THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Asia Alliance Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PO CHEONG INTERNATIONAL ENTERPRISES LIMITED

Independent Financial Adviser to the Independent Board Committee

Barits Securities (Hong Kong) Limited

A notice convening a special general meeting of Asia Alliance Holdings Limited to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Monday, 10 May, 2004 at 9:00 a.m. is set out on pages 134 and 135 of this circular. Whether or not they are able to attend the special general meeting, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the special general meeting or any adjourned meeting should they so wish.

* *For identification only*

23 April, 2004

CONTENTS

In this Circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition by Best Ability, a wholly-owned subsidiary of the Company and the sale by Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit, of the Po Cheong Sale Shares pursuant to the Sale and Purchase Agreement
"Announcement"	an announcement of the Company dated 5 March, 2004 in relation to the Acquisition
"associates"	the meaning ascribed thereto in the Listing Rules
"Barits"	Barits Securities (Hong Kong) Limited, a corporation deemed licensed under the SFO to carry out types 1 and 6 regulated activities (dealing in securities and advising on corporate finance), which is not a connected person (as defined in the Listing Rules) of the Company and which is the independent financial adviser to the Independent Board Committee
"Best Ability" or the "Purchaser"	Best Ability Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, the purchaser under the Sale and Purchase Agreement
"Board"	the board of Directors
"Company"	Asia Alliance Holdings Limited (formerly known as i100 Limited), an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Completion"	completion of the Sale and Purchase Agreement
"Consideration"	the consideration for the Po Cheong Sale Shares
"Directors"	the directors of the Company
"Easyknit"	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and on the Singapore Exchange Securities Trading Limited and the controlling shareholder of the Company, currently holding approximately 35.9% of the issued share capital of the Company

"Easyknit Directors"	the directors of Easyknit
"Easyknit Group"	Easyknit and its subsidiaries
"Easyknit International Trading Company" or the "Vendor"	Easyknit International Trading Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Easyknit, the vendor under the Sale and Purchase Agreement
"Easyknit Loan"	an interest-bearing loan originally of about HK$30.3 million extended by Easyknit to the Group in February 2003 which has been partially repaid and the outstanding balance of which was approximately HK$21.3 million as at 29 February, 2004 and has been fully repaid as at the Latest Practicable Date
"Enlarged Group"	the Group upon Completion
"February Circular"	the circular of the Company dated 10 February, 2004 in relation to, among other things, the Rights Issue
"GAAP"	Generally Accepted Accounting Practices in Hong Kong
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Kan Ka Hon and Mr. Kwong Jimmy Cheung Tim, duly appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Acquisition
"Independent Shareholder(s)"	Shareholder(s) other than Landmark Profits and its associates
"Landmark Profits"	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Easyknit
"Latest Practicable Date"	21 April, 2004, being the latest practicable date prior to the printing of this Circular for ascertaining certain information referred to in this Circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Po Cheong"	Po Cheong International Enterprises Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Easyknit
"Po Cheong Group"	Po Cheong and its subsidiary

"Po Cheong Sale Shares"	the entire issued share capital of Po Cheong
"PRC"	The People's Republic of China
"Rights Issue"	the rights issue of the Company, details of which were set out in the February Circular
"Rights Share(s)"	new Share(s) issued and allotted under the Rights Issue
"Sale and Purchase Agreement"	the sale and purchase agreement dated 5 March, 2004 between Best Ability and Easyknit International Trading Company in relation to the Acquisition
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held on Monday, 10 May, 2004 at which, amongst other things, a resolution will be proposed to approve the Acquisition
"Shareholders"	holders of Shares
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Share Option(s)"	outstanding share option(s) granted by the Company pursuant to the share option schemes of the Company adopted on 21 August, 1991 and 22 May, 2001 respectively
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	The United States of America
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%" or "per cent."	percentage or per centum

Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

Executive Directors:
Koon Wing Yee *(President and Chief Executive Officer)*
Tsang Yiu Kai *(Vice President)*
Lui Yuk Chu

Independent Non-Executive Directors:
Kan Ka Hon
Kwong Jimmy Cheung Tim

Principal place of business in Hong Kong:
7th Floor, Hong Kong Spinners Building, Phase 6
481-483 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

23 April, 2004

To the Shareholders, and
for information only, the holders of Share Options

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PO CHEONG INTERNATIONAL ENTERPRISES LIMITED

INTRODUCTION

On 5 March, 2004, Best Ability, a wholly-owned subsidiary of the Company, conditionally agreed to purchase all the issued shares of Po Cheong from Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing.

The Consideration, which amounts to HK$65 million, will be satisfied in cash.

Easyknit, through its wholly-owned subsidiary Landmark Profits, currently holds approximately 35.9% of the issued shares of the Company. Under the Listing Rules, the Acquisition constitutes a major and connected transaction for the Company and requires the approval of the Independent Shareholders by way of poll.

* *For identification only*

The Independent Board Committee, comprising Mr. Kan Ka Hon and Mr. Kwong Jimmy Cheung Tim, has been established to advise the Independent Shareholders in relation to the Acquisition. Barits has been appointed as the independent financial adviser to the Independent Board Committee.

The purpose of this Circular is to provide you with details of the Acquisition and to give notice to convene the SGM.

THE SALE AND PURCHASE AGREEMENT

Date

5 March, 2004

Parties

Purchaser:	Best Ability, a wholly-owned subsidiary of the Company
Vendor:	Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit, which is the controlling shareholder of the Company

Subject of the Sale and Purchase Agreement

The Po Cheong Sale Shares, representing the entire issued share capital of Po Cheong.

Easyknit warrants that the Po Cheong Sale Shares are free from any mortgage, claim, charge, lien, encumbrance, pledge or other security.

Consideration and payment terms

The Consideration is HK$65 million, subject to adjustment, which will be satisfied in cash, of which HK$50 million will be payable at Completion and the balance will be payable after finalisation of the Adjustment (as defined below).

Under an adjustment mechanism in the Sale and Purchase Agreement ("Adjustment"), the Vendor shall compensate the Purchaser an amount equivalent to the shortfall between HK$65 million and seven times of the audited consolidated net profit of Po Cheong Group for the financial year ending 31 March, 2005 (which is prospective). In the event that Po Cheong Group is loss-making in the financial year ending 31 March, 2005, the whole HK$50 million will be refunded by the Vendor to the Purchaser and the balance of the HK$15 million will not be payable.

However, if seven times the audited consolidated net profit of Po Cheong Group for the financial year ending 31 March, 2005 (which is prospective) is HK$65 million or more, the Purchaser will not be required to pay any excess amount to the Vendor.

The audited consolidated net profit of Po Cheong Group for the financial year ending 31 March, 2005 will be available no later than 90 days after 31 March, 2005. Concurrent with the release of the aforesaid results, the Company will make an announcement on whether the Adjustment will be applicable. The amount to be paid by the Vendor to the Purchaser under the Adjustment, if any, shall be paid within 10 business days after the release of the results and the announcement on the Adjustment.

The Directors consider that the terms of the Acquisition are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

The Consideration will be financed as to HK$50 million out of the net proceeds from the Rights Issue and as to the balance from internal financial resources of the Company. The Acquisition represents a new business opportunity for the Company of the type referred to under "Reasons for the Rights Issue and use of proceeds" in the February Circular.

The Consideration was arrived at after arm's length negotiations between Easyknit and the Company. In determining the Consideration, the Directors have considered the following factors:

(a) the monthly production output of Po Cheong Group has substantially increased and average output in January and February 2004 has almost doubled compared to the average output in the first half of 2003. This is due mainly to investments in new machinery as well as enhancement in production and marketing efforts as described in (b) below;

(b) the new team of production and sales managers and production workers brought in in mid 2003 has significantly enhanced production processes, quality and marketing efforts;

(c) the mechanism under the Adjustment which ensures the Consideration, on a price-earnings ratio basis, will not be more than seven times of the earnings of Po Cheong Group in the financial year ending 31 March, 2005;

(d) the positive outlook of the industry as further discussed in the section headed "Information on Po Cheong"; and

(e) the adjusted net asset value of Po Cheong Group is approximately HK$17.3 million as at 31 March, 2003 after taking into account the Loan Discharge (as defined below).

The Acquisition is an important transaction for the Group and is expected to help enhance its operations. The Consideration represents approximately 96.3% of the pro forma adjusted consolidated net tangible asset value of the Group after the Rights Issue.

The payment for the Consideration by the Company to Easyknit will be in two instalments, subject to the Adjustment and with the Adjustment in place, the Company will effectively acquire Po Cheong Group at a price-to-earnings ratio of seven times or less, which the Directors believe is attractive. The Po Cheong Group is expected to provide positive cash flow to the Group. The Directors have carefully considered the factors above and the benefits of the Acquisition as discussed in the section headed "Reasons for and Benefits of Acquisition to the Group" and believe that the Acquisition is in the interest of the Company. Having been advised by Barits, the independent non-executive Directors have also formed an opinion in relation to the Acquisition and their letter to the Independent Shareholders is set out in pages 13 and 14 of this Circular.

Conditions

The Completion is subject to the approval of the Acquisition by the Independent Shareholders by way of poll.

Completion

Completion is to take place on the third business day after all the conditions precedent of the Sale and Purchase Agreement have either been fulfilled or waived, as the case may be. It is expected that the Completion will take place on or before 31 May, 2004. If any of the conditions precedent to the Completion has not been fulfilled (or waived by the relevant parties) by 5:00 p.m. on 31 May, 2004 (or such other date as the parties to the Sale and Purchase Agreement may agree), the Sale and Purchase Agreement shall lapse.

INFORMATION ON PO CHEONG

Po Cheong, together with 東莞永耀漂染有限公司 (Dongguan Wing Yiu Bleaching and Dyeing Factory Limited), its wholly-foreign owned enterprise established in the PRC, is principally engaged in the business of bleaching and dyeing. Po Cheong Group commenced business in August 2001. Its factory, which employs about 190 employees, is located in Dongguan, the PRC and it currently has production capacity of about 10 million pounds of dyed fabrics per year.

