

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements should be read in conjunction with the 2003/2004 annual financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st March 2004.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

Income statement for the period ended 30th September

	Publishing and related business	Chinese information infrastructure	Investment holding	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2004				
Turnover	<u>22,581</u>	<u>174</u>	<u>–</u>	<u>22,755</u>
Segment results	<u>2,584</u>	<u>(17,633)</u>	<u>(40,272)</u>	(55,321)
Unallocated corporate expenses				<u>(18,069)</u>
Loss from operations				(73,390)
Finance costs				(5)
Share of result of associates	–	(3,025)	–	(3,025)
Share of result of a jointly controlled entity	–	(924)	–	(924)
Impairment loss in respect of goodwill reserve	–	(3,000)	–	<u>(3,000)</u>
Loss before tax				(80,344)
Taxation				<u>–</u>
Net loss for the period				<u>(80,344)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Publishing and related business HK\$'000	Chinese information infrastructure HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
2003				
Turnover	<u>18,596</u>	<u>1,242</u>	<u>–</u>	<u>19,838</u>
Segment results	<u>1,801</u>	<u>(13,510)</u>	<u>10,376</u>	<u>(1,333)</u>
Unallocated corporate expenses				<u>(15,238)</u>
Loss from operations				(16,571)
Finance costs				(5)
Share of result of associates	–	(5,735)	–	(5,735)
Share of result of a jointly controlled entity	–	(805)	–	(805)
Loss on deemed disposal of associates	–	(1,333)	–	<u>(1,333)</u>
Loss before tax				(24,449)
Taxation				<u>(1)</u>
Net loss for the period				<u>(24,450)</u>

Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC").

The following table provides an analysis of the Group's turnover and loss to operations by location of markets, irrespective of the origin of the goods/services:

	Turnover		Loss from operation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	<u>22,631</u>	<u>19,687</u>	<u>(67,473)</u>	<u>(10,925)</u>
PRC	<u>124</u>	<u>151</u>	<u>(5,917)</u>	<u>(5,646)</u>
	<u>22,755</u>	<u>19,838</u>	<u>(73,390)</u>	<u>(16,571)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. LOSS FROM OPERATIONS

	Six months ended 30th September,	
	2004	2003
	<u>HK\$'000</u>	<u>HK\$'000</u>
Loss from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	4,107	4,711
Bank interest income	<u>(165)</u>	<u>(202)</u>

5. FINANCE COSTS

The amount represents interest on bank borrowings wholly repayable within five years.

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003 : 17.5%) on the estimated assessable profit for the period.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$80,344,000 (2003: HK\$24,450,000) and the weighted average number of 3,333,928,137 (2003: 3,027,233,959) ordinary shares in issue during the period.

The computation of diluted loss per share for the periods ended 30th September, 2004 and 2003 does not assume the exercise of the Company's outstanding share options and warrants since their exercise would reduce net loss per share.

Dilutive loss per share for the period is not shown because the exercise of outstanding share options granted and warrants issued by the Company would have an anti-dilutive effect on the loss per share for the period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired equipment amounting to approximately HK\$1,618,000 (2003 : HK\$2,173,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. DEVELOPMENT COSTS

	30th September, 2004	31st March, 2004
	HK\$'000	HK\$'000
COST		
Balance at the beginning of the period	95,045	86,288
Additions	3,452	8,757
Balance at the end of the period	<u>98,497</u>	<u>95,045</u>
AMORTIZATION AND ACCUMULATED IMPAIRMENT LOSS		
Balance at the beginning of the period	49,488	30,782
Charged for the period	5,624	18,706
Balance at the end of the period	<u>55,112</u>	<u>49,488</u>
NET BOOK VALUE	<u>43,385</u>	<u>45,557</u>

Development costs represent expenditure incurred for the development of the Chinese information infrastructure. Such development costs are deferred and amortised over its estimated useful life range from two to five years from the date of commencement of commercial operations.

10. TRADE DEBTORS

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	30th September, 2004	31st March, 2004
	HK\$'000	HK\$'000
0 – 60 days	7,899	5,979
61 – 90 days	2,872	582
Over 90 days	1,558	4,418
	<u>12,329</u>	<u>10,979</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TRADE CREDITORS

The following is an aged analysis of trade creditors at the balance sheet date:

	30th September, 2004	31st March, 2004
	HK\$'000	HK\$'000
0 – 60 days	7,682	4,475
61 – 90 days	98	166
Over 90 days	847	841
	8,627	5,482

12. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments	Present value of minimum lease payments
	HK\$'000	HK\$'000
Amounts payable under a finance leases:		
Within one year	42	34
In the second to fifth years inclusive	42	33
	84	67
Less : future finance charges	(17)	–
Present value of lease obligation	67	67
Less : amount due from settlement within one year shown under current liabilities		(34)
Amount due after one year		33

The lease term in respect of the furniture and equipment under the finance lease is 5 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. SHARE CAPITAL

