000	—
Leung Chi Yan	(note) —	82,654,000

Note: The interests are held by Blue World Investments Limited, a company beneficially owned by Mr. Leung Chi Yan.

b. Convertible preference shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	240,760,000	—
Leung Chi Yan	(note) —	240,760,000

Note: The interests are held by Blue World Investments Limited. These shares are convertible to 240,760,000 ordinary shares of the Company, subject to adjustments.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

A related party transaction, which also constitutes connected transaction under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited of the SEHK ("Listing Rules"), is as follows:

During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$34 million (2003: HK\$43 million) (*notes 22 and 24 to the accounts*).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum and has no fixed terms of repayment. The total interest payable for the year ended 31st December 2004 on the advances amounted to HK\$2,167,000 (2003: HK\$2,468,000).

The directors, including the independent non-executive directors, of the Company are of the opinion and have confirmed to the Company that the above connected transaction was carried out in the ordinary and normal course of business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's by-laws and there was no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules, except that the independent non-executive directors are not appointed for a specific term as all of the directors, excluding the executive Chairman and, without limitation to non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr. Wilton Timothy Carr Ingram, Mr. Yuen Kin and Dr. Wong Yau Kar, David. Two meetings were held during the current year.

SUBSEQUENT EVENTS

Significant post balance sheet events of the Group are set out in note 31 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ko Chun Shun, Johnson

Chairman

Hong Kong, 15th April 2005

AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF UNIVERSAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 21 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion solely to you, as a body, 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 examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15th April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	38,630	30,011
Cost of sales		(31,091)	(24,567)
Gross profit		7,539	5,444
Other revenues	3	6,280	7,837
Marketing, selling and distribution costs		(1,007)	(1,233)
Administration expenses		(16,564)	(15,246)
Impairment loss on investment securities		—	(44,508)
Net gain on dilution of interest in an associated company		14,289	11,503
Net other operating (expenses)/income		(1,944)	8,497
Operating profit/(loss)	5	8,593	(27,706)
Finance costs	6	(2,563)	(4,634)
Share of loss of associated companies		(14,869)	(37,511)
Loss before taxation		(8,839)	(69,851)
Taxation	7	(1,092)	(195)
Loss after taxation		(9,931)	(70,046)
Minority interests		—	—
Loss attributable to shareholders	8 & 26	(9,931)	(70,046)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share — basic	9	(0.30)	(2.41)

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non current assets			
Fixed assets	11	2,520	2,560
Intangible assets	12	—	1,685
Interests in associated companies	14	15,348	15,837
Investment securities	15	36,000	36,000
Other assets	16	2,065	4,533
		55,933	60,615
Current assets			
Inventories	17	105	901
Trade receivables	18	1,687	2,765
Preference dividends receivable	15(b)	21,797	15,984
Prepayments, deposits and other receivables	19	305	31,973
Short-term investments	20	—	4,605
Cash and bank balances		14,152	16,425
		38,046	72,653
Current liabilities			
Trade payables	21	338	63
Taxation payable		1,092	—
Other payables and accrued liabilities	22	33,640	39,365
Short-term loan — secured	23	—	20,000
		35,070	59,428
Net current assets		2,976	13,225
Total assets less current liabilities		58,909	73,840
Financed by:			
Share capital	25	35,151	35,151
Reserves	26	18,758	28,689
Shareholders' funds		53,909	63,840
Minority interests	24	—	—
		53,909	63,840
Non-current liabilities			
Amount due to a fellow subsidiary	24	5,000	10,000
		58,909	73,840

Ko Chun Shun, Johnson
Director

Shen Ka Yip, Timothy
Director

BALANCE SHEET

AS AT 31ST DECEMBER 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non current assets			
Investments in subsidiaries	<i>13</i>	59,240	51,317
Current assets			
Prepayments, deposits and other receivables		1	—
Short-term investments	<i>20</i>	—	532
Cash and bank balances		547	9,930
		548	10,462
Current liabilities			
Other payables and accrued liabilities	<i>22</i>	155	319
Net current assets		393	10,143
Total assets less current liabilities		59,633	61,460
Financed by:			
Share capital	<i>25</i>	35,151	35,151
Reserves	<i>26</i>	24,482	26,309
		59,633	61,460