The business of Po Cheong Group does not compete with the existing business activities of Easyknit Group (other than Po Cheong Group). Easyknit Group (other than Po Cheong Group) sources cotton-based knitted garments for women, children and infants from garment manufacturers in the PRC and exports to its customers, mainly in the US and Europe. It does not have any manufacturing activities. Po Cheong Group is not expected to have any transactions with members of the Easyknit Group (other than Po Cheong Group) after the Completion as Po Cheong Group sells mainly to garment manufacturers based in the PRC who are independent third parties.

Based on its audited financial statements, Po Cheong Group recorded turnover and net loss of about HK$29.8 million and HK$0.4 million respectively for the year ended 31 March, 2003 and turnover and net loss of about HK$7.8 million and HK$1.4 million respectively for the year ended 31 March, 2002. For the ten months ended 31 January, 2004, the audited turnover and net loss of Po Cheong Group amounted to about HK$46.7 million and HK$1.2 million respectively. Based on its audited accounts, Po Cheong Group had net liability position of about HK$1.9 million as at 31 March, 2003. Under the Sale and Purchase Agreement, Easyknit has agreed to release and discharge a loan it extended to the Po Cheong Group which outstanding amount was about HK$19.2 million as at 31 December, 2003 ("Loan Discharge"). Taking into consideration the Loan Discharge, the adjusted net asset value of Po Cheong Group as at 31 March, 2003 would be approximately HK$17.3 million.

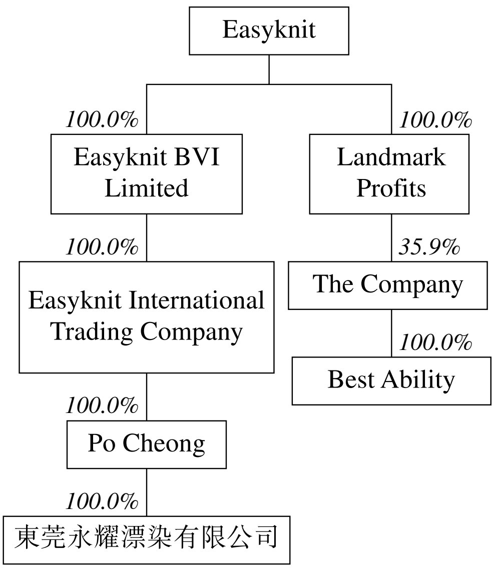
The garment manufacturing industry in the PRC has experienced strong growth in the past decade. According to the Asian Development Bank, the PRC's garment production represented approximately 17% of the world's total garment production in 2003 and it is expected to increase to 45% by 2005. The China National Textile Industry Council (the "Council") has reported that textile and garment exports grew over 27.7% in 2003 to approximately US$80.5 billion and generated approximately US$4.5 billion of net profit as compared to a net profit of approximately US$0.9 billion in 1999. The Council has set out long-term plans to increase fabric exports and enhance processing capacity of domestic producers such that textile and garment exports will reach US$100 billion by 2010. Based on the above, the Directors believe there are good prospects for the bleaching and dyeing business, which is a supporting industry to the garment manufacturing industry.

Since its commencement of business in August 2001, management of the Po Cheong Group has conducted various measures to train its workers and to fine-tune and improve the production process of the bleaching production and dyeing factory. In particular, a new team of production and sales managers and production workers was brought in in mid 2003 to replace employees whose performances were unsatisfactory and the new team has significantly enhanced the efficiency of the production process and therefore the quality of its products. In the past year, the Po Cheong Group has also invested about HK$5 million in new machinery, thereby increasing production capacity and enabling the Po Cheong Group to secure more orders from its customers. The improved efficiency, quality and increase in production capacity augmented with the Po Cheong Group's marketing efforts, has resulted in substantial increase in orders as evidenced by the substantial increase in its turnover. Turnover for the 10 months ended 31 January, 2004 was about HK$46.7 million, which is substantially higher even when compared with the full-year of approximately HK$29.8 million for the financial year ended 31 March, 2003.

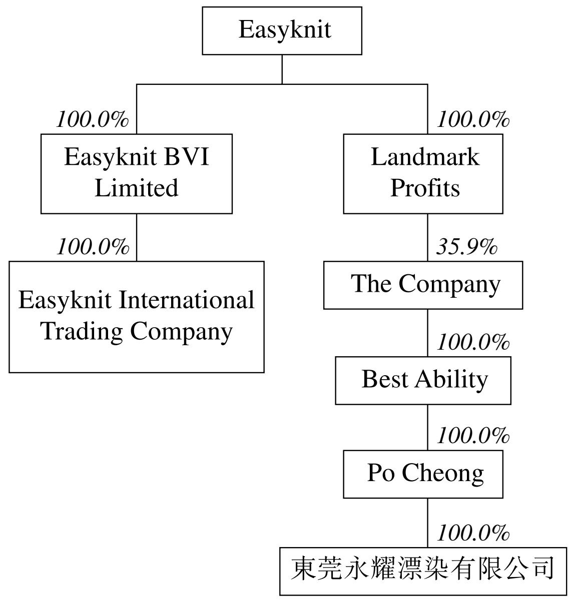
Based on the above and having considered the prospects of the overall industry, the Directors are of the view that despite having incurred losses in the year ended 31 March, 2003 and during the 10 months ended 31 January, 2004, the business of the Po Cheong Group is expected to experience further growth in the future as demonstrated by the increase in turnover, improved efficiency and intensive marketing efforts.

SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION

Before Completion



After Completion



REASONS FOR AND BENEFITS OF ACQUISITION TO THE GROUP

The Group is engaged in the wireless communication business, provision of communication solutions consultancy services, internet operations and trading of garments.

The existing wireless communication business of the Group continues to suffer substantial losses and the outlook remains uncertain. The Directors intend to continue the wireless communication business on a prudent basis while streamlining the operations. In view of such uncertainty, the Directors believe that it is in the interest of the Group to explore new investments and business opportunities and they have had preliminary negotiations with various parties. Having considered the financial position of the Group and having reviewed the status of the negotiations, the Directors have come to a conclusion that this is an opportune time to acquire the bleaching and dyeing business of Po Cheong Group as it is a stable business which the Company's management is familiar with and which would provide steady cash flow to the Group. The Acquisition will enhance the revenue base of the Group and diversify its sources of income.

USE OF PROCEEDS OF THE RIGHTS ISSUE

It was stated in the February Circular that the estimated net proceeds from the Rights Issue are expected to be between HK$73.2 million and HK$74.4 million. Out of such proceeds (i) approximately HK$22.0 million will be used to repay the Easyknit Loan; and (ii) the balance of approximately HK$51.0 million for general working capital. As at the Latest Practicable Date, the outstanding balance of the Easyknit Loan was fully repaid. It was previously stated that if there arise opportunities for possible new businesses or investments, the balance of the proceeds may be used for such purposes and the prospectus in respect of the Rights Issue stated that the proceeds may be used to acquire assets from Easyknit. It is the intention of the Directors that proceeds from the Rights Issue be applied for partial payment of the Consideration in respect of the Acquisition.

Since late 2003, the Company has concurrently had preliminary discussions with various parties on potential investment opportunities. Some of these projects have not been pursued as they were deemed unsuitable by the Directors while some negotiations are still ongoing but have not been finalised or reached the stage where public disclosure of their details would be appropriate.

Having considered the financial position of the Group, including the estimated net proceeds from the Rights Issue and having reviewed the status of the above negotiations with other parties, the Directors came to the conclusion that this is an opportune time to acquire a stable business, which the Company's management is familiar with, and which can provide steady cash flow to the Group.

BUSINESS OF EASYKNIT AND USE OF SALE PROCEEDS

Easyknit is an investment holding company and the Easyknit Group is principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, bleaching and dyeing, property investments and provision of wireless communication services. Easyknit's bleaching and dyeing business is conducted only through the Po Cheong Group and once Po Cheong is sold, Easyknit will no longer be in that business (except through its interest in the Company).

The Easyknit Group is expected to receive gross proceeds of about HK$65.0 million from the sale of Po Cheong. Out of such proceeds, the Easyknit Directors intend to apply approximately HK$22.0 million for repayment of Easyknit Group bank borrowings and the balance for general working capital purposes. It was stated in the Announcement that the Acquisition is not expected to have any material impact on the profit and loss account of Easyknit Group after the Completion as the Company will be treated as a subsidiary of Easyknit under the GAAP. The Easyknit Directors confirmed that such view was arrived at after due and careful enquiry, in reliance on advice of Easyknit's auditors as to the application of GAAP. The auditors of Easyknit informed the board of Easyknit that such view was primarily based on the fact that the majority of the Board comprised persons who were also executive Easyknit Directors.

The Easyknit Directors wish to clarify that subsequent to the Announcement, although there has not been any change in circumstances since the date of the Announcement to the date of this Circular, after further review of the circumstances, the Easyknit Directors and Easyknit's auditors consider that the initial view above is not correct and has to be revised as the substance of the relationship between Easyknit and the Company does not indicate that Easyknit controls the Company for accounting purposes. Consequently, the Easyknit Directors and Easyknit's auditors are of the view that as at the date of the Announcement, as at the date of this Circular and subsequent to the date of this Circular, save for any change in circumstances subsequent to this Circular (which is currently not expected to occur), the Company should be/will be accounted for as an associate of Easyknit under the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("SSAP").

Such view is based on the fact that (a) Easyknit owns less than half of the voting power of the Company; and (b) Easyknit does not "control", as defined in SSAP No.32 "Consolidated financial statements and accounting for investments in subsidiaries", the Company, notwithstanding the fact that the majority of the Board comprises persons who are also executive Easyknit Directors. Based on the revised view that the Company is an associate of Easyknit for accounting purposes, Easyknit will recognise a profit of approximately HK$30.6 million upon Completion.

Easyknit also confirms that, based on its legal advice, the Company was not as at the date of the Announcement, is not as at the date of this Circular and will not be subsequent to the date of this Circular, save for any change in circumstances subsequent to this Circular (which is currently not expected to occur), a subsidiary of Easyknit under Section 2 of the Companies Ordinance.

