

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in wireless communication business, communication solutions consultancy services and Internet operations.

On 24 January 2003, a sale and purchase agreement was entered into between Asia Pacific Growth Fund III, L.P., i100 Capital Corporation, i100 Holdings Corporation, Landmark Profits Limited (a wholly-owned subsidiary of Easyknit International Holdings Limited ("Easyknit")) and Easyknit, pursuant to which Landmark Profits Limited agreed to purchase 609,000,000 shares of the Company of HK\$0.10 each. The completion of the above agreement took place on 28 January 2003 and the Company became a subsidiary of Easyknit. Easyknit is a company incorporated in Bermuda, whose shares are listed on the Stock Exchange and the Singapore Exchange Securities Trading Limited. Details of the above are set out, inter alia, in the announcement of the Company dated 6 February 2003.

As a result of two private placements of shares of the Company on 17 November 2003 and 22 December 2003, Easyknit's shareholding in the Company was reduced to approximately 35.9%.

2. CHANGE OF FINANCIAL YEAR-END DATE

On 1 September 2003, the board of directors of the Company resolved to change the financial year-end date of the Company from 31 December to 31 March to align the financial year-end date with that of Easyknit. The financial statements therefore cover a fifteen month period from 1 January 2003 to 31 March 2004. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve month period from 1 January 2002 to 31 December 2002 and therefore may not be comparable with amounts shown for the current period.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") 12 (Revised) issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from or up to the effective date of acquisition or disposal, as appropriate.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions since 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions since 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the period/year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Telecommunications revenue for services provided for fixed periods is recognised on a straight line basis over the respective periods. Other telecommunications revenue is recognised when products are delivered or services are rendered.

Sales of goods are recognised when goods are delivered and title has been passed.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Commission income is recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income is recognised on a straight line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20% - 33 $\frac{1}{3}$ %
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefits costs

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.

5. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group during the period/year. An analysis of the Group's turnover is as follows:

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Continuing operations:		
Wireless communication services	3,982	953
Communication solutions consultancy services	1,101	1,131
	<u>5,083</u>	<u>2,084</u>
Discontinued operations:		
Sales of sanitary fixtures and fittings	—	38,860
Sales of hardware, industrial and consumer products	—	20,258
Drainage, plumbing and engineering contracting services	—	9,152
	<u>—</u>	<u>68,270</u>
	<u>5,083</u>	<u>70,354</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three main operating divisions - wireless communication business, communication solutions consultancy services and Internet operations. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the fifteen months ended 31 March 2004

(i) Income statement

	Turnover	Segment result	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Continuing operations:			
Wireless communication business	3,982	(31,873)	
Communication solutions consultancy services	1,101	(2,856)	
Internet operations	—	(304)	
	5,083	(35,033)	
Segment result			(35,033)
Interest income			70
Allowance for amounts due from associates (<i>note</i>)			(317)
Unallocated corporate expenses			(19,882)
Loss from operations			(55,162)
Loss on disposal of subsidiaries			(539)
Finance costs			(1,960)
Share of results of an associate			(4)
Share of results of jointly controlled entities			(72)
Net loss for the period			(57,737)

Note: The amount is related to the segment of wireless communication business.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

For the fifteen months ended 31 March 2004 - *continued*

(ii) Balance sheet

	Wireless communication business	Communication solutions consultancy services	Internet operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Segment assets	76	59	2	137
Unallocated corporate assets				68,997
Consolidated total assets				<u>69,134</u>
LIABILITIES				
Segment liabilities	3,189	558	80	3,827
Unallocated corporate liabilities				7,242
Consolidated total liabilities				<u>11,069</u>

(iii) Other information

	Wireless communication business	Communication solutions consultancy services	Internet operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	12,125	—	—	12,125
Depreciation	5,863	434	198	6,495
Impairment loss in respect of property, plant and equipment	9,971	—	—	9,971
Impairment loss in respect of long term investments	3,900	—	—	3,900
Allowance for doubtful debts	1,045	110	—	1,155
Allowance for amounts due from associates	317	—	—	317
Impairment loss in respect of goodwill of subsidiaries	104	388	—	492
Loss (gain) on disposal of property, plant and equipment	323	58	(2)	379

In addition, allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary of the Company, amounting to HK\$3,297,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

For the year ended 31 December 2002

(i) Income statement

	External	Turnover Inter- segment	Total	Segment result	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:					
Wireless communication business	953	—	953	(29,704)	
Communication solutions consultancy services	1,131	480	1,611	(4,122)	
Internet operations	—	—	—	(598)	
Discontinued operations:					
Sanitary fixtures and fittings	38,860	26	38,886	443	
Hardware, industrial and consumer products	20,258	—	20,258	(926)	
Drainage, plumbing and engineering contracting services	9,152	—	9,152	(1,907)	
	<u>70,354</u>	<u>506</u>	<u>70,860</u>	<u>(36,814)</u>	
Eliminations	—	(506)	(506)	(180)	
	<u>70,354</u>	<u>—</u>	<u>70,354</u>	<u>(36,994)</u>	
Segment result					(36,994)
Interest income					1,624
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary (<i>note a</i>)					(42,115)
Unallocated corporate expenses					<u>(32,077)</u>
Loss from operations					(109,562)
Loss on disposal of discontinued operations					(4,615)
Finance costs					(37)
Share of results of an associate					(13,991)
Impairment loss recognised in respect of goodwill of an associate					(48,807)
Allowance for loans to an associate					(14,216)
Share of results of jointly controlled entities (<i>note b</i>)					<u>(65)</u>
Loss before taxation					(191,293)
Taxation					309
Loss before minority interests					(190,984)
Minority interests					<u>(440)</u>
Net loss for the year					<u><u>(191,424)</u></u>

Inter-segment sales are charged at prevailing market prices.