Ko Chun Shun, Johnson
Director

Shen Ka Yip, Timothy
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash generated from/(used in) operations	<i>27(a)</i>	17,573	(3,114)
Interest paid		(2,563)	(4,634)
Net cash generated from/(used in) operating activities		15,010	(7,748)
Investing activities			
Interest received		36	31
Purchases of fixed assets		(517)	(32)
Proceeds from disposal of fixed assets		—	71
Net cash outflow from disposal of subsidiaries	<i>27(b)</i>	(19)	—
Net cash (used in)/generated from investing activities		(500)	70
Net cash inflow/(outflow) before financing activities		14,510	(7,678)
Financing activities			
Proceeds on issue of shares, net of expenses		—	14,564
Increase/(decrease) in amount due to fellow subsidiary		3,217	(14,728)
(Repayment)/advancement of short-term loan		(20,000)	20,000
Net cash (outflow)/inflow from financing activities		(16,783)	19,836
(Decrease)/increase in cash and cash equivalents		(2,273)	12,158
Cash and cash equivalents at 1st January		16,425	4,267
Cash and cash equivalents at 31st December		14,152	16,425
Analysis of balances of cash and cash equivalents			
Cash and bank balances		14,152	16,425

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity as at 1st January		63,840	119,322
Issue of shares	25 & 26	—	15,000
Share issue expenses	25 & 26	—	(436)
Net loss for the year	26	(9,931)	(70,046)
Total equity as at 31st December		53,909	63,840

NOTES TO THE ACCOUNTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention, except for short-term investments, as further explained below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st 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.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's shares of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) Fixed assets

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated on the straight-line basis to write off their cost or accumulated impairment losses over their estimated useful lives as follows:

Long-term leasehold land and buildings outside Hong Kong	shorter of 25 years or over the lease terms
---	--

Plant, equipment and other assets	3 to 10 years
-----------------------------------	---------------

Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition and is amortised on a straight-line basis over the useful life of 20 years.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investments

(i) *Investments securities*

Investment securities, represent investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long-term purposes, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Short-term investments*

Short-term investments are carried at their fair values as at the balance sheet date. Unrealised gains or losses arising from the changes in fair values of these investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate for the year. Exchange differences are dealt with as a movement in reserves.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Management fee income is recognised on an accrual basis.

Securities trading income is recognised when the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity and other non-accumulating compensated absences are not recognized until the time of leave.

(ii) *Retirement benefit costs*

The Group operates a defined contribution retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective on 1st December 2000. 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 Scheme. The assets of the Scheme are held separately from those of the Group in an independent administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

The Company’s subsidiaries in the People’s Republic of China (the “PRC”) except Hong Kong are members of a state-managed retirement benefits scheme operated by the government of the PRC except Hong Kong. The retirement scheme contributions, which are based on a certain percentage of the salaries of the subsidiaries’ employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the Scheme.

(iii) *Equity compensation benefits*

Share options are granted to directors and to employees at a price determined in accordance with the Company’s share option scheme on the date of the grant and are exercisable, at that price. No compensation expense is recognized. When the share option are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (*note 11*) and intangible assets (*note 12*).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

3. TURNOVER AND REVENUES

The Group is principally engaged in the trading of home audio and video equipment and components, securities trading, and provision of computer telephony integration engineering and IP related services. Revenues recognised during the year are as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover:		
Sales of goods	18,180	16,362
Share trading	16,561	7,644
Provision of computer telephony integration engineering and IP related services	3,889	6,005
	38,630	30,011
Other revenues:		
Preference dividend income from an associated company	5,813	5,813
Commission income	65	671
Interest income	36	31
Management fee income from:		
Related companies	—	900
Associated companies	144	200
Others	212	160
Miscellaneous	10	62
	6,280	7,837
Total revenues	44,910	37,848

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into three main business segments:

- (i) Home Audio — trading of home audio and video equipment and components;
- (ii) Telecommunications — provision of computer telephony integration engineering and IP related services; and
- (iii) Share Trading — securities trading.

There are no sales between the business segments.

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

	2004			
	Home Audio HK\$'000	Tele- communications HK\$'000	Share Trading HK\$'000	Total HK\$'000
Turnover	18,180	3,889	16,561	38,630
Segment results	(3,092)	(354)	1,249	(2,197)
Write back unrealised loss of short-term investments				3,946
Write-off of bad and doubtful debts				(1,589)
Net gain on dilution of interest in an associated company				14,289
Loss on sale of subsidiaries				(836)
Provision for the deposit for investment in joint venture				(2,468)
Unallocated costs				(2,552)
Operating profit				8,593
Finance costs				(2,563)
Unallocated share of losses of an associated company				(14,869)
Loss before taxation				(8,839)
Taxation				(1,092)
Loss after taxation				(9,931)
Minority interests				—
Loss attributable to shareholders				(9,931)
Segment assets	21,168	5,229	535	26,932
Investment in associated companies				15,348
Unallocated assets				51,699
Total assets				93,979
Segment liabilities	32,313	755	1,534	34,602
Unallocated liabilities				5,468
				40,070
Capital expenditure				
Allocated				—
Unallocated				517
Depreciation				
Allocated	262	29	—	291
Unallocated				134
Amortisation				52