IMPLICATIONS UNDER THE LISTING RULES

Under the Listing Rules, the Acquisition constitutes a major transaction (but not a very substantial acquisition, as the assets to be purchased by the Company from Easyknit are all listed assets) for the Company. As Easyknit, through Landmark Profits, is interested in approximately 35.9% of the existing issued share capital of the Company as at the Latest Practicable Date, the Acquisition also constitutes a connected transaction for the Company and requires the approval of the Independent Shareholders by way of poll at the SGM. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Acquisition. Barits has been appointed as the independent financial adviser to the Independent Board Committee in this regard. Landmark Profits and its associates will abstain from voting in respect of the resolution to be proposed at the SGM to approve the Acquisition.

The Stock Exchange has stated that if there is less than 25% of the issued Shares in the public hands at any point in time, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in the public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, should there be insufficient public float for the Shares, trading in the Shares may be suspended until a sufficient level of public float is attained.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a document to its Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant.

SPECIAL GENERAL MEETING

A notice convening the SGM to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Monday, 10 May, 2004 at 9:00 a.m. is set out on pages 134 and 135 of this Circular for the purpose of considering and, if thought fit, passing an ordinary resolution at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy and return it to the Company's office at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

The Directors believe that the Acquisition is in the interests of the Company and the Shareholders as a whole and, accordingly, recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out in this Circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the letter of advice from Barits which contains its advice to the Independent Board Committee in relation to the Acquisition and the principal factors and reasons considered by Barits in arriving at its advice; (iii) information relating to the Group as set out in Appendix I to this Circular; (iv) financial information relating to the Po Cheong Group as set out in Appendix II to this Circular; and (v) general information as set out in Appendix III to this Circular.

Yours faithfully,
For and on behalf of the Board
Koon Wing Yee
President and Chief Executive Officer

Asia Alliance Holdings Limited
亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

23 April, 2004

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PO CHEONG INTERNATIONAL ENTERPRISES LIMITED

We refer to the circular dated 23 April, 2004 issued to the Shareholders (the "Circular") of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As non-executive Directors who are independent of the Vendor in the Acquisition and do not have any interest in the Acquisition, we have been appointed by the Board to advise you as to whether, in our opinion, the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders as a whole are concerned.

Barits has been appointed by the Company as the independent financial adviser to advise us regarding the fairness and reasonableness of the Acquisition. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out on pages 15 to 25 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the appendices to the Circular.

* *For identification only*

Having taken into account the terms and conditions of and information relating to the Acquisition and the principal factors and reasons considered by Barits as stated in its letter of advice as set out on pages 15 to 25 of the Circular, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of it are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Kan Ka Hon	**Kwong Jimmy Cheung Tim**
Independent Non-Executive Director	*Independent Non-Executive Director*

The following is the text of a letter of advice to the Independent Board Committee from Barits in respect of the Sale and Purchase Agreement prepared for the purpose of incorporation in this circular.

Barits Securities (Hong Kong) Limited
Room 3406, 34/F.
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

23 April 2004

To the Independent Board Committee of
Asia Alliance Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PO CHEONG INTERNATIONAL ENTERPRISES LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement, details of which are contained in the "Letter from the Board" as set out in this circular, of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in this circular.

Pursuant to the Listing Rules, the Acquisition constitutes a major transaction for the Company. The Vendor is a wholly-owned subsidiary of Easyknit which, through Landmark Profits, was currently interested in approximately 35.9% of the issued share capital of the Company. Accordingly, the Acquisition also constitute a connected transaction for the Company and is subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll.

The Board has appointed the independent board committee comprising the independent non-executive Directors, namely Mr. Kan Ka Hon and Mr. Kwong Jimmy Cheung Tim, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement. Barits has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee in this regard.

In formulating our recommendation, we have relied on the accuracy of the information and representation contained in this circular and the facts supplied, and the opinions expressed, to us by the Company and its directors and management. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have assumed that all information and representations made to us by the Company and its directors and management or referred to in this circular were true and accurate at the time they were made and continue to be true and accurate at the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its directors and management and have been confirmed by the Directors that no material facts have been omitted from the information provided and referred to in this circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group, the Po Cheong Group or the Vendor nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion with regard to the terms of the Sale and Purchase Agreement, we have taken into consideration the following factors:

(a) Background to and terms of the Sale and Purchase Agreement

On 5 March 2004, the Board announced that, on the same date, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase, free from all mortgages, claims, charges, liens, encumbrances, pledges or other securities, all the issued shares of Po Cheong, for a consideration of HK$65 million (subject to the Adjustment as defined below), which will be satisfied in cash, of which HK$50 million will be paid at Completion and the balance will be paid after finalisation of the adjustment mechanism as set out in the Sale and Purchase Agreement (the "Adjustment"). Further details in relation to the terms of the Sale and Purchase Agreement are contained in the "Letter from the Board" as set out in this circular.

(b) Business and recent performance of the Group and the Po Cheong Group

The Group

The Group is engaged in the wireless communication business, provision of communication solutions consultancy services, internet operations and trading of garments.

As stated in the annual reports of the Group for the year ended 31 December 2002, the business performance of the Group during 2002 was adversely affected by the unfavorable overall economic conditions. The mobile communication market in Hong Kong did not avoid the lackluster propensity to spend among customers. For the year ended 31 December 2002, the turnover of the Group decreased by approximately 64.5% to approximately HK$70.4 million when compared to that in year 2001. The decrease in turnover was mainly due to the disposal of the Group's entire shareholding in (i) Acme Sanitary Engineering Company Limited ("Acme Sanitary"); and (ii) Acme Landis Operations Holdings Limited ("Acme Landis") in May 2002. A loss on disposal of both Acme Sanitary and Acme Landis of approximately HK$4.6 million was recognised. For the same period of time, the net loss attributable to shareholders further deteriorated by approximately 61.6% to approximately HK$191.4 million. The net loss attributable to shareholders was mainly attributable to, among other things, the Group's poor operating results, the provisions for a loan to Acme Landis and impairment of goodwill relating to an associate amounting to approximately HK$42.1 million and HK$48.8 million, respectively, in year 2002. The outstanding loan balance due from Acme Landis as at 31 December 2002 was approximately HK$45.8 million, which was secured by a pledge given by the purchaser of Acme Landis of 1.9 million shares in the Company. The Directors considered that the provision for the loan to Acme Landis of approximately HK$42.1 million was made on a prudent basis by taking into consideration the market value of the 1.9 million pledged shares as at 31 December 2002. In addition, the Directors considered that the associate was unlikely to generate sufficient profit and cashflow in the near future to match the related goodwill because of the indefinite postponement of the proposed listing exercise of one of the subsidiaries of that associate. In this regard, an impairment of goodwill on acquisition of an associate which was previously eliminated against consolidated reserves was recognised and was charged to the profit and loss account, which amounted to approximately HK$48.8 million in year 2002. For the year ended 31 December 2002, the net loss of Acme Sanitary and Acme Landis were about HK$2.0 million and HK$6.5 million respectively.

According to the Group's published unaudited condensed consolidated interim results for the twelve months ended 31 December 2003, the Group recorded an unaudited turnover of approximately HK$5.1 million, representing a decrease of approximately 92.8% when compared to that for the corresponding period in year 2002. However, the unaudited net loss for the twelve months ended 31 December 2003 narrowed to approximately HK$46.8 million from approximately HK$191.4 million for the corresponding period in year 2002. The substantial decrease in turnover was mainly attributable to the disposal of Acme Sanitary and Acme Landis as discussed above. The improvement in net loss was mainly resulted from the non-recurrence of the provisions made in year 2002.

Due to the disposal of Acme Sanitary and Acme Landis as discussed above, both of which were major sources of revenue of the Group, the Group's turnover dropped significantly for each of the two years ended 31 December 2003. In order to provide a better view of the turnover generated from the major continuing business of the Group, we set out below the segment turnover (excluding inter-segment sales) of its major continuing business.

	Year ended 31 December		
	2003	**2002**	**2001**
	(Unaudited)	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Wireless communication business	3,982	953	—
Communication solutions consultancy services	1,101	1,131	10,275
Internet operations	—	—	1,966

From the table above, the turnover contributed by the communication solutions consultancy services continued to drop for each of the two years ended 31 December 2003. In addition, there was almost no revenue generated from internet operations for the years 2002 and 2003. The outlook for the wireless communication business remains uncertain. In view of the above and such uncertainty, the Directors believe that it is in the interest of the Group to explore new investments and business opportunities. We concur with the Directors' view that it is in the interest of the Group to explore new investments and business opportunities based on the financial performance of the Group as discussed above.

Po Cheong Group

Po Cheong Group, together with 東莞永耀漂染有限公司 (Dongguan Wing Yiu Bleaching and Dyeing Factory Limited), its wholly foreign owned enterprise established in the PRC, is principally engaged in the business of bleaching and dyeing. Po Cheong Group commenced business in August 2001. It has a factory, with about 190 employees, located in Dongguan, the PRC, and which has production capacity of about 10 million pounds of dyed fabrics per year.

As set out in "Appendix II — Financial Information of the Po Cheong Group" in this circular, for the year ended 31 March 2003, the Po Cheong Group recorded an audited turnover of approximately HK$29.8 million, representing an increase of approximately 281.1% when compared to that for the period ended 31 March 2002. In addition, its net loss narrowed to approximately HK$0.4 million from HK$1.4 million for the period ended 31 March 2002. Furthermore, based on its audited accounts, Po Cheong Group had a net liability position of approximately HK$1.9 million as at 31 March 2003. Under the Sale and Purchase Agreement, Easyknit has agreed to release and discharge a loan it extended to the Po Cheong Group, of which the outstanding amount was approximately HK$19.2 million as at 31 December 2003 ("Loan Discharge"). Taking into consideration the Loan Discharge, the adjusted net asset value of Po Cheong Group as at 31 March 2003 would be approximately HK$17.3 million. For the ten months ended 31 January 2004, Po Cheong Group recorded an audited turnover of approximately HK$46.7 million. The Directors were informed by the Easyknit Directors that the substantial increase of turnover was mainly due to the improved efficiency, quality and an increase in production capacity augmented by the Po Cheong Group's marketing efforts, which resulted in substantial increase in orders from customers. In addition, Po Cheong Group recorded a net loss of approximately HK$1.2 million for the ten months ended 31 January 2004.