Notes:

- (a) The amount is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.
- (b) The amount is related to the segment of wireless communication business.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

For the year ended 31 December 2002 - *continued*

(ii) Balance sheet

	Wireless communication business	Communication solutions consultancy services	Internet operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Segment assets	4,696	1,980	342	7,018
Interests in jointly controlled entities	1,253	—	—	1,253
Unallocated corporate assets				11,597
Consolidated total assets				<u>19,868</u>
LIABILITIES				
Segment liabilities	3,207	2,035	88	5,330
Unallocated corporate liabilities				2,819
Consolidated total liabilities				<u>8,149</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

For the year ended 31 December 2002 - *continued*

(iii) Other information

	Continuing operations			Discontinued operations			Consolidated HK\$'000
	Communication		Internet operations	Sanitary fixtures and fittings	Hardware, industrial and consumer products	Drainage, plumbing and engineering contracting services	
	Wireless communication business	solutions consultancy services					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Amortisation of goodwill	—	97	—	—	—	—	97
Capital additions	3,550	107	20	809	95	—	4,581
Depreciation	6,973	613	512	819	244	4	9,165
Impairment loss in respect of property, plant and equipment	785	—	—	—	—	—	785
Allowance (write back of allowance) for doubtful debts	7,224	747	—	(2,032)	143	—	6,082
Deficit arising on revaluation of investment properties	—	—	—	—	350	—	350
Deficit arising on revaluation of leasehold land and buildings	—	—	—	158	—	—	158
Deficit on revaluation recognised directly in equity	—	—	—	—	37	—	37
Loss on disposal of property, plant and equipment	—	340	—	70	—	—	410
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

In addition, allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary of the Company, amounting to HK\$42,115,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

An analysis of the Group's turnover by geographical market for the period/year is as follows:

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Hong Kong	5,083	64,797
The People's Republic of China, excluding Hong Kong (the "PRC")	—	5,557
	<u>5,083</u>	<u>70,354</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Hong Kong	67,425	13,973	12,125	4,475
PRC	1,709	5,895	—	106
	<u>69,134</u>	<u>19,868</u>	<u>12,125</u>	<u>4,581</u>

7. OTHER OPERATING INCOME

An analysis of the Group's other operating income is as follows:

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Commission income	471	—
Interest income	70	1,624
Rental income	—	251
Others	168	523
	<u>709</u>	<u>2,398</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

8. DISCONTINUED OPERATIONS

- (a) On 4 May 2002, Acme Sanitary Ware Company, Limited (“ASW”), a former indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of ASW’s entire equity interest in Acme Sanitary Engineering Limited (“ASE”) at a consideration of HK\$2. This transaction was completed in year 2002, upon which the Group’s business of the provision of drainage, plumbing and engineering contracting services was discontinued.
- (b) On 29 May 2002, the Company entered into a share acquisition agreement with an independent third party for the disposal of the Group’s entire equity interest in Acme Landis Operations Holdings Limited (“ALOH”) at a consideration of HK\$1. This transaction was completed in year 2002 upon which ALOH ceased to be a subsidiary of the Company and the Group’s businesses relating to the distribution of sanitary fixtures and fittings, and a range of hardware, industrial and consumer products were discontinued.

The results of the discontinued operations for year 2002 were as follows:

	Sanitary fixtures and fittings HK\$'000	Hardware, industrial and consumer products HK\$'000	Drainage, plumbing and engineering contracting services HK\$'000	Eliminations HK\$'000	Total HK\$'000
Turnover	38,886	20,258	9,152	(26)	68,270
Cost of sales and services	(26,612)	(14,308)	(9,380)	26	(50,274)
Gross profit	12,274	5,950	(228)		17,996
Other operating income	1,326	513	—	(355)	1,484
Distribution costs	(4,353)	(1,622)	—	71	(5,904)
Administrative expenses	(9,623)	(5,117)	(1,679)	13	(16,406)
Other operating expenses	1,659	(506)	—	—	1,153
Profit (loss) from operations	1,283	(782)	(1,907)		(1,677)
Loss on disposal of subsidiaries	(6,355)	—	—	—	(6,355)
Finance costs	(171)	(9)	(127)	271	(36)
Loss before taxation	(5,243)	(791)	(2,034)		(8,068)
Taxation	(29)	(1)	—	—	(30)
Loss before minority interests	(5,272)	(792)	(2,034)		(8,098)
Minority interests	(443)	—	—	—	(443)
Net loss for the year	(5,715)	(792)	(2,034)		(8,541)

Note: The results covered a period from 1 January 2002 to the date of disposal of the discontinued operations.

