

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

1. BASIS OF PREPARATION

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

In preparing the interim financial report, the Directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$123,930,000 as at 30 September 2004. On 29 March 2004, the Company entered into a conditional agreement with Paul Y. - ITC Construction Holdings Limited ("Paul Y") in relation to a restructuring proposal (the "Proposal"). The Proposal involves (i) a capital reorganisation which includes: (a) the cancellation of HK\$0.018 of the paid-up capital from the issued shares of the Company and reduction in the nominal value of each issued share from HK\$0.02 to HK\$0.002; (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company; (c) the subdivision of each authorised but unissued share into 10 reduced shares of HK\$0.002 each; (d) the consolidation of every 250 reduced shares of HK\$0.002 each into one consolidated share of HK\$0.5; and (e) the increase in the authorised share capital of the Company from HK\$140,000,000 to HK\$500,000,000 by the creation of an additional 720,000,000 consolidated share of HK\$0.5 each; (ii) an open offer to allow the shareholders of the Company to participate in the restructuring of the Group, the Company will make the open offer whereby qualifying shareholders will be offered five offer shares for every two consolidated shares on an assured basis held on 30 December 2004 ("Record Date") at HK\$1.00 per offer share; (iii) to acquire from Paul Y the entire issued share capital of, and shareholder's loans to, Paul Y. - ITC Construction Holdings (B.V.I.) Limited at a total consideration of HK\$400,000,000, to be satisfied by the issue of the consideration shares at HK\$1.00 per consolidated share; (iv) Paul Y conditionally agreed to acquire the entire issued share capital of Hidden Advantage Investments Limited ("Hidden") together with the outstanding loan from Wellington Equities Inc. for a total consideration of HK\$30,000,000, of which HK\$10,000,000 will be paid in cash and the remaining HK\$20,000,000 will be satisfied by the issue of 20,000,000 consolidation shares out of the Hidden consideration shares. To retire the Group's obligation in relation to the Lombard Asian Private Investment Company LDC. ("Lombard") Claim and to retire the Group's outstanding obligations under the Hidden Prior Agreements, the Company agreed to acquire from Paul Y the Hidden Interest at HK\$113.6 million which will be settled by the issue of the Hidden consideration shares at HK\$1.00 per consolidated share to Paul Y. Details of the Proposal are set out in the circular of the Company dated 30 November 2004 ("Circular").

The Proposal is expected to be completed by 17 January 2005. Provided that the Proposal can be successfully completed, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the interim financial report has been prepared on a going concern basis.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2004

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004, except as described below.

Investments in securities

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

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three main operating divisions, namely wholesaling, installation services and IT services. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

Wholesaling	–	wholesaling of building materials
Installation services	–	provision of installation services for marble and granite products
IT services	–	provision of IT services

Segment information about these businesses for the six months ended 30 September 2004 and 2003 is presented below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2004

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Income statement for the six months ended 30 September 2004:

	Wholesaling (unaudited) <i>HK\$'000</i>	Installation services (unaudited) <i>HK\$'000</i>	IT services (unaudited) <i>HK\$'000</i>	Consolidated (unaudited) <i>HK\$'000</i>
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REVENUE				
External sales	<u>6,088</u>	<u>343</u>	<u>–</u>	<u>6,431</u>
SEGMENT RESULT				
(Loss) profit from operations	(4,005)	165	(951)	(4,791)
Gain on deemed disposal of an associate				167
Finance costs				<u>(45)</u>
Loss before taxation				<u>(4,669)</u>

Income statement for the six months ended 30 September 2003:

	Wholesaling (unaudited) <i>HK\$'000</i>	Installation services (unaudited) <i>HK\$'000</i>	IT services (unaudited) <i>HK\$'000</i>	Consolidated (unaudited) <i>HK\$'000</i>
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REVENUE				
External sales	<u>415</u>	<u>642</u>	<u>–</u>	<u>1,057</u>
SEGMENT RESULT				
(Loss) profit before taxation	<u>(3,011)</u>	<u>7</u>	<u>(1,065)</u>	<u>(4,069)</u>

4. LOSS BEFORE TAXATION

Six months ended

30.9.2004	30.9.2003
(unaudited)	(unaudited)
<i>HK\$'000</i>	<i>HK\$'000</i>

Loss before taxation has been arrived at after (crediting)/charging:

Bad debt recovered	(165)	–
Interest on borrowing	<u>45</u>	<u>–</u>



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For the six months ended 30 September 2004

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the interim financial report as the Group had no assessable profit during both periods.

Nil provision for the period can be reconciled to the loss per the consolidated income statement as follows:

	Six months ended	
	30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
Loss before taxation	<u>(4,669)</u>	<u>(4,069)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(817)	(712)
Tax effect of income not taxable for tax purpose	(30)	–
Utilisation of tax losses previously not recognised	(25)	–
Tax effect of tax losses not recognised	<u>872</u>	<u>712</u>
Taxation for the period	<u>–</u>	<u>–</u>

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$4,669,000 (2003: HK\$4,069,000) and 4,507,099,957 ordinary shares in issue during both periods.

7. INTERESTS IN ASSOCIATES/INVESTMENTS IN SECURITIES

On 30 April 2004, the Group's interests in its principal associate, Cyber On-Air Group Company Limited, a company which is incorporated in Cayman Islands, was diluted from 27.5% to 0.18%. As a result, the amount was reclassified as investments in securities.

During the period, gain on deemed disposal of an associate of approximately HK\$167,000 was credited to the income statement.

8. PROVISION FOR GUARANTEE TO REPAY REDEMPTION SUM OF A SUBSIDIARY'S PREFERRED SHARES

On 24 October 2002, a winding up petition ("Petition") was served on the Company by Lombard alleging the failure of the Company to cause Skynet Limited ("Skynet") to pay the redemption amount of HK\$93.6 million for the convertible cumulative redeemable participative preferred shares of Skynet held by Lombard. The Petition was scheduled to be heard on 18 December 2002. On 30 October 2002, Lombard informed the Company that it would seek leave to withdraw the Petition filed against the Company and served another winding up petition ("New Petition") alleging the same on the Company. The hearing of the New Petition was scheduled to be heard on 15 January 2003 and was subsequently dismissed by the court on 29 March 2004. The amount of HK\$93.6 million has been fully provided in the financial statements.

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9. DEFERRED TAXATION

At 30 September 2004, the Group has unused tax losses of approximately HK\$429,599,000 (31.3.2004: HK\$424,266,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit stream.

10. CONTINGENT LIABILITIES

- (a) A subsidiary of the Company is a defendant in a lawsuit brought during 2002 claiming approximately HK\$1,733,000 relating to the outstanding sum of the contract works done by a sub-contractor, Swee Kheng & Aster Marble Company Limited ("Swee Kheng"). The subsidiary filed a defence and counterclaimed payment from Swee Kheng of a sum of approximately HK\$162,000. The subsidiary has contested the claim vigorously and no provision has been made in the financial statements.

- (b) The Company has given certain undertakings to Hidden, a minority shareholder of a subsidiary of the Group, that the return of Hidden's investment in that subsidiary would not be less than US\$16,000,000. There is a shortfall in the return of Hidden's investment. The compensation to Hidden in accordance with the agreement is estimated to be approximately HK\$10,576,000. The directors considered that the likelihood of compensation is remote and no provision is made accordingly.