As stated in the "Letter from the Board", the garment manufacturing industry in the PRC has experienced strong growth in the past decade. According to the Asian Development Bank, the PRC's garment production represented approximately 17% of the world's total garment production in 2003 and it is expected to increase to 45% by 2005. The China National Textile Industry Council (the "Council") has reported that textile and garment exports grew over 27.7% in 2003 to approximately US$80.5 billion and generated approximately US$4.5 billion of net profit as compared to a net profit of approximately US$0.9 billion in 1999. The Council has set out long-term plans to increase fabric exports and enhance processing capacity of domestic producers such that textiles and garments export will reach US$100 billion by 2010.

Based on the above and having considered the prospects of the overall industry, the Directors are of the view that despite having incurred losses for the year ended 31 March 2003 and the ten months ended 31 January 2004, the business of the Po Cheong Group is expected to experience further growth in the future as demonstrated by the increase in turnover, improved efficiency and intensive marketing efforts.

(c) **Reasons for and benefits of the Acquisition**

Given that the existing wireless communication business, communication solutions consultancy services and internet operations of the Group continue to suffer substantial losses and their outlook remains uncertain, the Directors intend to continue the above businesses on a prudent basis while streamlining the operations. In view of such uncertainty, the Directors believe that it is in the interest of the Group to explore new investments and business opportunities and they have had preliminary negotiations with various parties. Having considered the financial position of the Group and having reviewed the status of the negotiations, the Directors have come to a conclusion that this is an opportune time to acquire the bleaching and dyeing business of Po Cheong Group as it is a stable business which the management of the Company is familiar with. In addition, the Directors believe that Po Cheong Group would provide steady cash flow to the Group. The Acquisition will enhance the revenue base of the Group and diversify its source of income.

We consider that the Acquisition is in line with the Group's strategies to capture potential opportunities to diversify its business portfolio and expand its sources of income. In light of the financial performance of Po Cheong Group, details of which are set out under the section headed "Business and recent performance of the Group and the Po Cheong Group" above, we concur with the Directors' view that the Acquisition would enhance the revenue base of the Group and diversify its source of income.

(d) **Basis of the Consideration**

We note from the "Letter from the Board" that the Consideration was arrived at after arm's length negotiations between Easyknit and the Company. In determining the Consideration, the Easyknit Directors and the Directors have considered the following factors:

(a) the monthly production output of Po Cheong Group has substantially increased and average output in January and February 2004 has almost doubled compared to the average output in the first half of 2003. This is due mainly to investments in new machinery as well as enhancement in production and marketing efforts described in (b) below;

(b) the new team of production and sales managers and production workers brought in mid 2003 has significantly enhanced production processes, quality and marketing efforts;

(c) the mechanism under the Adjustment which ensures the Consideration, on a price-earnings ratio basis, will not be more than seven times of the earnings of Po Cheong Group in the financial year ending 31 March 2005 (which is prospective);

(d) the positive outlook of the industry as discussed under the section headed "Business and recent performance of the Group and the Po Cheong Group"; and

(e) the adjusted net asset value of Po Cheong Group is approximately HK$17.3 million as at 31 March 2003 after taking into account the Loan Discharge.

The Consideration is HK$65 million (subject to the Adjustment as defined above), which will be satisfied in cash, of which HK$50 million will be paid at Completion and the balance will be paid after finalisation of the Adjustment (as defined above).

Under the Adjustment (as defined above), the Vendor shall compensate the Purchaser an amount equivalent to the shortfall between HK$65 million and seven times of the audited consolidated net profit of the Po Cheong Group for the financial year ending 31 March 2005 (which is prospective). In the event that the Po Cheong Group is loss making for the financial year ending 31 March 2005 (which is prospective), the whole HK$50 million will be refunded by the Vendor to the Purchaser and the balance of HK$15 million will not be paid by the Purchaser.

However, if seven times of the audited consolidated net profit of Po Cheong Group for the financial year ending 31 March 2005 (which is prospective) is more than HK$65 million, the Purchaser will not be required to pay any excess amount to the Vendor. As such, the Company will effectively acquire Po Cheong Group at a price-to-earnings ratio of seven times or less, which the Directors believe that it is attractive and in the interest of the Company.

In assessing the reasonableness of the Consideration, we have identified five companies listed on the main board of the Stock Exchange that are principally engaged in the provision of dyeing and/or bleaching services in the textile industry (the "Comparable Companies"). We consider the comparison of the price-earnings ratio an appropriate method to evaluate the value of companies with similar businesses as Po Cheong Group. The respective price-earnings ratio of the Comparable Companies, based on the closing price per share of each of the Comparable Companies as at the Latest Practicable Date and the respective audited earnings per share as set out in their respective latest published annual reports, are set out as below:

Company Name	Major business	Turnover for the latest published annual financial statement *(HK$'million)*	Principal customers	Year of establishment	Price-earnings ratio as at Latest Practicable Date *(times)*
Fountain Set (Holdings) Limited	Manufacture and sale of knitted fabrics, sewing threads, dyed yarns, and garment, and provision of knitting, dyeing, printing and fabric finishing services and trading of raw yarns	5,546.4	Hong Kong, U.S., Europe, Taiwan and the PRC	1969	14.0
Victory City International Holdings Limited	Production and sale of finished knitted fabric and trades garment products	1,249.0	Hong Kong, U.S. and the PRC	1983	14.9
Kwong Hing International Holdings (Bermuda) Limited	Manufacture and sale of knitted fabrics and dyed yarns, and provision of bleaching, dyeing, finishing, and setting services	353.3	Mainly in U.S.	1991	28.3
Huafeng Textile International Group Limited	Provision of fabrics processing services covering bleaching and dyeing	338.5	Philippines, Asia and Hong Kong	1988	7.4

Company Name	Major business	Turnover for the latest published annual financial statement *(HK$'million)*	Principal customers	Year of establishment	Price-earnings ratio as at Latest Practicable Date *(times)*
Ching Hing Holdings Limited	Provision of fabrics processing services including dyeing, printing, and finishing and sale of cotton fabric and garments	238.5	U.S., Hong Kong and the PRC	1975	N/A*
Average					12.92
Po Cheong Group	Bleaching and dyeing	29.8	Hong Kong and the PRC	2001	7.0

Source: Bloomberg (for closing price per share of each of the Comparable Companies as at Latest Practicable Date) and annual reports of each of the Comparable Companies (for the audited earnings per share).

* *Ching Hing Holdings Limited incurred a net loss of about HK$6.7 million for the year ended 31 December 2002.*

Since the Purchaser will not be required to pay any excess amount to the Vendor if seven times of the audited consolidated net profit of Po Cheong Group for the financial year ending 31 March 2005 (which is prospective) is more than HK$65 million (subject to the Adjustment as defined above), the Company will effectively acquire Po Cheong Group at a price-to-earnings ratio of seven times or less under the Adjustment. As illustrated in the above table, the maximum price-to-earnings ratio for the Acquisition of seven times falls below the range between approximately 7.4 times and 28.3 times of the Comparable Companies, and is also below the average of approximately 12.92 times of the Comparable Companies.

Having carefully considered the factors above and the benefits of the Acquisition as discussed under the section headed "Reasons for and Benefits of the Acquisition", the Directors believe that the Acquisition is in the interest of the Company and its shareholders, and we concur with the Directors' view that the Acquisition and the Consideration are fair and reasonable insofar as the Independent Shareholders are concerned. We are of the view that the Adjustment (as defined above) represents a reasonable adjustment mechanism for the Consideration and is in the interests of the Company and its shareholders.

(e) **Funding for the consideration**

As stated in the February Circular that the estimated net proceeds from the Rights Issue are expected to be between HK$73.2 million and HK$74.4 million, out of such proceeds, approximately HK$51.0 million will be used for general working capital. If there arise opportunities for possible new businesses or investments, including the expansion of garment trading business which commenced in October 2003, the working capital will be used for such purposes. It is the intention of the Directors that the Consideration will be satisfied as to HK$50.0 million by the general working capital from the Rights Issue and the balance from internal resources. The Directors are of the opinion that the Group will have sufficient working capital to satisfy the funding requirements. The Acquisition will not have any material adverse effect on the Group's working capital position.

(f) **Financial effects from the Acquisition on the Group**

(i) *Net asset*

As set out in the "Pro forma statement of unaudited assets and liabilities of the Enlarged Group" in Appendix I to this Circular, the unaudited consolidated net asset value of the Group as at 31 December 2003 after the Rights Issue and before the Acquisition would be approximately HK$67.5 million and immediately upon completion of the Acquisition, the unaudited consolidated net asset value of the Enlarged Group would remain unchanged.

(ii) *Earnings*

The consolidated net loss attributable to shareholders of the Group for the year ended 31 December 2002 and the unaudited condensed consolidated interim results for the twelve months ended 31 December 2003 was approximately HK$191.4 million and HK$46.8 million, respectively. The Directors expect that the earnings potential of the Group to benefit from the Po Cheong Group's contribution upon completion of the Acquisition. In 2003, Po Cheong Group had invested about HK$5 million in new machinery, thereby increasing production capacity and enabling the Po Cheong Group to secure more orders from its customers. In mid-2003, a new team of production and sales managers and production workers was brought to replace employees whose performances were unsatisfactory and the new team has significantly enhanced the efficiency of the production process and therefore the quality of its products. The improved efficiency, quality and increase in production capacity augmented with the Po Cheong Group's marketing efforts has resulted in substantial increase in orders as evidenced by the substantial increase in its turnover, where audited turnover increased by approximately 56.7% from approximately HK$29.8 million for the year ended 31 March 2003 to approximately HK$46.7 million for the ten months ended 31 January 2004. The Directors expect the performance of Po Cheong Group to continue to improve as it better position itself to capture the rapid growth of the garment industry.

Pursuant to the Sale and Purchase Agreement, the Vendor shall refund the whole HK$50 million to the Purchaser in the event that Po Cheong Group is loss making for the financial year ending 31 March 2005 (which is prospective) and the balance of the HK$15 million will not be paid by the Purchaser.