The carrying amounts of the assets and liabilities of the discontinued operations at the date of disposal in year 2002 are set out in note 31.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

8. DISCONTINUED OPERATIONS - continued

The net cash flows of the discontinued operations attributable to the Group in year 2002 were as follows:

	Sanitary fixtures and fittings HK\$'000	Hardware, industrial and consumer products HK\$'000	Drainage, plumbing and engineering contracting services HK\$'000	Eliminations HK\$'000	Total HK\$'000
Net cash used in operating activities	(1,414)	(871)	(3,049)	271	(5,063)
Net cash from investing activities	988	49	—	—	1,037
Net cash from financing activities	2,176	445	—	(271)	2,350
Net cash inflow (outflow)	<u>1,750</u>	<u>(377)</u>	<u>(3,049)</u>	<u>—</u>	<u>1,676</u>

9. LOSS FROM OPERATIONS

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' remuneration (<i>note 11(a)</i>)	868	6,657
Other staff costs, including retirement benefits costs	11,869	32,922
Total staff costs	<u>12,737</u>	<u>39,579</u>
Amortisation of goodwill (<i>note</i>)	—	97
Auditors' remuneration	350	1,000
Cost of inventories recognised as an expense	378	40,765
Deficit arising on revaluation of investment properties	—	350
Deficit arising on revaluation of leasehold land and buildings	—	158
Depreciation	6,495	9,165
Impairment loss recognised in respect of goodwill of subsidiaries (<i>note</i>)	492	—
Loss on disposal of property, plant and equipment	379	410
Loss on waiver of amount due from a minority shareholder of a subsidiary (<i>note</i>)	117	—
Loss on waiver of loan to a jointly controlled entity (<i>note</i>)	7	—
	<u>12,737</u>	<u>39,579</u>

Note: The amounts are included in other operating expenses.

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For the fifteen months ended 31 March 2004

10. FINANCE COSTS

	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:		
- Easyknit Loan (see note 14(a))	1,515	—
- bank borrowings	—	37
- other borrowings	445	—
	1,960	37
	1,960	37

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	200	—
	200	—
Other emoluments paid to executive directors:		
Salaries and other benefits	664	6,593
Retirement benefits costs	4	64
	668	6,657
Total directors' emoluments	868	6,657

The emoluments of the directors fall within the following bands:

	Number of directors	
	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
Nil to HK\$1,000,000	15	8
HK\$2,000,001 to HK\$2,500,000	—	2
	15	10
	15	10

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included one director (1.1.2002 to 31.12.2002: two directors). The emoluments of the remaining four (1.1.2002 to 31.12.2002: three) highest paid individuals, not being directors, are as follows:

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Salaries and other benefits	4,028	4,773
Retirement benefits costs	62	35
Severance payments	37	—
	4,127	4,808
	4,127	4,808

Their emoluments were within the following bands:

	Number of employees	
	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$3,000,000	—	1
	4	3
	4	3

During the period/year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office.

No director waived any emoluments in the fifteen months ended 31 March 2004. For the year ended 31 December 2002, two directors waived portion of their emoluments totalling HK\$450,000.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

12. TAXATION

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
The amount comprises:		
Taxation (credit) charge attributable to the Company and its subsidiaries		
Hong Kong Profits Tax	—	189
Overprovision in prior years	—	(159)
	—	30
Share of taxation of an associate	—	(339)
	—	(309)
	—	(309)

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the fifteen months ended 31 March 2004.

Hong Kong Profits Tax for the year ended 31 December 2002 was calculated at 16% of the estimated assessable profit for that year.

The tax credit for the period/year can be reconciled to the results per the consolidated income statement as follows:

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Loss before taxation	(57,737)	(191,293)
Tax credit of Hong Kong Profits Tax at 17.5% (1.1.2002 to 31.12.2002: 16%)	(10,104)	(30,607)
Tax effect of share of results of associates	1	1,899
Tax effect of share of results of jointly controlled entities	13	11
Tax effect of income not taxable for tax purpose	(22)	(45)
Tax effect of expenses not deductible for tax purpose	3,575	20,553
Tax effect of tax losses not recognised	5,929	7,999
Overprovision in prior years	—	(159)
Others	608	40
	—	(309)
Tax credit for the period/year	—	(309)

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

13. LOSS PER SHARE

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

	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Loss for the purposes of basic loss per share	<u>(57,737)</u>	<u>(191,424)</u>
	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	<u>59,376,993</u>	<u>38,433,085</u>

The denominator for the purposes of calculating basic loss per share of year 2002 has been adjusted to reflect the consolidation of shares in September 2003 on the basis that forty shares were consolidated into one share and the rights issue of shares in September 2003 and March 2004.