	Number of shares		Share capital	
	30th September, 2004 '000	31st March, 2004 '000	30th September, 2004 HK\$'000	31st March, 2004 HK\$'000
Ordinary shares of HK\$0.10 each, Authorized:	<u>6,000,000</u>	<u>4,000,000</u>	<u>600,000</u>	<u>400,000</u>
Issued and fully paid :				
At the beginning of the period	3,323,520	3,014,000	332,352	301,400
Exercise of share options	5,300	199,800	530	19,980
Exercise of warrants	<u>13,710</u>	<u>109,720</u>	<u>1,371</u>	<u>10,972</u>
At the end of the period	<u>3,342,530</u>	<u>3,323,520</u>	<u>334,253</u>	<u>332,352</u>

14. WARRANTS

On 6th June, 2003, the Company entered into a placing and underwriting agreement with a placing agent in relation to the private placing of 430,000,000 warrants ("2005 Warrants") conferring rights to subscribe up to HK\$70,950,000 in aggregate in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.165 per share during the period from 8 July 2003 to 7 July 2005, both days inclusive. The placing of 2005 Warrants was completed on 4th July, 2003.

The net proceeds of the placing of approximately HK\$24 million was intended to be used for general working capital of the Group.

On 30th September, 2004, the Company had 306,570,000 outstanding 2005 Warrants conferring rights to subscribe up to approximately HK\$50,584,050 in cash for shares of HK\$0.10 cash in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as of 30th September, 2004, result in the issue of 306,570,000 additional shares of HK\$0.10 each in the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. RESERVES

	Share premium	Contribution surplus	Goodwill reserve	Other reserve	Capital redemption reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2003	630,013	171,671	(62,948)	1,500	446	(307)	(679,567)	60,808
Exchange loss on translation of overseas operations not recognized in the income statement	-	-	-	-	-	170	-	170
Proceeds from issue of warrants, net of expenses	-	-	-	23,774	-	-	-	23,774
Exercise of warrants	7,132	-	-	-	-	-	-	7,132
Transfer from other reserve to share premium due to exercise of warrants	6,066	-	-	(6,066)	-	-	-	-
Exercise of share options	32,967	-	-	-	-	-	-	32,967
Impairment loss recognized (<i>note</i>)	-	-	6,000	-	-	-	-	6,000
Net loss for the year	-	-	-	-	-	-	(72,467)	(72,467)
At 31st March, 2004	676,178	171,671	(56,948)	19,208	446	(137)	(752,034)	58,384
Exchange loss on translation of overseas operations not recognized in the income statement	-	-	-	-	-	12	-	12
Exercise of warrants	891	-	-	-	-	-	-	891
Transfer from other reserve to share premium due to exercise of warrants	758	-	-	(758)	-	-	-	-
Exercise of share options	832	-	-	-	-	-	-	832
Impairment loss recognized (<i>note</i>)	-	-	3,000	-	-	-	-	3,000
Net loss for the period	-	-	-	-	-	-	(80,344)	(80,344)
At 30th September, 2004	678,659	171,671	(53,948)	18,450	446	(125)	(832,378)	(17,225)

Note: Due to continuous losses incurred by an associate, the directors recognized an impairment loss of HK\$3,000,000 in current period, while it was HK\$6,000,000 for the year ended 31st March 2004.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CONTINGENT LIABILITIES

- (a) At 30th September, 2004, the Company was cited as defendant in a court case in respect of claims amounting to approximately HK\$11,967,000 (2003: HK\$11,967,000) in relation to a guarantee given to the plaintiff. Based on the advice of its legal adviser, the directors are of the view that the Company has reasonable grounds to defense. Accordingly, no provision for this amount has been provided in the financial statements.
- (b) During the period, the Company and eForce Holdings Limited (“eForce”), on a joint and several basis, provided a guarantee to Transmeta Corporation (“Transmeta”) in respect of the payment obligations of service fees of China Ever Limited, a wholly-owned subsidiary of Chinese 2 Limited (Holdings) Limited, the associate of the Group. Pursuant to the agreement between the Company, eForce, China Ever Limited and Transmeta, China Ever Limited shall pay a service fee of US\$66,000 per month to Transmeta for a term of 20 months from 22nd November, 2003.

17. DISPUTE

In May 2003, Winway H.K. Investments Limited (“Winway”), a wholly owned subsidiary of the Company, has placed 300,000,000 shares (the “shares”) of Q9 Technology Holdings Limited (“Q9 Technology”) with TKR Finance Limited (“TKR Finance”) for safe custody and to facilitate management of such shares. In June 2004, Winway was informed by Q9 Technology that it had received a copy of the disclosure of interests form filed pursuant to the Securities and Futures Ordinance by the provisional liquidator of TKR Finance claiming security interests in the shares, of which Winway had no prior knowledge nor given any consent thereto. Upon receipt of such information, Winway had sought legal advice and had notified the provisional liquidator about its title in the shares and demanded the return of the shares from TKR Finance. Currently, Winway is positively seeking a feasible resolution and negotiating with the relevant parties to reclaim the shares. As at 30th September, 2004, the market value of the shares was approximately HK\$12.6 million.

18. CAPITAL COMMITMENTS

At the balance sheet date, the Company has no significant capital commitments.