The Directors have advised that according to the statement of pro forma unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated net asset value of the Group as at 31 December 2002 as set out in Appendix I to this Circular, the amount of goodwill arising from the Acquisition is estimated to be approximately HK$50.0 million. The Directors have advised that currently they do not make a decision on the accounting treatment for the goodwill. However, they have advised that, according to Statements of Standard Accounting Practice 30 "Business Combinations" issued by the Hong Kong Society of Accountants, the amount of goodwill can normally be amortised over a period not exceeding 20 years from initial recognition. Should the amount of goodwill be amortised over a period of 20 years, approximately HK$2.5 million per annum will be written off against the profit and loss account of the Group for the coming years on the basis of a Consideration of HK$65 million.

(iii) *Gearing ratio*

The table below sets out, for illustrative purpose only, the pro forma effects of the Rights Issue and the Acquisition on the Group's gearing level on a consolidated basis as at 31 December 2003.

	Unaudited consolidated balance sheet of the Group as at 31 December 2003	**Estimated net proceeds of the Rights Issue**	**Unaudited consolidated balance sheet of the Group as at 31 December 2003 after the Rights Issue and before the Acquisition**	**Unaudited consolidated balance sheet of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total debt	25,270	—	4,367	13,867
Shareholders' equity	(5,603)	73,113	67,510	67,510
Gearing ratio (total debt to shareholders' equity)	N/A	—	6.5%	20.5%

As at 31 December 2003, the Group had a net deficit position of approximately HK$5.6 million. As disclosed in the February Circular, HK$22 million out of the net proceeds of the Rights Issue will be used to repay the Easyknit Loan. As such, the shareholders' equity and the total debts after the completion of the Rights Issue would be increased to approximately HK$67.5 million and decreased to approximately HK$4.4 million respectively, and thus the gearing ratio would be approximately 6.5%. Upon Completion, on a pro forma basis, the Acquisition would have resulted in an increase in the Group's gearing ratio from approximately 6.5% to approximately 20.5%.

(iv) *Cash balance and working capital*

As stated in the unaudited interim results for the twelve months ended 31 December 2003, the cash position represented by cash and cash equivalent of the Group is approximately HK$17.8 million. The Directors believe that the immediate net cash flow effect from the Acquisition will be immaterial, taking into account of the consideration for the Acquisition of HK$65 million (subject to the Adjustment as defined above) from which HK$50 million will be financed by the net proceeds from the Rights Issue and to the balance by internal financial resources. The Directors are of the opinion that after the finalisation of the Adjustment and after taking into account the enlarged internally generated funds from the fund raising exercises in year 2003, the Group will have sufficient working capital to satisfy the funding requirements. The Acquisition is not expected to have any material adverse effect on the Group's working capital position.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders as a whole are concerned and are in the interest of the Company. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution in relation to the Sale and Purchase Agreement to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Barits Securities (Hong Kong) Limited
Terence Hong **Alfred Wong**
Executive Director *Director*

1. DIRECTORS

Particulars of Directors

Name	Address
Executive Directors:	
Koon Wing Yee	No. 11 Keng Hau Road Shatin New Territories Hong Kong
Tsang Yiu Kai	House B, Richwood Park 33 Lo Fai Road Tai Po, New Territories Hong Kong
Lui Yuk Chu	No. 11 Keng Hau Road Shatin New Territories Hong Kong
Independent Non-Executive Directors:	
Kan Ka Hon	Unit GB, No. 11 La Serene Discovery Bay New Territories Hong Kong
Kwong Jimmy Cheung Tim	Flat 15C, Block 1 Ronsdale Garden 25 Tai Hang Drive Hong Kong

Executive Directors

Koon Wing Yee, aged 47, is an executive Director and the President and Chief Executive Officer of the Company. Mr. Koon is also a co-founder of Easyknit and its subsidiaries ("Easyknit Group") and an executive director and the President and Chief Executive Officer of Easyknit. He has been involved in the textiles industry for more than 26 years. He is the husband of Ms. Lui Yuk Chu (who is also an executive Director). Mr. Koon is responsible for the overall management and development of the Easyknit Group. Mr. Koon was awarded the "Young Entrepreneur Award" in Hong Kong in December 1994 for his outstanding achievements as an entrepreneur. Mr. Koon joined the Group in March 2003.

Tsang Yiu Kai, aged 52, is an executive Director, the Vice President and company secretary of the Company. Mr. Tsang is also an executive director, the Vice President and company secretary of Easyknit and is responsible for the corporate affairs, finance and general management of the Easyknit Group. Mr. Tsang holds a Diploma in Accountancy from The Hong Kong Baptist University (formerly known as The Hong Kong Baptist College) and he is a fellow member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Mr. Tsang has about 28 years of working experience. Mr. Tsang joined the Group in March 2003.

Lui Yuk Chu, aged 46, is an executive Director of the Company. Ms. Lui is a co-founder and an executive director of Easyknit. She is the wife of Mr. Koon Wing Yee. She has been involved in the textiles industry for more than 26 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. Ms. Lui joined the Group in March 2003.

All of the executive Directors were appointed to the Board in March 2003.

Independent Non-Executive Directors

Kan Ka Hon, aged 53, was appointed to the Board in April 2003. Mr. Kan holds a Bachelor Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants in the United Kingdom and a member of The Hong Kong Society of Accountants. Mr. Kan has 29 years of experience in accounting. Mr. Kan is an executive director of Chevalier International Holdings Limited and Chevalier iTech Holdings Limited. He is also an independent non-executive director of Victory City International Holdings Limited.

Kwong Jimmy Cheung Tim, aged 61, was appointed to the Board in April 2003. Mr. Kwong graduated from The University of Hong Kong in 1965 and was admitted as Barrister-at-law in the United Kingdom in 1970 and Hong Kong in 1973 respectively. Mr. Kwong has over 30 years of experience in the legal field and is now a practising Barrister.

2. CORPORATE INFORMATION

Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Principal place of business	7th Floor, Hong Kong Spinners Building Phase 6, 481-483 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Company secretary	Tsang Yiu Kai FHKSA, FCCA, AHKIT, CGA and CPA
Authorised representatives	Koon Wing Yee Tsang Yiu Kai
Legal advisers to the Company	*On Hong Kong law:* Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong *On Bermuda law:* Appleby Spurling Hunter 5511 The Center 99 Queen's Road Central Central Hong Kong
Auditors	Deloitte Touche Tohmatsu *Certified Public Accountants* 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Registrar and transfer office in Hong Kong	Secretaries Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Principal share registrar and transfer office in Bermuda	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda

Principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

3. SHARE CAPITAL AND SHARE OPTIONS

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		HK$
Authorised:		
6,500,000,000	Shares	650,000,000
Issued and fully paid:		
357,006,840	Shares	35,700,684

Each of the Shares in issue ranks pari passu in all respects including rights to dividends, voting and return of capital.

No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchanges.

Save as disclosed herein, no share or loan capital of the Company or any of its subsidiaries has been put under option or agreed conditionally or unconditionally to be put under option.

The Company had Share Options in issue as at the Latest Practicable Date. Upon full exercise of the rights attaching to the outstanding Share Options at the current subscription price, 5,964,300 Shares will be issued. Save for the Share Options, there are no outstanding warrants, share options or other securities which are convertible into or give rights to subscribe for Shares.

4. INTERIM RESULTS

Set out below are the extracts of the unaudited interim results for the six months ended 30 June, 2003 of the Group with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2003

	NOTES	Six months ended 30 June 2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)
Turnover	3	4,225	68,842
Cost of sales and services		(2,843)	(50,745)
Gross profit		1,382	18,097
Other operating income	4	414	2,296
Distribution costs		(5,949)	(6,012)
Administrative expenses		(13,976)	(27,996)
Other operating expenses		(571)	(11,921)
Impairment loss recognised in respect of long term investments		(3,900)	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(2,180)	—
Allowance for doubtful debts		(1,147)	—
Allowance for amount due from an associate		(300)	—
Impairment loss recognised in respect of goodwill of an associate		—	(48,807)
Allowance for loans to an associate		—	(13,703)
Loss on discontinuing operations		—	(4,616)
Loss from operations	5	(26,227)	(92,662)
Finance costs	6	(715)	(50)
Share of results of an associate		—	(13,882)
Share of results of jointly controlled entities		(75)	(61)
Loss before taxation		(27,017)	(106,655)
Taxation	7	—	310
Loss before minority interests		(27,017)	(106,345)
Minority interests		—	(443)
Net loss for the period		(27,017)	(106,788)
Basic loss per share	8	HK$(0.98)	HK$(4.20)

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2003

	NOTES	30 June 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	12,540	5,999
Goodwill		—	388
Interests in jointly controlled entities		1,188	1,253
Long term investments		—	3,900
Loan to Acme Landis Operations Holdings Limited	11	1,520	3,700
		15,248	15,240
Current assets			
Inventories		281	137
Other investments	12	900	—
Trade and other receivables	13	1,640	2,669
Bank balances and cash		12,263	1,822
		15,084	4,628
Current liabilities			
Amount due to a jointly controlled entity		1,234	1,234
Trade and other payables	14	9,527	6,915
Amounts due to ultimate holding company and a fellow subsidiary		599	—
Loan from a fellow subsidiary	15	30,270	—
Other loan, secured	16	4,000	—
		45,630	8,149
Net current liabilities		(30,546)	(3,521)
		(15,298)	11,719
Capital and reserves			
Share capital	17	11,019	110,187
Reserves		(26,317)	(98,468)
		(15,298)	11,719

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

1. GENERAL AND BASIS OF PREPARATION

(a) 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. 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 of Hong Kong Limited (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.

(b) The condensed 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 (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

(c) In preparing the condensed financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities and net liabilities of HK$30,546,000 and HK$15,298,000 respectively as at 30 June 2003. The Group is currently dependent upon the financial support from a wholly-owned subsidiary of Easyknit. In August 2003, the Group announced to raise funds by way of a rights issue of not less than 13,773,412 rights shares at a price of HK$1.00 per rights share. The net proceeds of the rights issue of approximately HK$13.3 million had been received on 23 September 2003 and the Group plans to use such proceeds for general working capital purposes. Against this background, the directors consider that, with the continuing financial support from a wholly-owned subsidiary of Easyknit and the net proceeds from the rights issue, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for revaluation of certain leasehold land and buildings and investments in securities.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002 except as described below.