The calculation of diluted loss per share has not been disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for both accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

14. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the period, the Group obtained a loan of HK\$30,270,000 from Planetic International Limited (the "Easyknit Loan"), a wholly-owned subsidiary of Easyknit, for working capital purposes. The loan was unsecured, bore interest at prevailing market rates and was repaid in full during the period. Interest paid by the Group during the period amounted to HK\$1,514,500.
- (b) The Group also had the following transactions with related parties in which certain former directors of the Company have beneficial interests:

	<i>Notes</i>	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Office rental expenses paid to Avon Limited	(i)	—	1,282
Warehouse rental expenses paid to:	(ii)		
Come Trend Limited		—	200
Chung Yuen Electrical Company Limited		—	200
Warehouse rental income received from			
Chung Yuen Electrical Company Limited	(ii)	—	100
		<u> </u>	<u> </u>

Notes:

- (i) The office expenses were calculated by the then directors by reference to open market rentals prevailing at the times when the tenancy agreements were entered into, as confirmed to the Group by a firm of independent professional valuers.
- (ii) The warehouse rental income and expenses were determined by the then directors by reference to open market rentals prevailing at the times when the tenancy agreements were entered into.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP			
COST			
At 1 January 2003	19,005	968	19,973
Additions	12,125	—	12,125
On disposal of subsidiaries	(1,202)	—	(1,202)
Disposals	(2,120)	(429)	(2,549)
At 31 March 2004	<u>27,808</u>	<u>539</u>	<u>28,347</u>
DEPRECIATION AND IMPAIRMENT LOSS			
At 1 January 2003	13,589	385	13,974
Provided for the period	6,360	135	6,495
Impairment loss recognised in the period	9,971	—	9,971
On disposal of subsidiaries	(815)	—	(815)
Eliminated on disposals	(1,729)	(214)	(1,943)
At 31 March 2004	<u>27,376</u>	<u>306</u>	<u>27,682</u>
NET BOOK VALUE			
At 31 March 2004	<u>432</u>	<u>233</u>	<u>665</u>
At 31 December 2002	<u>5,416</u>	<u>583</u>	<u>5,999</u>

During the period, the directors conducted a review of the Group's operating assets and determined that a number of those assets were impaired, due to the decrease in spending in the mobile communications market in Hong Kong which was contributed by the unfavourable overall economic conditions. Accordingly, an impairment loss of HK\$9,971,000 has been recognised in respect of furniture, fixtures and equipment. The impairment loss was recognised based on the recoverable amounts of furniture, fixtures and equipment which were determined by the estimated discounted net future cash flows from these assets. The carrying amounts of the furniture, fixtures and equipment were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

16. GOODWILL

	THE GROUP HK\$'000
COST	
At 1 January 2003	485
Arising on acquisition of a subsidiary	104
	589
At 31 March 2004	589
AMORTISATION AND IMPAIRMENT LOSS	
At 1 January 2003	97
Impairment loss recognised in the period	492
	589
At 31 March 2004	589
CARRYING AMOUNT	
At 31 March 2004	—
	388
At 31 December 2002	388

Goodwill is amortised over five years.

Impairment loss was recognised based on the recoverable amounts of the subsidiaries acquired which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates. The carrying amount of the goodwill was fully impaired in the fifteen months ended 31 March 2004.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	334,470	304,200
Less: Impairment loss recognised	(334,470)	(304,200)
	—	—
Amounts due from subsidiaries	2,116	2,136
	2,116	2,136
	2,116	2,136

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

Impairment loss was recognised based on the recoverable amounts of subsidiaries which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates. The carrying amount of the investments in subsidiaries was fully impaired during the fifteen months ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

17. INTERESTS IN SUBSIDIARIES - *continued*

Particulars of the Company's principal subsidiaries at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued share	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Copplestone Limited	Cayman Islands/ Hong Kong	Ordinary US\$42,880,770	100%	—	Investment holding
Castlebright Limited	Hong Kong	Ordinary HK\$2	—	100%	Provision of management services
Digital Empires Company Limited	Hong Kong	Ordinary HK\$100	—	100%	Provision of computer system consultancy services
Good Fine Technology Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless communication business, communication solutions consultancy services and Internet operations
i100 Wireless (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless data service provider

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the period or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Share of net assets	—	—
Loan to an associate	—	14,216
Less: Allowance	—	(14,216)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

	THE COMPANY	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Loan to an associate	—	12,429
Less: Allowance	—	(12,429)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

The loan to an associate was written off during the fifteen months ended 31 March 2004.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Share of net assets	—	1,231
Loan to a jointly controlled entity	—	22
	<u>—</u>	<u>1,253</u>
	<u>—</u>	<u>1,253</u>

During the period, a jointly controlled entity became a subsidiary of the Company (see note 30) and the remaining one was struck off.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

20. LONG TERM INVESTMENTS

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
Investment securities:		
Unlisted equity investments, at cost	3,900	3,900
Less: Impairment loss recognised	(3,900)	—
	<u>—</u>	<u>3,900</u>

Impairment loss was recognised based on the recoverable amounts of the long term investments.

21. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED (“ALOH”)

	THE GROUP		THE COMPANY	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000	31.3.2004 HK\$'000	31.12.2002 HK\$'000
Loan to ALOH	45,815	45,815	—	45,815
Less: Allowance	(45,412)	(42,115)	—	(42,115)
	<u>403</u>	<u>3,700</u>	<u>—</u>	<u>3,700</u>

The loan to ALOH is secured by a pledge given by the purchaser of ALOH in respect of 1,900,000 shares of the Company of HK\$0.10 each. The loan is interest-free and the principal of the loan will be reduced upon receipt of repayment from ALOH, or by the amount of the net proceeds of disposal of the secured shares at the prevailing market value, or upon the disposal of the last remaining shares, any principal outstanding will be reduced to zero.