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

	2003			
	Home Audio HK\$'000	Tele- communications HK\$'000	Share Trading HK\$'000	Total HK\$'000
Turnover	16,362	6,005	7,644	30,011
Segment results	(790)	(2,864)	4,056	402
Net unrealised loss of short-term investments				(3,946)
Write back of provision of bad and doubtful debt				21,036
Impairment loss on investment securities				(44,508)
Net gain on dilution of interest in an associated company				11,503
Provision for bad debts				(298)
Unallocated costs				(11,895)
Operating loss				(27,706)
Finance costs				(4,634)
Unallocated share of losses of an associated company				(37,511)
Loss before taxation				(69,851)
Taxation				(195)
Loss after taxation				(70,046)
Minority interests				—
Loss attributable to shareholders				(70,046)
Segment assets	827	8,417	4,073	13,317
Investment in associated companies				15,837
Unallocated assets				104,114
Total assets				133,268
Segment liabilities	20	2,251		2,271
Unallocated liabilities				67,157
				69,428
Capital expenditure				
Allocated		18		18
Unallocated				14
Depreciation				
Allocated	8	2,778		2,786
Unallocated				671
Amortisation		368		368
Write-off of development costs		92		92
Other non-cash expenses	124	50		174

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The Group operates in two geographical areas:

- (i) Hong Kong Trading of home audio and video equipment and components and securities trading; and
- (ii) Mainland China Provision of computer telephony integration engineering and IP related services.

There are no sales between the geographical segments.

Secondary reporting format – geographical segments

	2004			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	34,741	8,947	71,766	517
Mainland China	3,889	(354)	6,865	—
	<u>38,630</u>	8,593	78,631	<u>517</u>
Impairment loss on investment securities		—		
Operating profit		<u>8,593</u>		
Interests in associated companies			<u>15,348</u>	
			<u>93,979</u>	

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments (Continued)

	2003			
	Turnover	Segment	Total	Capital
	HK\$'000	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,006	19,666	109,014	14
Mainland China	6,005	(2,864)	8,417	18
	<u>30,011</u>	16,802	117,431	<u>32</u>
Impairment loss on investment securities		<u>(44,508)</u>		
Operating loss		<u>(27,706)</u>		
Interests in associated companies			<u>15,837</u>	
Total assets			<u>133,268</u>	

NOTES TO THE ACCOUNTS

5. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Crediting		
Net gain on disposal of fixed assets	—	26
Write-back of provision for inventory	116	—
Write-back of unrealised loss of short-term investments	3,946	—
Write-back of provision for bad and doubtful debts	—	21,036
VAT refund	323	—
Gain on redemption of preferred shares	—	5,793
<hr/>		
Charging		
Cost of inventories sold	18,049	17,013
Cost of services provided	2,407	3,966
Depreciation	425	3,457
Auditors' remuneration	495	450
Loss on sale of subsidiaries	836	—
Staff costs (excluding directors' remuneration, note 10(a)):		
Wages and salaries	2,099	1,502
Unutilised annual leave	19	—
Termination benefits	58	—
Contributions to defined contribution		
Mandatory Provident Fund:		
Current year	73	71
Underprovided in prior year	57	—
	<hr/>	<hr/>
	2,306	1,573
<hr/>		
Operating lease rentals:		
Land and buildings	703	1,324
Equipment	—	416
	<hr/>	<hr/>
	703	1,740
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

5. OPERATING PROFIT/(LOSS) (Continued)

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging		
Amortisation of intangibles:		
Goodwill	52	104
Development costs	—	368
Write-off of development costs	—	92
Write-off of inventories	112	—
Provision for bad and doubtful debts	—	298
Write-off of bad and doubtful debts	1,589	870
Loss on disposal of fixed assets	47	—
Net unrealised loss of short-term investments	—	3,946
Provision for settlement of legal dispute	—	13,852
Provision for the deposit for investment in joint venture	2,468	—
Exchange losses, net	124	—
	124	—

6. FINANCE COSTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Short-term loan	396	2,166
Amount due to a fellow subsidiary		
— wholly repayable within five years	2,167	2,468
	2,563	4,634

NOTES TO THE ACCOUNTS

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year (2003: Nil). No overseas profits tax provision has been made in the accounts as the Group did not have any assessable profit for the year (2003: Nil).

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	(8,839)	(69,851)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(1,547)	(12,224)
Effect of different rates in other countries	1,342	568
Income not subject to taxation	(3,550)	(53,053)
Expenses not deductible for taxation purposes	4,490	59,570
Unrecognised tax losses	357	5,139
Under-provision of taxation in prior year	—	195
Taxation charge	1,092	195

No provision for deferred tax has been made in the accounts as the crystallisation of the net deferred tax asset in the foreseeable future is uncertain.

Deferred income tax assets are not recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is not probable. As at 31st December 2004, the Group had unrecognised tax losses of approximately HK\$274,321,000 (2003: HK\$294,276,000) to carry forward against future taxable income, of which approximately HK\$16,452,000 of these tax losses will expire in 2009.

8. LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK\$1,827,000 (2003: loss of HK\$71,937,000).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$9,931,000 (2003: HK\$70,046,000) and on the weighted average number of 3,274,293,157 (2003: 2,897,580,828) ordinary shares in issue during the year.

No diluted loss per share is shown for the two years ended 31st December 2004 and 2003 as the convertible preference shares outstanding had an anti-dilutive effect on the basic loss per share for both years.

NOTES TO THE ACCOUNTS

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company for the year are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees:		
Non-executive directors:	471	288
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	2,305	1,896
Contributions to defined contribution Mandatory Provident Fund	15	12
	<u>2,791</u>	<u>2,196</u>

The emoluments of the directors fell within the following bands:

	2004 <i>Number of directors</i>	2003 <i>Number of directors</i>
Emolument bands		
Nil — HK\$1,000,000	5	3
HK\$1,500,001 — HK\$2,000,000	1	1
	<u>6</u>	<u>4</u>

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

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

NOTES TO THE ACCOUNTS

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: four) individuals for the year are as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	862	1,115
Contributions to defined contribution Mandatory Provident Fund	36	49
	<u>898</u>	<u>1,164</u>

The emoluments fell within the following bands:

	Group	
	2004	2003
Emolument bands		
Nil — HK\$1,500,000	<u>3</u>	<u>4</u>

NOTES TO THE ACCOUNTS

11. FIXED ASSETS

	Group		
	Long-term leasehold land and buildings outside Hong Kong HK\$'000	Plant, equipment and other assets HK\$'000	Total HK\$'000
Cost			
At 1st January 2004	2,907	8,518	11,425
Additions	—	517	517
Write-offs	—	(367)	(367)
Disposals	—	(250)	(250)
Disposal of subsidiaries (<i>note 27(b)</i>)	—	(100)	(100)
At 31st December 2004	2,907	8,318	11,225
Accumulated depreciation			
At 1st January 2004	696	8,169	8,865
Charge for the year	114	311	425
Write-offs	—	(367)	(367)
Disposals	—	(203)	(203)
Disposal of subsidiaries (<i>note 27(b)</i>)	—	(15)	(15)
At 31st December 2004	810	7,895	8,705
Net book value:			
At 31st December 2004	2,097	423	2,520
At 31st December 2003	2,211	349	2,560

NOTES TO THE ACCOUNTS

12. INTANGIBLE ASSETS

	Group		
	Goodwill <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st December 2004			
At 1st January 2004	1,685	—	1,685
Amortisation charge (<i>note 5</i>)	(52)	—	(52)
Disposal of subsidiaries (<i>note 27(b)</i>)	(1,633)	—	(1,633)
At 31st December 2004	—	—	—
At 31st December 2004			
Cost	2,075	—	2,075
Accumulated amortisation and write-offs	(442)	—	(442)
Disposal of subsidiaries (<i>note 27(b)</i>)	(1,633)	—	(1,633)
Net book value	—	—	—
At 31st December 2003			
Cost	2,075	1,415	3,490
Accumulated amortisation	(390)	(1,415)	(1,805)
Net book value	1,685	—	1,685

NOTES TO THE ACCOUNTS

13. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	193,018	193,018
Provision for impairment loss	(140,000)	(140,000)
	<u>53,018</u>	<u>53,018</u>
Amount due from subsidiaries	31,883	672
Amounts due to subsidiaries	(25,661)	(2,373)
	<u>59,240</u>	<u>51,317</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal operating subsidiaries are set out in note 34 to the accounts.

NOTES TO THE ACCOUNTS

14. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	7,660	7,793
Goodwill on acquisition of associated companies less amortisation	8,023	8,470
Net amounts due to associated companies	(335)	(426)
	15,348	15,837
Market value of listed investments	164,312	126,917
Investments at cost:		
Listed shares, in Hong Kong	276,514	276,514
Unlisted shares, in the PRC	1,636	1,636
	278,150	278,150

The balances with associated companies are unsecured, interest-free and have no fixed terms of repayment.

The principal associated companies at 31st December 2004 are as follows:

Name	Country/ place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly		Principal activities and place of operation
			2004	2003	
(i) DVN GROUP					
DVN (Holdings) Limited ("DVN")	Bermuda	HK\$51,637,000 ordinary	21.95%	25.09%	Investment holding
DVN (Group) Limited	British Virgin Islands	US\$10 ordinary US\$15,000,000 preference	21.95%	25.09%	Investment holding
DVN (Management) Limited	Hong Kong	HK\$2 ordinary	21.95%	25.09%	Provision of administrative services in Hong Kong