In the current period, the Group has adopted SSAP No. 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)"), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. The adoption of the above standard has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments. An analysis of the Group's turnover and result by business segments are as follows:

	Turnover			Loss from operations		
	External	Inter-segment	Consolidated	Segment result	Unallocated corporate expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June 2003						
Wireless communication business	3,802	—	3,802	(11,479)		
Communication solutions consultancy services	423	—	423	(2,244)		
Internet operations	—	—	—	(272)		
Others	—	—	—	(11,996)		
	4,225	—	4,225	(25,991)	(236)	(26,227)
For the six months ended 30 June 2002						
Discontinuing 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)		
Continuing operations:						
Wireless communication business	—	—	—	(9,931)		
Communication solutions consultancy services	572	437	1,009	(1,995)		
Internet operations	—	—	—	(312)		
Others	—	—	—	(11,997)		
	68,842	463	69,305	(26,625)		
Eliminations	—	(463)	(463)	(436)		
	68,842	—	68,842	(27,061)	(65,601)	(92,662)

Inter-segment sales are charged at prevailing market prices.

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2003	**2002**
	HK$'000	*HK$'000*
Unrealised gain on other investments	212	—
Interest income	64	1,525
Rental income	—	251
Others	138	520
	414	2,296

5. LOSS FROM OPERATIONS

	Six months ended 30 June	
	2003	**2002**
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging (crediting):		
Deficit arising from revaluation of leasehold land and buildings	—	158
Deficit arising from revaluation of investment properties	—	350
Depreciation	2,838	4,906
Impairment loss in respect of goodwill, included in other operating expenses	388	—
Loss on disposal of property, plant and equipment	206	129
Write back of allowance for doubtful debts	—	(1,278)
Allowance for inventories (included in cost of sales and services)	—	129

6. FINANCE COSTS

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

7. TAXATION

	Six months ended 30 June 2003 *HK$'000*	2002 *HK$'000*
The amount comprises:		
Taxation attributable to the Company and its subsidiaries		
Hong Kong Profits Tax	—	(189)
Overprovision in prior years	—	159
	—	(30)
Share of taxation of an associate	—	340
	—	310

Hong Kong Profits Tax was calculated at the rate of 16% of the estimated assessable profit for prior period.

8. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK$27,017,000 (six months ended 30 June 2002: HK$106,788,000) and on 27,546,825 shares (2002: weighted average number of 25,407,936 shares) in issue during the period after the adjustment of the Share Consolidation as defined in note 20(i).

No diluted loss per share has been presented for both periods as the exercise of the Company's outstanding share options would reduce the loss per share for the periods.

9. DIVIDENDS

The directors resolved not to declare an interim dividend for the six months ended 30 June 2003. No interim dividend was declared for the same period last year.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$9,764,000 (2002: HK$1,725,000) on acquisition of property, plant and equipment.

11. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED ("ALOH")

	30 June 2003 *HK$'000*	31 December 2002 *HK$'000*
Loan to ALOH	45,815	45,815
Less: Allowance	(44,295)	(42,115)
	1,520	3,700

The loan to ALOH is secured by a pledge given by the purchaser of ALOH in respect of 76 million shares of the Company. 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, or upon the disposal of the last remaining shares, any principal outstanding will be reduced to zero.

12. OTHER INVESTMENTS

	30 June 2003 *HK$'000*	31 December 2002 *HK$'000*
Equity securities listed in Hong Kong, at market value	900	—

13. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranged from 30 to 90 days to its customers. The aged analysis of trade receivables at the reporting date is as follows:

	30 June 2003 *HK$'000*	31 December 2002 *HK$'000*
0 - 30 days	172	85
31 - 90 days	331	133
Over 90 days	—	1
	503	219

14. TRADE AND OTHER PAYABLES

	30 June 2003 *HK$'000*	31 December 2002 *HK$'000*
Trade payables	487	693
Other payables	9,040	6,097
Deferred income	—	115
Customer deposits	—	10
	9,527	6,915

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

	30 June 2003 HK$'000	31 December 2002 HK$'000
0 - 30 days	400	4
31 - 90 days	15	—
Over 90 days	72	689
	487	693

15. LOAN FROM A FELLOW SUBSIDIARY

During the period, the Group obtained an unsecured loan of HK$30,270,000 from a wholly-owned subsidiary of Easyknit. The loan bears interest at market rate and is repayable on demand.

16. 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 rate and is repayable on demand. The loan is secured by shares of a wholly-owned subsidiary of the Company.

17. SHARE CAPITAL

	Notes	Nominal value per share *HK$*	Number of shares	Amount *HK$'000*
Authorised:				
At 1 January 2003		0.10	3,000,000,000	300,000
Effect of the Reorganisation referred to below	(i)		27,000,000,000	—
At 30 June 2003		0.01	30,000,000,000	300,000
Issued and fully paid:				
At 1 January 2003		0.10	1,101,873,000	110,187
Reduction of share capital	(ii)		—	(99,168)
At 30 June 2003		0.01	1,101,873,000	11,019

Notes:

During the current period, the Company underwent a capital reorganisation (the "Reorganisation"). Details of the 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 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 "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 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.

18. CONTINGENT LIABILITIES

	30 June 2003	**31 December 2002**
	HK$'000	*HK$'000*
Corporate guarantees given to banks in respect of credit facilities granted to ALOH and its subsidiaries	—	87,100

On 5 February 2003 and 22 February 2003, a writ and an amended writ were issued against i100 Wireless (Hong Kong) Limited, a wholly-owned subsidiary of the Company, by Right Choice Development Limited (landlord of the premises as stated below) claiming a total sum of HK$596,860 being the arrears of rental, management fees and rates plus any subsequent arrears of rent, management fees and rates until the date of delivery of vacant possession in relation to an alleged breach of a tenancy agreement for the premises known as Shop Nos. 7 and 8 on Ground Floor and the whole First Floor of Hang Lung Mansion, Nos. 578-580 Nathan Road, Nos. 44-46 Dundas Street, Kowloon, Hong Kong. An acknowledgement of service has been filed in respect of the claim. On 17 March 2003, the vacant possession of the premises has been duly delivered to the landlord. After seeking professional advice, the directors consider that the Group has a valid defence against the claims and therefore, no provision for the sum claimed has been made in the condensed financial statements.

19. CAPITAL COMMITMENTS

	30 June 2003	**31 December 2002**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	24,342	24,238
- acquisition of property, plant and equipment	2,190	—
	26,532	24,238

20. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30 June 2003:

As announced by the Company on 1 August 2003, the Company proposed the following:

(i) to effect a share consolidation pursuant to which every forty issued and unissued existing shares of the Company of HK$0.01 each will be consolidated into one consolidated share of HK$0.40 each ("Share Consolidation");

(ii) upon the Share Consolidation becoming effective, to raise funds by way of a rights issue of not less than 13,773,412 rights shares and not more than 14,114,012 rights shares at a price of HK$1.00 per rights share on the basis of one rights share for every two consolidated shares held; and

(iii) to change the financial year-end of the Company from 31 December to 31 March.

At the special general meeting of the Company held on 8 September 2003, an ordinary resolution approving the Share Consolidation was passed.

Details of the above are set out, inter alia, in the announcement, circular and prospectus of the Company dated 1 August 2003, 20 August 2003 and 8 September 2003 respectively.

The net proceeds of the rights issue of approximately HK$13.3 million had been received by the Company on 23 September 2003.

Set out below are the extracts of the unaudited interim results for the twelve months ended 31 December, 2003 and the unaudited consolidated balance sheet as at 31 December, 2003 of the Group with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2003

		Twelve months ended 31 December	
		2003	**2002**
	NOTES	*HK$'000*	*HK$'000*
		(Unaudited)	*(Audited)*
Turnover	3	5,083	70,354
Cost of sales and services		(3,032)	(52,216)
Gross profit		2,051	18,138
Other operating income	4	594	2,398
Distribution costs		(6,829)	(19,942)
Administrative expenses		(20,850)	(55,775)
Other operating expenses		(3,910)	(12,266)
Impairment loss recognised in respect of property, plant and equipment		(9,911)	—
Impairment loss recognised in respect of long term investments		(3,900)	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(831)	(42,115)
Allowance for doubtful debts		(1,237)	—
Allowance for amount due from an associate		(300)	—
Impairment loss recognised in respect of goodwill of an associate		—	(48,807)
Allowance for loans to an associate		—	(14,216)
Loss on discontinuing operations		—	(4,615)
Loss from operations	5	(45,123)	(177,200)
Finance costs	6	(1,626)	(37)
Share of results of an associate		—	(13,991)
Share of results of jointly controlled entities		(72)	(65)
Loss before taxation		(46,821)	(191,293)
Taxation	7	—	309
Loss before minority interests		(46,821)	(190,984)
Minority interests		—	(440)
Net loss for the period		(46,821)	(191,424)
Basic loss per share	8	HK$(1.39)	HK$(6.83)

CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003

	NOTES	**31 December 2003** *HK$'000* *(Unaudited)*	**31 December 2002** *HK$'000* *(Audited)*
Non-current assets			
Property, plant and equipment	10	1,193	5,999
Goodwill		—	388
Interests in associates		20	—
Interests in jointly controlled entities		—	1,253
Long term investments		—	3,900
Loan to Acme Landis Operations Holdings Limited	11	2,869	3,700
		4,082	15,240
Current assets			
Inventories		282	137
Trade and other receivables	12	1,571	2,669
Bank balances and cash		17,822	1,822
		19,675	4,628
Current liabilities			
Amount due to a jointly controlled entity		—	1,234
Trade and other payables	13	3,881	6,915
Loan from a fellow subsidiary	14	21,270	—
Other loan, secured	15	4,000	—
		29,151	8,149
Net current liabilities		(9,476)	(3,521)
		(5,394)	11,719
Capital and reserves			
Share capital	16	23,800	110,187
Reserves		(29,403)	(98,468)
		(5,603)	11,719
Minority interests		209	—
		(5,394)	11,719

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2003

1. GENERAL AND BASIS OF PREPARATION

(a) 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. 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 of Hong Kong Limited (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%.

(b) During the period, the Company changed its financial year-end date from 31 December to 31 March to align the financial year-end date with that of Easyknit. The condensed financial statements therefore cover a twelve month period from 1 January 2003 to 31 December 2003. The annual report to be issued by the Company will include, among other matters, financial statements for a fifteen month period from 1 January 2003 to 31 March 2004.