During the fifteen months ended 31 March 2004, the loan to ALOH was assigned by the Company to a subsidiary at the carrying amount of the loan.

22. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
0 - 30 days	—	85
31 - 90 days	—	133
Over 90 days	—	1
	<u>—</u>	<u>219</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

23. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
0 - 30 days	—	4
Over 90 days	101	689
	<u>101</u>	<u>693</u>

24. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts were unsecured and non-interest bearing.

25. OTHER LOAN, SECURED

During the period, the Group obtained a loan of HK\$4,000,000 from an outside party. The loan bears interest at market rates and is repayable on demand. The loan is secured by charges over all issued shares of i100 Wireless Corporation, a wholly-owned subsidiary of the Company.

On 25 June 2004, the Group entered into a settlement agreement with the lender for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation to the lender.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

26. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 January 2002 and 31 December 2002		0.10	3,000,000,000	300,000
Effect of the First Reorganisation referred to below	(b)(i)		<u>27,000,000,000</u>	<u>—</u>
		0.01	30,000,000,000	300,000
Effect of the Share Consolidation referred to below	(c)		<u>(29,250,000,000)</u>	<u>—</u>
		0.40	750,000,000	300,000
Effect of the Second Reorganisation referred to below	(g)(i)		<u>2,250,000,000</u>	<u>—</u>
		0.10	3,000,000,000	300,000
Increase of authorised share capital	(g)(iii)		<u>3,500,000,000</u>	<u>350,000</u>
At 31 March 2004		0.10	<u><u>6,500,000,000</u></u>	<u><u>650,000</u></u>
Issued and fully paid:				
At 1 January 2002		0.10	1,001,873,000	100,187
Issue of new shares at a price of HK\$0.30 per share	(a)	0.10	<u>100,000,000</u>	<u>10,000</u>
At 31 December 2002		0.10	1,101,873,000	110,187
Reduction of share capital	(b)(ii)		<u>—</u>	<u>(99,168)</u>
		0.01	1,101,873,000	11,019
Effect of the Share Consolidation referred to below	(c)		<u>(1,074,326,175)</u>	<u>—</u>
		0.40	27,546,825	11,019

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

26. SHARE CAPITAL - *continued*

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Rights issue of shares at a price of HK\$1.00 per rights share	(d)	0.40	13,773,412	5,509
Issue of new shares by private placements	(e) & (f)	0.40	18,180,903	7,272
		0.40	59,501,140	23,800
Reduction of share capital	(g)(ii)		—	(17,850)
		0.10	59,501,140	5,950
Rights issue of shares at a price of HK\$0.25 per rights share	(h)	0.10	297,505,700	29,751
At 31 March 2004		0.10	357,006,840	35,701

Notes:

- (a) As announced by the Company on 4 June 2002, i100 Capital Corporation, a then substantial shareholder of the Company, conditionally agreed to place through its placing agents 124,000,000 then existing shares of HK\$0.10 each of the Company (the "2002 Placing Shares") and to subscribe for 100,000,000 new shares of HK\$0.10 each in the capital of the Company at a price equal to the price per each 2002 Placing Share (the "2002 Placing Price") net of all expenses incurred by i100 Capital Corporation. The 2002 Placing Price of HK\$0.30 per share represents a discount of approximately 24.1% to the closing price of HK\$0.395 per share quoted on the Stock Exchange on 3 June 2002, being the last full trading day of the Company's shares prior to the date of the announcement.

The placing agents were Sun Hung Kai International Limited, Luen Fat Securities Company Limited and Ever-Long Securities Company Limited. The 2002 Placing Shares were placed to not less than six placees. The placees and the placing agents are independent of, not connected with and not acting in concert with i100 Capital Corporation or its associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) or its concert parties. They are also independent of, not connected with and not acting in concert with the Company's then directors, chief executives or substantial shareholders, subsidiaries or any associates (as defined in the Listing Rules) or any of them. The 2002 Placing Shares represented approximately 12.4% of the then existing issued capital of the Company and approximately 11.3% of the Company's then enlarged capital. The net proceeds from the subscription of approximately HK\$27.5 million were used in the development of the wireless data service business and as general working capital.

The placement and the subscription were completed in June 2002. The interest of i100 Capital Corporation, together with parties acting in concert with it and their associates (as defined in the Listing Rules), in the then issued capital of the Company decreased from approximately 60.8% prior to the placement and the subscription to approximately 53.1% immediately after the placement and the subscription.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

26. SHARE CAPITAL - *continued*

- (b) In February 2003, the Company underwent a capital reorganisation (the "First Reorganisation"). Details of the First Reorganisation are set out in the circular dated 16 January 2003 issued by the Company.