NOTES TO THE ACCOUNTS

14. INTERESTS IN ASSOCIATED COMPANIES (Continued)

Name	Country/ place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly		Principal activities and place of operation
			2004	2003	
(i) DVN GROUP (Continued)					
Dynamic Network Limited	British Virgin Islands	US\$1 ordinary	21.95%	25.09%	Investment holding
DVN Technology Limited	Hong Kong	HK\$2 ordinary	21.95%	25.09%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK\$6,000,000 registered capital	21.95%	25.09%	Development of hardware and software in relation to digital broadcasting in the PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000 registered capital	15.37%	17.56%	Trading of digital broadcasting equipment and related products in the PRC
Digital Video Networks Company Limited	People's Republic of China	US\$8,000,000 registered capital	21.95%	25.09%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
Digital Video Networks (Shanghai) Company Limited	People's Republic of China	US\$5,000,000 registered capital	21.95%	25.09%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC

NOTES TO THE ACCOUNTS

14. INTERESTS IN ASSOCIATED COMPANIES (Continued)

Name	Country/ place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly		Principal activities and place of operation
			2004	2003	
(i) DVN GROUP (Continued)					
Telequote Data International Limited	Hong Kong	HK\$10,000 ordinary	21.95%	25.09%	Provision of international financial market information and selective consumer data in Hong Kong
Telequote Network (Singapore) Pte. Limited	Singapore	SGD2 ordinary	21.95%	25.09%	Provision of international financial market information and selective consumer data in Singapore
Show Case International Limited	British Virgin Islands	US\$1 ordinary	21.95%	25.09%	Holding of film rights in the PRC
Victory Beat Limited	British Virgin Islands	US\$1 ordinary	21.95%	25.09%	Investment holdings
(ii) 北京電發網博科技 有限公司	People's Republic of China	RMB5,000,000 registered capital	35.00%	35.00%	Provision of IP telephone services

NOTES TO THE ACCOUNTS

14. INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Information relating to the operating results and financial position of the DVN Group, a significant associated company, which are based on their audited accounts for the year ended 31st December 2004, are as follows:

Operating results for the year

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	169,236	73,252
Loss for the year	59,734	140,065

Summary of balance sheet as at 31st December

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fixed assets	36,343	61,768
Intangible assets	28,075	27,752
Investment in a jointly controlled entity	6,685	7,717
Current assets	211,382	158,222
Current liabilities	(135,754)	(109,692)
Non current liability	(80)	(116)
Minority interests	(117,761)	(118,263)
Shareholders' equity	28,890	27,388

There was no material contingent liability for the associated company as at 31st December 2004 and 2003.

NOTES TO THE ACCOUNTS

15. INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed shares, at costs		
— outside Hong Kong (<i>note a</i>)	23,414	23,414
Unlisted shares, at costs		
— outside Hong Kong (<i>note b</i>)	143,508	143,508
	166,922	166,922
<i>Less: Provision for impairment loss</i>		
— listed shares	23,414	23,414
— unlisted shares	107,508	107,508
	130,922	130,922
	36,000	36,000
Market value of listed shares (<i>note a</i>)	1,287	—

Notes:

- (a) The listed shares outside Hong Kong represent the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company was delisted since 3rd October 1998 and was relisted for trading in 2004. The market value of this listed investment was based on the closing market price of US\$0.11 quoted on the OTCBB as at 31st December 2004.
- (b) At 31st December 2004, the Group held 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company, at HK\$143,508,000. These preference shares are exchangeable, after current year adjustment, to approximately 26,420,000 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.40 per share, and are subject to adjustment. Fixed cumulative cash dividend on preference shares is receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year. Dividend income receivable at 31st December 2004 amounted to HK\$21,797,000.

The directors have made a provision for impairment loss on the preference shares held in DVN of approximately HK\$107,508,000 at 31st December 2004 (2003: HK\$107,508,000) against this investment.

NOTES TO THE ACCOUNTS

16. OTHER ASSETS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposit for investment in joint venture	—	2,468
Club debentures	2,065	2,065
	2,065	4,533

17. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	105	901

At 31st December 2004, the carrying amount of inventories that are stated at net realised value amounted to HK\$105,000 (2003: HK\$901,000).

18. TRADE RECEIVABLES

At 31st December 2004, the aging analysis of the trade receivables is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 3 months	1,125	750
4 — 6 months	85	1,716
Over 6 months	477	299
	1,687	2,765

The majority of the Group's sales are on credit with credit terms of 30-90 days.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's prepayments, deposits and other receivables as at 31st December 2003 included redeemable preference shares with a face value of HK\$24,138,000, which was fully redeemed during the year.