(c) The condensed 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 and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002 except as described below.

In the current period, the Group has adopted SSAP No. 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)"), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. The adoption of the above standard has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments. An analysis of the Group's turnover and result by business segments is as follows:

	Turnover			Loss from operations		
	External	Inter-segment	Consolidated	Segment result	Unallocated corporate expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the twelve months ended 31 December 2003						
Wireless communication business	3,982	—	3,982	(28,092)		
Communication solutions consultancy services	1,101	—	1,101	(2,555)		
Internet operations	—	—	—	(283)		
Others	—	—	—	(13,963)		
	5,083	—	5,083	(44,893)	(230)	(45,123)
For the twelve months ended 31 December 2002						
Discontinuing 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)		
Continuing operations:						
Wireless communication business	953	—	953	(29,704)		
Communication solutions consultancy services	1,131	480	1,611	(4,122)		
Internet operations	—	—	—	(598)		
Others	—	—	—	(32,077)		
	70,354	506	70,860	(68,891)		
Eliminations	—	(506)	(506)	(180)		
	70,354	—	70,354	(69,071)	(108,129)	(177,200)

Inter-segment sales are charged at prevailing market prices.

4. OTHER OPERATING INCOME

	Twelve months ended 31 December	
	2003	**2002**
	HK$'000	*HK$'000*
Commission income	369	—
Interest income	70	1,624
Rental income	—	251
Others	155	523
	594	2,398

5. LOSS FROM OPERATIONS

	Twelve months ended 31 December	
	2003	**2002**
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Allowance for inventories, included in cost of sales and services	—	444
Amortisation of goodwill, included in other operating expenses	—	97
Deficit arising from revaluation of investment properties	—	350
Deficit arising from revaluation of leasehold land and buildings	—	158
Depreciation	6,493	9,165
Impairment loss in respect of goodwill, included in other operating expenses	492	—
Impairment loss in respect of property, plant and equipment, included in other operating expenses	—	785
Loss on disposal of property, plant and equipment	308	410

6. FINANCE COSTS

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

7. TAXATION

	Twelve months ended 31 December 2003	2002
	HK$'000	*HK$'000*
The amount comprises:		
Taxation 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

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the twelve months ended 31 December 2003.

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

8. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK$46,821,000 (2002: HK$191,424,000) and on the weighted average number of 33,787,991 shares (2002: weighted average number of 28,043,958 shares) in issue during the period.

The denominator for the purposes of calculating basic loss per share of 2002 has been adjusted to reflect the consolidation of shares and the rights issue of shares in September 2003.

No diluted loss per share has been presented for both periods as the exercise of the Company's outstanding share options would reduce the loss per share for the periods.

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the twelve months ended 31 December 2003. No interim dividend was declared for the same period in last year.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$12,124,000 (2002: HK$4,476,000) on acquisition of property, plant and equipment. An impairment loss of HK$9,911,000 (2002: nil) was recognised.

11. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED ("ALOH")

	31 December 2003 *HK$'000*	31 December 2002 *HK$'000*
Loan to ALOH	45,815	45,815
Less: Allowance	(42,946)	(42,115)
	2,869	3,700

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$0.4 each (as adjusted since September 2003 to reflect the Share Consolidation referred to in note 16(b)). 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, or upon the disposal of the last remaining shares, any principal outstanding will be reduced to zero.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranged from 30 to 90 days to its customers. The aged analysis of trade receivables at the reporting date is as follows:

	31 December 2003 *HK$'000*	31 December 2002 *HK$'000*
0 - 30 days	—	85
31 - 90 days	—	133
Over 90 days	101	1
	101	219

13. TRADE AND OTHER PAYABLES

	31 December 2003 *HK$'000*	31 December 2002 *HK$'000*
Trade payables	101	693
Other payables	3,444	6,097
Interest payables of other secured loan	336	—
Deferred income	—	115
Customer deposits	—	10
	3,881	6,915

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

	31 December 2003 *HK$'000*	31 December 2002 *HK$'000*
0 - 30 days	—	4
31 - 90 days	—	—
Over 90 days	101	689
	101	693

14. LOAN FROM A FELLOW SUBSIDIARY

During the period, the Group obtained an unsecured loan facility of HK$30,270,000 from a wholly-owned subsidiary of Easyknit. Full amount of the facility was drawn with partial repayment of HK$9,000,000 and HK$21,270,000 remained outstanding at 31 December 2003. The loan bears interest at prevailing market rates and is repayable on demand.

15. 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 rate and is repayable on demand. The loan is secured by charges over shares of a wholly-owned subsidiary of the Company.

16. SHARE CAPITAL

	Notes	**Nominal value per share**	**Number of shares**	**Amount**
		HK$		*HK$'000*
Authorised:				
At 1 January 2003		0.10	3,000,000,000	300,000
Effect of the Reorganisation referred to below	(a)(i)		27,000,000,000	—
		0.01	30,000,000,000	300,000
Effect of the Share Consolidation referred to below	(b)		(29,250,000,000)	—
At 31 December 2003		0.40	750,000,000	300,000
Issued and fully paid:				
At 1 January 2003		0.10	1,101,873,000	110,187
Reduction of share capital	(a)(ii)		—	(99,168)
		0.01	1,101,873,000	11,019
Effect of the Share Consolidation referred to below	(b)		(1,074,326,175)	—
		0.40	27,546,825	11,019
Rights issue of shares at a price of HK$1.00 per rights share	(c)	0.40	13,773,412	5,509
Issue of new shares by private placements	(d)	0.40	18,180,903	7,272
At 31 December 2003		0.40	59,501,140	23,800

Notes:

(a) During the current period, the Company underwent a capital reorganisation (the "Reorganisation"). Details of the 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 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 "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 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.

(b) 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.

(c) Rights issue of 13,773,412 shares of HK$0.40 each of 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.

(d) The Company issued and allotted 8,264,047 and 9,916,856 ordinary shares of HK$0.40 each at HK$0.865 per share as a result of two private placements of shares to not less than six independent professional and/or institutional investors on 17 November 2003 and 22 December 2003 respectively.

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

17. CONTINGENT LIABILITIES

	31 December 2003	31 December 2002
	HK$'000	*HK$'000*
Corporate guarantees given to banks in respect of credit facilities granted to ALOH and its subsidiaries	—	87,100

On 5 February 2003 and 22 February 2003, a writ and an amended writ were issued against i100 Wireless (Hong Kong) Limited, a wholly-owned subsidiary of the Company, by Right Choice Development Limited (landlord of the premises as stated below) claiming a total sum of HK$596,860 being the alleged arrears of rental, management fees and rates plus any subsequent arrears of rent, management fees and rates until the date of delivery of the premises known as Shop Nos. 7 and 8 on Ground Floor and the whole First Floor of Hang Lung Mansion, Nos. 578-580 Nathan Road, Nos. 44-46 Dundas Street, Kowloon, Hong Kong. An acknowledgement of service has been filed in respect of the claim. On 17 March 2003, vacant possession of the premises was delivered to the landlord. An amended defence was filed into court on 22 December 2003 to contest the legal proceedings. After seeking professional advice, the directors consider that the Group has a valid defence against the claims and therefore, no provision for the sum claimed has been made in the condensed financial statements.

18. CAPITAL COMMITMENTS

	31 December 2003	31 December 2002
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
— capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	20,904	24,238

19. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2003:

(a) As announced by the Company on 12 January 2004 and 10 February 2004, the Company proposed the following:

(i) to reduce the issued share capital of the Company from HK$0.40 each to HK$0.10 each by cancelling HK$0.30 paid up on each issued share and by adjusting the nominal value from HK$0.40 each to HK$0.10 each, and that each of the unissued shares be subdivided into four shares of HK$0.10 each (the "Capital Reduction and Subdivision");

(ii) to increase the authorised share capital of the Company 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 upon completion of the Capital Reduction and Subdivision; and

(iii) upon the Capital Reduction and Subdivision and the increase in authorised share capital becoming effective, to raise funds by way of rights issue of not less than 297,505,700 rights shares of HK$0.10 each at a price of HK$0.25 per rights share on the basis of five rights shares for every share held.

At the special general meeting of the Company held on 4 March 2004, resolutions approving the Capital Reduction and Subdivision and the increase in authorised share capital were passed.

Details of the above are set out, inter alia, in the circular and prospectus of the Company dated 10 February 2004 and 4 March 2004 respectively.

The rights issue became unconditional on 24 March 2004 and the estimated net proceeds of the rights issue are approximately HK$73.2 million.

(b) As announced by the Company on 5 March 2004, the Group conditionally agreed to purchase all the issued shares of Po Cheong International Enterprises Limited ("Po Cheong") from a wholly-owned subsidiary of Easyknit at a consideration of HK$65 million. Po Cheong and its subsidiary is principally engaged in the business of bleaching and dyeing. The consideration will be satisfied in cash, of which HK$50 million will be payable at the completion of the sales and purchase agreement on or before 31 May 2004 and the remaining balance of HK$15 million will be payable after finalisation of the Adjustment (as defined in the announcement of the Company dated 5 March 2004) in the mid of 2005. Details of the above are set out in the announcement dated 5 March 2004 issued by the Company.

5. REPRODUCED REPORT OF ERNST & YOUNG (THE FORMER AUDITORS OF THE COMPANY) FOR THE YEAR ENDED 31 DECEMBER, 2002

The following is the full text of the reproduced report of Ernst & Young (the former auditors of the Company) for the year ended 31 December, 2002 extracted from pages 20 to 21 of the annual report 2002 of the Company ("Annual Report"). The page references in this reproduced report are the same as the Annual Report.