At the special general meeting of the Company held on 7 February 2003, a special resolution approving the First Reorganisation was passed and the following capital reorganisation took effect on 10 February 2003:

- (i) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each;
 - (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each (the "First Capital Reduction");
 - (iii) the entire amount of HK\$255,030,000 standing to the credit of the share premium account of the Company was cancelled (the "Share Premium Cancellation"); and
 - (iv) the credit amounts arising from the First Capital Reduction and the Share Premium Cancellation were credited to the contributed surplus account of the Company where such amounts were utilised to eliminate the accumulated losses of the Company as at 31 December 2002 to the extent of HK\$353,484,000.
- (c) As announced by the Company on 1 August 2003, the Company proposed to effect a share consolidation pursuant to which every forty issued and unissued then existing shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each ("Share Consolidation"). Details of the Share Consolidation are set out in the circular dated 20 August 2003 issued by the Company. The ordinary resolution approving the Share Consolidation was passed at the special general meeting of the Company held on 8 September 2003.
- (d) Rights issue of 13,773,412 shares of HK\$0.40 each at a subscription price of HK\$1.00 per rights share were allotted on 25 September 2003 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held. The net proceeds of the rights issue were used for general working capital purposes.
- (e) As announced by the Company on 14 October 2003, the Company conditionally agreed to place through its placing agent, Get Nice Investment Limited, 8,264,047 new shares of HK\$0.40 each in the capital of the Company (the "2003 First Placing Shares") at a price of HK\$0.865 per share which represents a discount of approximately 19.9% to the closing price of HK\$1.08 per share quoted on the Stock Exchange on 13 October 2003, being the last full trading day of the Company's shares prior to the date of the announcement.

The 2003 First Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 First Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company's then enlarged capital. The net proceeds from the placement amounted to approximately HK\$6.9 million of which HK\$5.0 million was used for the partial repayment of the Easyknit Loan and the balance as general working capital.

The placement was completed in November 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

26. SHARE CAPITAL - *continued*

- (f) As announced by the Company on 27 November 2003, the Company conditionally agreed to place through its placing agent, Kingston Securities Limited, 9,916,856 new shares of HK\$0.40 each in the capital of the Company (the "2003 Second Placing Shares") at a price of HK\$0.865 per share which represents a discount of approximately 2.8% to the closing price of HK\$0.89 per share quoted on the Stock Exchange on 21 November 2003, being the last full trading day of the Company's shares prior to the date of the announcement.

The 2003 Second Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 Second Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company's then enlarged capital. The net proceeds from the placement amounted to approximately HK\$8.4 million of which HK\$4.0 million was used for the further repayment of the Easyknit Loan and the balance as general working capital.

The placement was completed in December 2003.

- (g) In March 2004, the Company underwent another capital reorganisation (the "Second Reorganisation"). Details of the Second Reorganisation are set out in the circular dated 10 February 2004 issued by the Company.

At the special general meeting of the Company held on 4 March 2004, resolutions approving the Second Reorganisation were passed and the following capital reorganisation took effect on 4 March 2004:

- (i) unissued shares of HK\$0.40 each in the authorised share capital of the Company were subdivided into four shares of HK\$0.10 each;
- (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.40 each to HK\$0.10 each (the "Second Capital Reduction");
- (iii) authorised share capital of the Company was increased from HK\$300,000,000 to HK\$650,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each; and
- (iv) the credit amount arising from the Second Capital Reduction was transferred to a capital reserve account of the Company where such amount may be applied in the future for distribution to the shareholders.
- (h) Rights issue of 297,505,700 shares of HK\$0.10 each at a subscription price of HK\$0.25 per rights share were allotted on 24 March 2004 to the shareholders of the Company in the proportion of five rights shares for every share then held. The net proceeds of the rights issue amounted to approximately HK\$73.2 million of which HK\$21,270,000 was used for repayment of the balance of the Easyknit Loan, HK\$50,000,000 for partial payment for the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited ("Po Cheong") from a wholly-owned subsidiary of Easyknit (see note 38(a)), and for general working capital purposes.

All shares issued rank *pari passu* with the then existing shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

27. SHARE OPTION SCHEMES

(a) Share option schemes of the Company:

On 21 August 1991, the Company approved a share option scheme (the "1991 Share Option Scheme") which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 22 May 2001 but the subsisting options granted thereunder prior to its termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, the Company approved a share option scheme (the "2001 Share Option Scheme") which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to the termination remain valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of the Company. Under the terms of the 2002 Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No share options have been granted under the 2002 Share Option Scheme since its adoption.

The 2002 Share Option Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of shares which may be issued under the 2002 Share Option Scheme must not (when aggregate with any shares subject to any other share option scheme of the Company) exceed 10% of the shares in issue at the date of adoption of the 2002 Share Option Scheme.

The maximum number of shares issuable under share options to each eligible participant in the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant to share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

The exercise period of the share options granted is determined by the board of directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of the Company in their absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company's shares on the date of offer, which must be a business day; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

The 2002 Share Option Scheme is valid during the period of 10 years commencing 6 June 2002, unless otherwise cancelled or amended.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