NOTES TO THE ACCOUNTS

20. SHORT-TERM INVESTMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities:				
Listed in Hong Kong	—	4,073	—	—
Listed outside Hong Kong	—	532	—	532
	—	—	—	—
Market value of listed equity securities	—	4,605	—	532

21. TRADE PAYABLES

At 31st December 2004, the aging analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 — 3 months	18	30
Over 6 months	320	33
	338	63

22. OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deposits received, accrued charges and other payables	2,178	5,669	155	319
Amount due to a fellow subsidiary (note (i))	24,705	16,488	—	—
Provision for legal fees and settlement of legal dispute (note (ii))	6,757	17,208	—	—
	33,640	39,365	155	319

NOTES TO THE ACCOUNTS

22. OTHER PAYABLES AND ACCRUED LIABILITIES (Continued)

- (i) The amount due to a fellow subsidiary at 31st December 2004 bears interest at Hong Kong dollar prime lending rate plus 2.5% (2003: prime lending rate plus 2.5%) per annum. The balance is unsecured and is repayable on demand.
- (ii) The amount represents the remaining payments to be made to a customer for settlement on the legal claims arising between Universal Appliance Limited, Smoothline Limited, Greatsino Electronic Limited and the customer as agreed on 26th January 2004. An aggregate provision of US\$2.1 million was made in prior year, payable as follows: (a) an initial payment of US\$300,000, and (b) 18 subsequent monthly payments of US\$100,000 thereafter until the total amount of US\$2.1 million has been paid, which is expected to be in August 2005.

23. SHORT-TERM LOAN – SECURED

The short-term loan was secured against certain shares of the associated company of the Group, bears interest at 17% rate per annum, and fully repaid in February 2004.

24. AMOUNTS DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum (2003: prime lending rate plus 2.5%). The balance is unsecured and is not expected to be repaid within 1 year.

At 31st December 2004, there was an amount of HK\$50,715,000 due to a fellow subsidiary which is also a minority shareholder of a subsidiary. The balance was presented as a net-off against a debit balance arising from the same minority shareholder of that subsidiary of the same amount. The balance is unsecured, interest-free and has no fixed terms of repayment.

25. SHARE CAPITAL

	Preference shares of HK\$0.01 each		Authorised Ordinary shares of HK\$0.01 each		Total
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	HK\$'000
At 1st January 2003 and 31st December 2003	240,760	2,408	5,000,000	50,000	52,408
At 1st January 2004 and 31st December 2004	240,760	2,408	5,000,000	50,000	52,408

NOTES TO THE ACCOUNTS

25. SHARE CAPITAL (Continued)

	Preference shares of HK\$0.01 each		Issued and fully paid Ordinary shares of HK\$0.01 each		Total
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	HK\$'000
At 1st January 2003	240,760	2,408	2,774,293	27,743	30,151
Issue of shares	—	—	500,000	5,000	5,000
At 31st December 2003	240,760	2,408	3,274,293	32,743	35,151
At 1st January 2004 and 31st December 2004	240,760	2,408	3,274,293	32,743	35,151

The following changes in the Company's authorised and issued share capital took place during the period from 1st January 2003 to 31st December 2004:

- (a) On 15th September 2003, Techral Holdings Limited ("Techral"), a substantial shareholder of the Company, and Kwan Wing Holdings Limited ("Kwan Wing"), a shareholder of the Company, entered into a private placement of 300,000,000 ordinary shares and 200,000,000 ordinary shares, respectively, in the Company of HK\$0.01 each at a price of HK\$0.03 per share to independent private investors. On the same date, the Company entered into an agreement with Techral and Kwan Wing for the subscription of 500,000,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.03 per share raising net proceeds of approximately HK\$14.5 million. The excess of the shares issue proceeds over the nominal value of the shares issued, net of share issue expenses of approximately HK\$436,000, amounting to HK\$9,564,000 was credited to the share premium account.

Preference shares

Preference shareholders are entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders are also entitled to receive a non-cumulative cash dividend which will be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

NOTES TO THE ACCOUNTS

25. SHARE CAPITAL (Continued)

Share options

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons (as defined in the Option Scheme) for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of shares options that can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the board of directors of the Company.

Share options granted during the year are as follows:

Date of share options granted	Number of share options outstanding as at 1st January 2004	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options outstanding as at 31st December 2004	Exercise period	Exercise price per share HK\$
1/12/2004	—	277,400,000	—	277,400,000	1/1/2005 to 31/12/2009	0.054
		— 277,400,000		— 277,400,000		

NOTES TO THE ACCOUNTS

26. RESERVES

Group

	Share premium <i>HK\$'000</i>	Merger reserve (i) <i>HK\$'000</i>	Currency translation <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	162,789	860,640	(171)	(934,087)	89,171
Issue of shares	9,564	—	—	—	9,564
Net loss for the year	—	—	—	(70,046)	(70,046)
At 31st December 2003	172,353	860,640	(171)	(1,004,133)	28,689
At 1st January 2004	172,353	860,640	(171)	(1,004,133)	28,689
Net loss for the year	—	—	—	(9,931)	(9,931)
At 31st December 2004	172,353	860,640	(171)	(1,014,064)	18,758
Reserve retained by:					
Company and subsidiaries	172,353	860,640	(171)	(950,291)	82,531
Associated companies	—	—	—	(63,773)	(63,773)
At 31st December 2004	172,353	860,640	(171)	(1,014,064)	18,758
Reserve retained by:					
Company and subsidiaries	172,353	860,640	(171)	(955,229)	77,593
Associated companies	—	—	—	(48,904)	(48,904)
At 31st December 2003	172,353	860,640	(171)	(1,004,133)	28,689