27. SHARE OPTION SCHEMES - *continued*

(a) Share option schemes of the Company: - *continued*

A summary of the movements of share options granted during the fifteen months ended 31 March 2004 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options (adjusted as appropriate)			Lapsed during the period	At 31 March 2004	Share price at grant date of options HK\$ (note iv)
					At 1 January 2003	Reclassification	Adjustments*			
Director	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	(25,000,000)	—	—	—	0.50
Employees	1991	2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	2,075,000	—	(245,000)	(1,830,000)	—	0.80
				20.00*	—	—	9,187	(1,687)	—	—
				3.333*	—	—	(7,500)	—	—	—
				3.333*	—	—	45,000	45,000	—	—
	1991	6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.47	290,000	—	—	(290,000)	—	0.56
	1991	26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	3,775,000	—	(275,000)	(3,500,000)	—	0.39
				10.267*	—	—	10,312	(937)	—	—
				1.711*	—	—	(9,375)	—	—	—
				1.711*	—	—	56,250	56,250	—	—
	2001	31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	7,068,000	—	(1,128,000)	(5,940,000)	—	0.50
				10.752*	—	—	42,300	(2,625)	—	—
				1.792*	—	—	(39,675)	—	—	—
				1.792*	—	—	238,050	238,050	—	—
	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	—	25,000,000	(25,000,000)	—	—	0.50
				10.752*	—	—	937,500	—	—	—
				1.792*	—	—	(937,500)	—	—	—
				1.792*	—	—	5,625,000	5,625,000	—	—
					38,208,000	—	(20,678,451)	(11,565,249)	5,964,300	

* The number of share options and the corresponding exercise price have been adjusted as a result of share consolidation and rights issue of shares of the Company during the fifteen months ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

27. SHARE OPTION SCHEMES - *continued*

(a) Share option schemes of the Company: - *continued*

A summary of movements of share options granted during the year ended 31 December 2002 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options			Share price at grant date of options HK\$ (note iv)	
					At 1 January 2002	Lapsed during the year	At 31 December 2002		
Director	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	—	25,000,000	0.50	
Employees	1991	2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	3,475,000	(1,400,000)	2,075,000	0.80	
	1991	6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.47	1,540,000	(1,250,000)	290,000	0.56	
	1991	26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	6,875,000	(3,100,000)	3,775,000	0.39	
	2001	31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	13,736,000	(6,668,000)	7,068,000	0.50	
					50,626,000	(12,418,000)	38,208,000		

Notes:

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.
- (iv) The share price at grant date of options represents the closing price of the Company's shares as stated on the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options.

No share options have been granted or exercised during both accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

27. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of subsidiaries:

(i) solution100 Corporation

On 22 May 2001, solution100 Corporation, a wholly-owned subsidiary of the Company, adopted a share option scheme under which options to subscribe for shares in the share capital of solution100 Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of solution100 Corporation since its adoption.

(ii) i100 Wireless Corporation

On 6 June 2002, i100 Wireless Corporation, a wholly-owned subsidiary of the Company, adopted a share option scheme pursuant to the then requirements of Chapter 17 of the Listing Rules and under which options to subscribe for shares in the share capital of i100 Wireless Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of i100 Wireless Corporation since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options in the period/year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

28. RESERVES

THE GROUP

The capital reserve of the Group represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Group represents the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to fully eliminate the accumulated losses of the Company.

THE COMPANY

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	237,549	—	46,962	(248,926)	35,585
Premium arising from issue of new shares	17,481	—	—	—	17,481
Net loss for the year	—	—	—	(159,231)	(159,231)
At 31 December 2002	255,030	—	46,962	(408,157)	(106,165)
Premium arising from issue of new shares	61,344	—	—	—	61,344
Reduction of share capital and share premium upon capital reorganisations (see note 26)	(255,030)	17,850	354,198	—	117,018
Elimination of accumulated losses	—	—	(353,484)	353,484	—
Net loss for the period	—	—	—	(44,255)	(44,255)
At 31 March 2004	61,344	17,850	47,676	(98,928)	27,942

The capital reserve of the Company represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the fair value of the subsidiaries' shares acquired under the group reorganisation in August 1991 and the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to fully eliminate the accumulated losses of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

28. RESERVES - *continued*

THE GROUP - *continued*

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company has no reserves available for distribution at 31 March 2004 and 31 December 2002.

29. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. Repayment of the amounts will not be made by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current liabilities in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

30. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES

In December 2003, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation ("Vector") for a cash consideration of approximately HK\$1.0 million. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	105
Inventories	—	52
Amounts due from shareholders	1,131	—
Trade and other receivables	—	436
Bank balances and cash	971	97
Trade and other payables	—	(672)
Minority interests	(209)	—
	1,893	18
Goodwill on acquisition	104	485
	1,997	503
Total consideration	1,997	503
Satisfied by:		
Cash	1,043	500
Reclassification of interest in a jointly controlled entity	954	—
Shares allotted	—	3
	1,997	503
	1,997	503
Net cash outflow arising on acquisition:		
Cash consideration paid	(1,043)	(200)
Bank balances and cash acquired	971	97
	(72)	(103)
Net cash outflow of cash and cash equivalents in respect of the purchase of a subsidiary/subsidiaries	(72)	(103)

In August 2002, the consideration of HK\$502,500 for the acquisition of subsidiaries was satisfied by cash of HK\$500,000 and the issuance of 2,500 ordinary shares at par value of HK\$1 each of solution100 Limited, a subsidiary of the Company. Cash consideration of HK\$200,000 was paid upon completion of the acquisition in year 2002 and the remaining balance of HK\$300,000 was paid in the fifteen months ended 31 March 2004.