NOTES TO THE ACCOUNTS

26. RESERVES (Continued)

Company

	Share premium (ii) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003	162,789	(74,107)	88,682
Issue of shares	9,564	—	9,564
Loss for the year	—	(71,937)	(71,937)
At 31st December 2003	172,353	(146,044)	26,309
At 1st January 2004	172,353	(146,044)	26,309
Loss for the year	—	(1,827)	(1,827)
At 31st December 2004	172,353	(147,871)	24,482

Notes:

- (i) The merger reserve of the Group was derived from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Universal Appliances Limited pursuant to the group reorganisation in 2002, and the consolidated net asset value of Universal Appliances Limited so acquired. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.
- (ii) The share premium of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium under certain prescribed circumstances.

NOTES TO THE ACCOUNTS

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) from ordinary activities to net cash inflow/(outflow) from operations

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating profit/(loss) before taxation	8,593	(27,706)
Interest income	(36)	(31)
Depreciation	425	3,457
Provision for the deposit for investment in joint venture	2,468	—
Amortisation of intangible assets	52	472
Write-off of development costs	—	92
Disposal of fixed assets	47	(26)
Loss on disposal of subsidiaries	836	—
Net gain on dilution of interest in an associated company	(14,289)	(11,503)
Provision for impairment loss on investment securities	—	44,508
Operating (loss)/profit before working capital changes	(1,904)	9,263
Decrease in amounts due to associate companies	(91)	(467)
Decrease in short-term investments	4,605	7,002
Decrease in inventories	796	5,026
Decrease/(increase) in trade receivables, preference dividends receivable, prepayments, deposits and other receivables	26,772	(33,880)
(Decrease)/increase in trade payables, other payables and accrued liabilities	(12,605)	9,942
Net cash inflow/(outflow) from operations	17,573	(3,114)

NOTES TO THE ACCOUNTS

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Sale of subsidiaries

Details of disposal of subsidiaries:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposal of:		
Fixed assets	85	—
Deposits, prepayments and other receivables	161	—
Cash and bank balances	20	—
Accrued liabilities and other payables	(1,062)	—
	(796)	—
Write-off of unamortised goodwill	1,633	—
Loss on disposal	(836)	—
	1	—
Represented by:		
Cash consideration	1	—

Analysis of net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration received	1	—
Cash and cash equivalents of disposed subsidiaries	(20)	—
Net outflow of cash and cash equivalents	(19)	—

NOTES TO THE ACCOUNTS

28. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities as at 31st December 2004 (2003: Nil).

29. COMMITMENTS

(a) Commitments under operating leases

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	313	313
Later than one year and not later than five years	—	313
	<u>313</u>	<u>626</u>

	Equipment	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	—	416
Later than one year and not later than five years	—	340
	<u>—</u>	<u>756</u>

(b) The Group and the Company had no material capital commitments at 31st December 2004 (2003: Nil).

30. RELATED PARTY TRANSACTIONS

During the year, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$34 million (2003: HK\$43 million) (*notes 22 and 24*).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances for the year ended 31st December 2004 amounted to HK\$2,167,000 (2003: HK\$2,468,000).

NOTES TO THE ACCOUNTS

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following transactions were entered into by the Group:

- (i) On 2nd February 2005, the Company entered into a sale and purchase agreement to acquire 49% effective beneficial interest of the registered capital in Asia Union Film and Media ("Media Company") at a maximum consideration of HK\$550.0 million (subject to adjustments), through the acquisition of Orient Ventures Limited ("Orient Ventures") (a wholly owned company of Mr. Johnson Ko ("Mr. Ko")), which will acquire 100% equity interest in Anglo Alliance Co., Limited ("Anglo Alliance") upon the completion of a deed on the same date. Upon completion of the acquisition, Beijing Hao Ge ShengShi Film & TV Culture Co, Limited ("Hao Ge"), a 98% owned subsidiary of Anglo Alliance, will become a sino-foreign joint venture and will hold 50% of the registered capital in Media Company.

The consideration of HK\$550.0 million will be satisfied by the Company issuing 3,046,570,871 shares and 2,700,000,000 shares at an issue price of HK\$0.049 and HK\$0.042 per share respectively, and issuing a HK\$287.3 million convertible note at a conversion price of HK\$0.049 per share. After the completion of the acquisition, Orient Ventures, Anglo Alliance and Hao Ge will become subsidiaries of the Company. Media Company will become a 49% owned associated company of the Company. The acquisition is conditional upon the approval from the shareholders of the Company at an extraordinary general meeting to be held after the despatch of the circular. Details of the transactions are disclosed in the Company's announcement dated 2nd February 2005.