The subsidiary acquired during the period did not have any significant impact on the results and cash flows of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

31. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS

In January 2003, the Group disposed of the entire issued shares in i100OnAir Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of US\$1. In February 2004, the Group also disposed of the entire issued shares of Golden Throne Holdings Limited and Rainer Capital Limited which were then wholly-owned subsidiaries of the Company for a cash consideration of HK\$10.

	1.1.2003	1.1.2002
	to	to
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	387	18,048
Investment properties	—	3,630
Long term investments	—	1,799
Inventories	—	20,736
Construction contracts	—	13,919
Trade and other receivables	443	35,153
Tax recoverable	—	323
Bank balances and cash	115	4,894
Loan from the Company	—	(53,000)
Trade and other payables	(404)	(31,360)
Bank borrowings other than bank overdrafts	—	(8,150)
Minority interests	—	(1,350)
	541	4,642
Exchange reserve realised on disposal of subsidiaries	(2)	—
Loss on disposal of subsidiaries/discontinued operations	(539)	(4,615)
Negative goodwill released from goodwill reserve	—	(27)
Total consideration	—	—
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	(115)	(4,894)

The subsidiaries disposed of during the period did not contribute to the Group's turnover but incurred loss from operations of approximately HK\$982,000.

Details of the subsidiaries disposed of in year 2002 are disclosed in notes 8(a) and 8(b).

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

32. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	THE GROUP		
	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002			
- as previously reported	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	791	(791)	—
	<hr/>	<hr/>	<hr/>
- as restated	791	(791)	—
(Credit) charge to income statement for the year	(432)	432	—
	<hr/>	<hr/>	<hr/>
At 31 December 2002	359	(359)	—
(Credit) charge to income statement for the period	(389)	389	—
Effect of change in tax rate	34	(34)	—
	<hr/>	<hr/>	<hr/>
At 31 March 2004	<u>4</u>	<u>(4)</u>	<u>—</u>

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
Deferred tax liabilities	4	359
Deferred tax assets	(4)	(359)
	<hr/>	<hr/>
	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

32. DEFERRED TAXATION - *continued*

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

	THE GROUP	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Tax losses	189,674	166,531
Others	2,179	2,155
	<u>191,853</u>	<u>168,686</u>

No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams. The tax losses at 31 March 2004 and 31 December 2002, which amounted to approximately HK\$4,105,000 and HK\$15,371,000 respectively, can only be carried forward for a maximum period of five years, other losses may be carried forward indefinitely.

The Company has unrecognised tax losses at 31 March 2004 and 31 December 2002. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

33. PLEDGE OF ASSETS

THE GROUP

At 31 March 2004, the entire issued share capital of i100 Wireless Corporation has been pledged to an outside party to secure the other loan of HK\$4,000,000 (see also notes 25 and 38(b)). There was no similar arrangement at 31 December 2002.

34. CONTINGENT LIABILITIES

	THE GROUP AND THE COMPANY	
	31.3.2004	31.12.2002
	HK\$'000	HK\$'000
Corporate guarantees given to banks in respect of credit facilities granted to ALOH and its subsidiaries	<u>—</u>	<u>87,100</u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

35. CAPITAL COMMITMENTS

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- acquisition of property, plant and equipment	9,923	—
- acquisition of the entire issued share capital of Po Cheong (see note 38(a))	65,000	—
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	20,904	24,238
	95,827	24,328
	95,827	24,328

The Company had no significant capital commitments at the balance sheet date.

36. OPERATING LEASE ARRANGEMENTS

	THE GROUP	
	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Minimum lease payments recognised in the consolidated income statement during the period/year	1,855	6,831
	1,855	6,831

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	31.3.2004 HK\$'000	31.12.2002 HK\$'000
Within one year	654	911
In the second to fifth year inclusive	1,695	—
Over five years	2,870	—
	5,219	911
	5,219	911

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

36. OPERATING LEASE ARRANGEMENTS - *continued*

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease terms ranging from two to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Company had no significant lease commitments at the balance sheet date.

37. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Prior to the MPF Scheme becoming effective, the Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") under the Occupational Retirement Schemes Ordinance, for those employees who were eligible to participate. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited contributions. With effect from 1 December 2000, the Group operates both schemes and those employees who are not eligible to participate in the ORSO Scheme are eligible to participate in the MPF Scheme.

The assets of both schemes are held separately from those of the Group in independently administered funds.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the period/year. The employers' contributions which have been dealt with in the income statement of the Group were as follows:

	THE GROUP	
	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Employers' contributions charged to the consolidated income statement	410	1,034

At the balance sheet date, there was no forfeited contributions available to reduce the contributions payable in the future years.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

38. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2004:

- (a) As announced by the Company on 5 March 2004, the Group conditionally agreed to purchase the entire issued shares of Po Cheong from a wholly-owned subsidiary of Easyknit at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was paid on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be payable after finalisation of the adjustment (as described in the circular of the Company dated 23 April 2004) in the mid of 2005. Details of the above are set out, inter alia, in the circular of the Company dated 23 April 2004.

At the special general meeting of the Company held on 10 May 2004, resolutions approving the acquisition of Po Cheong were passed.

- (b) On 25 June 2004, the Group entered into a settlement agreement with the lender of the other loan (see note 25) for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation to the lender. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business. Details of the above are set out in the announcement dated 14 July 2004 issued by the Company.