- (ii) On 22nd February 2005, the Company issued a total of 654,850,000 shares at an issue price of HK\$0.12 per share raising net proceeds of HK\$76 million, as a result of a Placing and Top-up Subscription Agreement ("Agreement") entered into between the Company, Kwan Wing, a company wholly owned by Mr. Ko, Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing which Mr. Ko has approximately 96% beneficial interest in Techral (Kwan Wing and Techral together referred as "Vendors"), and Goldbond Securities Limited (the "Placing Agent"). Pursuant to the Agreement, the Placing Agent placed 654,850,000 existing shares held by the Vendors at placing price of HK\$0.12 per share, and the Vendors subscribed for the same number of new shares equal to the number of shares sold by them respectively under the placing at the subscription price of HK\$0.12 per share. Details of the transactions are disclosed in the Company's announcement dated 23rd February 2005.

32. ULTIMATE HOLDING COMPANY

The directors regard Kwan Wing, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

NOTES TO THE ACCOUNTS

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 15th April 2005.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

Name	Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held	Principal activities and place of operation
Beijing E-Pay Net Technology Co. Ltd.	PRC*	US\$2,680,000 registered capital	70%	Provision of communication Services in the PRC
Beijing Jiya Telecommunication Engineering Co Ltd	PRC*	RMB2,680,000 registered capital	70%	Provision of computer telephony integration engineering service in the PRC
Barnwell Enterprises Limited	Hong Kong	HK\$2 ordinary	#100%	Administrative services in Hong Kong
Entertainment Soundview Limited	Hong Kong	HK\$10,000 ordinary	100%	Marketing and sales of home audio/video products in Hong Kong
Global Assets Limited	Hong Kong	HK\$5,000,000 ordinary	100%	Group treasury and trading of audio and video equipment and components in Hong Kong
Million Way Enterprises Limited	British Virgin Islands	US\$1 ordinary	100%	Investment holding
Netbroad Communication Limited	British Virgin Islands	HK\$1 ordinary	100%	Investment holding
Prime Pacific International Limited	British Virgin Islands	US\$50,000 ordinary	67%	Investment holding

NOTES TO THE ACCOUNTS

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Smoothline Limited	Hong Kong	HK\$7,500,000 ordinary	100%	Design, manufacturing and marketing of telecommunication products — inactive
Super China Development Limited	British Virgin Islands	US\$1 ordinary	100%	Investment holding
Universal Appliances Limited	Hong Kong	HK\$499,373,000 ordinary HK\$43,337,000 preference	#100%	Investment holding

* Co-operative joint venture

Shares held directly by the Company

Except for Barnwell Enterprises Limited and Global Assets Limited, all other statutory accounts for year ended 31st December 2004 are not audited by PricewaterhouseCoopers.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts and restated/reclassified as appropriate, is shown below.

Results

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover					
Continuing operations	38,630	30,011	51,791	128,875	89,753
Discontinued operations	—	—	—	—	29,522
	38,630	30,011	51,791	128,875	119,275
Loss before tax	(8,839)	(69,851)	(171,355)	(165,710)	(587,456)
Taxation	(1,092)	(195)	—	—	645
Minority interests	—	—	76,252	27,306	93,081
Loss attributable to shareholders	(9,931)	(70,046)	(95,103)	(138,404)	(493,730)

Assets and liabilities

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Fixed assets	2,520	2,560	6,030	83,520	43,213
Intangible assets	—	1,685	2,249	59,453	64,606
Interests in a jointly controlled entity	—	—	—	10,901	26,155
Investment in associated companies	15,348	15,837	39,742	—	—
Investment securities	36,000	36,000	80,508	55,662	58,414
Other assets	2,065	4,533	6,169	64,353	66,987
Current assets	38,046	72,653	38,643	304,180	342,536
Total assets	93,979	133,268	173,341	578,069	601,911
Current liabilities	35,070	59,428	32,803	190,851	95,869
Long-term liabilities	5,000	10,000	21,216	50,715	45,119
Total liabilities	40,070	69,428	54,019	241,566	140,988
Minority interests	—	—	—	120,752	107,821
Net assets	53,909	63,840	119,322	215,751	353,102

The net loss attributable to shareholders for each of the four years ended 31st December 2000, 2001, 2002 and 2003 and the shareholders' equity as at the respective balance sheet dates have been restated as a result of the change in the accounting policies for intangible assets in 2001. Loss before taxation and taxation for the year ended 31st December 2000 have not been restated for the continuing and discontinued operations as the directors consider this would involve extra costs and time to do so.