ERNST & YOUNG
安永會計師事務所

To the members
i100 Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis, being the basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group's operations generated a net loss during the year and negative cash flows. The Group also had net current liabilities of HK$3,521,000 at the balance sheet date. Subsequent to the balance sheet date, the Group obtained a loan of approximately HK$30,270,000 from a new holding company. The financial statements have been prepared on a going concern basis, the validity of which depends upon the Group attaining profitable and cash positive operations in the longer term and, in the meantime, the continuing financial support from the new holding company as detailed in note 2 to the financial statements. We consider that appropriate estimates and disclosures regarding the above fundamental uncertainties have been made and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
24 April 2003

6. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss account of the Group for the three years ended 31 December, 2002, the audited consolidated balance sheet of the Group as at 31 December, 2001 and 2002, the consolidated statement of changes in equity, the consolidated cash flow statement for the two years ended 31 December, 2002 and the balance sheet of the Company as at 31 December, 2001 and 2002. The information upon which the summary is based has been fully extracted from the annual reports of the Company for the relevant years. All the page references in this section are the same as the Annual Report.

Consolidated Profit and Loss Account

	Notes	2002 HK$'000	2001 HK$'000	2000 HK$'000
TURNOVER	6	70,354	198,134	247,003
Cost of sales		(52,216)	(170,172)	(191,482)
Gross profit		18,138	27,962	55,521
Other revenue and gains	6	2,398	6,817	15,360
Selling and distribution costs		(19,942)	(23,521)	(23,412)
Administrative expenses		(55,775)	(78,522)	(74,707)
Other operating expenses		(12,266)	(55,576)	(58,607)
Provision for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(42,115)	—	—
Provision for loans to an associate		(14,216)	—	—
Provision for impairment of goodwill		(48,807)	—	—
Loss on discontinued operations	8	(4,615)	—	—
LOSS FROM OPERATING ACTIVITIES	7	(177,200)	(122,840)	(85,845)
Finance costs	11	(37)	(458)	(954)
OPERATING LOSS		(177,237)	(123,298)	(86,799)
Share of profits and losses of:				
Jointly-controlled entities		(65)	(15)	(35)
An associate		(13,991)	4,014	(43,277)
LOSS BEFORE TAX		(191,293)	(119,299)	(130,111)
Tax	12	309	570	(3,056)
LOSS BEFORE MINORITY INTERESTS		(190,984)	(118,729)	(133,167)
Minority interests		(440)	269	587
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13	(191,424)	(118,460)	(132,580)
LOSS PER SHARE — Basic	14	18.1cents	11.8cents	20.3cents

Consolidated Balance Sheet

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	5,999	30,028
Investment properties	16	—	3,980
Goodwill	17	388	—
Interests in jointly-controlled entities	19	1,253	1,318
Interest in an associate	20	—	13,584
Long term investments	21	3,900	5,699
Loan to Acme Landis Operations Holdings Limited	22	3,700	—
		15,240	54,609
CURRENT ASSETS			
Inventories		137	23,231
Construction contracts	23	—	13,825
Loans to an associate	20	—	9,823
Accounts receivable	24	219	24,039
Prepayments, deposits and other receivables		2,450	8,558
Tax recoverable		—	277
Cash and cash equivalents	25	1,822	32,762
		4,628	112,515
CURRENT LIABILITIES			
Amount due to a jointly-controlled entity	19	1,234	—
Accounts payable, other payables and accruals	26	6,915	35,116
Interest-bearing bank loans	27	—	4,326
		8,149	39,442
NET CURRENT ASSETS/(LIABILITIES)		(3,521)	73,073
TOTAL ASSETS LESS CURRENT LIABILITIES		11,719	127,682
MINORITY INTERESTS		—	(829)
		11,719	126,853
CAPITAL AND RESERVES			
Issued capital	28	110,187	100,187
Reserves	30	(98,468)	26,666
		11,719	126,853

Consolidated Statement of Changes in Equity

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Investment property revaluation reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001		100,100	237,182	2,876	7,324	(48,780)	(14)	(53,521)	245,167
Issue of shares	28	87	367	—	—	—	—	—	454
Exchange realignments		—	—	—	—	—	(2)	—	(2)
Share of exchange fluctuation reserve of an associate		—	—	—	—	—	(64)	—	(64)
Revaluation deficit		—	—	(242)	—	—	—	—	(242)
Net gains and losses not recognised in the profit and loss account		—	—	(242)	—	—	(66)	—	(308)
Net loss attributable to shareholders		—	—	—	—	—	—	(118,460)	(118,460)
At 31 December 2001 and and 1 January 2002		100,187	237,549	2,634	7,324	(48,780)	(80)	(171,981)	126,853
Issue of shares	28	10,000	20,000	—	—	—	—	—	30,000
Share issue expenses	28	—	(2,519)	—	—	—	—	—	(2,519)
Share of exchange fluctuation reserve of an associate		—	—	—	—	—	66	—	66
Revaluation deficit	15	—	—	(37)	—	—	—	—	(37)
Released on disposal of subsidiaries		—	—	(2,597)	(7,324)	(27)	—	9,921	(27)
Net gains and losses not recognised in the profit and loss account		—	—	(2,634)	(7,324)	(27)	66	9,921	2
Net loss attributable to shareholders		—	—	—	—	—	—	(191,424)	(191,424)
Impairment of goodwill	20,30	—	—	—	—	48,807	—	—	48,807
At 31 December 2002		110,187	255,030	—	—	—	(14)	(353,484)	11,719
Reserves retained by:									
Company and subsidiaries		110,187	255,030	—	—	—	(14)	(353,419)	11,784
Jointly-controlled entities		—	—	—	—	—	—	(65)	(65)
At 31 December 2002		110,187	255,030	—	—	—	(14)	(353,484)	11,719
Company and subsidiaries		100,187	237,549	2,634	7,324	(48,780)	(14)	(131,069)	167,831
Jointly-controlled entities		—	—	—	—	—	—	(50)	(50)
An associate		—	—	—	—	—	(66)	(40,862)	(40,928)
At 31 December 2001		100,187	237,549	2,634	7,324	(48,780)	(80)	(171,981)	126,853

Consolidated Cash Flow Statement

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(191,293)	(119,299)
Adjustments for:			
Share of profits and losses of:			
Jointly-controlled entities		65	15
An associate		13,991	(4,014)
Finance costs	11	37	458
Interest income	6, 7	(1,624)	(4,321)
Amortisation of goodwill	7	97	—
Depreciation	7	9,165	8,646
Deficit arising from revaluation of leasehold land and buildings	7	158	2,024
Deficit arising from revaluation of investment properties	7	350	1,020
Diminution in value of an investment property	7	—	4,000
Impairment loss of fixed assets	7	785	5,681
Provision for impairment in value of an unlisted investment		—	350
Provision for a loan to Acme Landis Operations Holdings Limited	22	42,115	—
Provision for bad debts	7	6,082	3,791
Provision for loans to an associate		14,216	—
Provision for impairment of goodwill		48,807	—
Loss on discontinued operations	8	4,615	—
Loss on disposal of fixed assets	7	410	2,541
Gain on disposal of a listed investment		—	(103)
Gain on disposal of a subsidiary		—	(76)
Negative goodwill recognised as income		—	(655)
Operating loss before working capital changes		(52,024)	(99,942)
Decrease in inventories		2,410	6,521
Decrease/(increase) in construction contracts		(94)	16,187
Decrease/(increase) in accounts receivable		(4,372)	11,541
Decrease in prepayments, deposits and other receivables		764	2,673
Decrease in accounts and bills payables		(11,266)	(1,542)
Increase/(decrease) in other payables and accruals		14,009	(5,257)
Increase/(decrease) in amounts due to contract customers		(641)	3,059
Decrease in fees in advance		—	(4,832)
Increase in deferred income		115	—
Decrease in customer deposits		(30)	(515)
Cash used in operations		(51,129)	(72,107)
Interest paid		(37)	(458)
Hong Kong profits tax refunded/(paid)		(77)	172
Net cash outflow from operating activities — Page 26		(51,243)	(72,393)

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
Net cash outflow from operating activities — Page 25		(51,243)	(72,393)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,624	4,321
Purchases of fixed assets	15	(4,476)	(10,791)
Proceeds from disposal of fixed assets		7	908
Purchases of long term investments		—	(600)
Investment in a jointly-controlled entity		—	(1,170)
Advance from a jointly-controlled entity		1,234	—
Advances to an associate		(4,394)	(3,978)
Repayment of loan from a jointly-controlled entity		—	17
Acquisition of subsidiaries/business	31(b)	(103)	25
Disposal of subsidiaries	31(c)	(4,894)	10,987
Proceeds from disposal of a listed investment		—	490
Net cash inflow/(outflow) from investing activities		(11,002)	209
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to minority shareholders		—	(339)
Proceeds from issue of share capital	28	30,000	—
Share issue expenses	28	(2,519)	—
New bank loans		4,424	5,000
Repayment of bank loans		(600)	(12,688)
Net cash inflow/(outflow) from financing activities		31,305	(8,027)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(30,940)	(80,211)
Cash and cash equivalents at beginning of year		32,762	112,975
Effect of foreign exchange rate changes, net		—	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR — Page 27		1,822	32,762

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
CASH AND CASH EQUIVALENTS AT END OF YEAR — Page 26		1,822	32,762
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	1,822	6,113
Time deposits with original maturity of less than three months when acquired	25	—	25,529
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	25	—	1,120
		1,822	32,762

Balance Sheet

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	786	102,177
Loan to Acme Landis Operations Holdings Limited	22	3,700	—
		4,486	102,177
CURRENT ASSETS			
Loans to an associate	20	—	8,919
Prepayments, deposits and other receivables		73	1,246
Cash and cash equivalents	25	698	23,529
		771	33,694
CURRENT LIABILITIES			
Other payables and accruals	26	1,235	99
NET CURRENT ASSETS/(LIABILITIES)		(464)	33,595
		4,022	135,772
CAPITAL AND RESERVES			
Issued capital	28	110,187	100,187
Reserves	30	(106,165)	35,585
		4,022	135,772

Notes to the Financial Statements

1. CORPORATE INFORMATION

The registered office of i100 Limited is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

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

Continuing operations:

- wireless communication business
- provision of communication solutions consultancy services
- Internet operations

Discontinued operations (note 8):

- sales of sanitary fixtures and fittings
- sales of hardware, industrial and consumer products
- drainage, plumbing and engineering contracting services

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINIES

The Group sustained a consolidated net loss from ordinary activities attributable to shareholders of HK$191,424,000 for the year ended 31 December 2002 and had consolidated net current liabilities of HK$3,521,000 and consolidated net assets of HK$11,719,000 as at 31 December 2002. In preparing these financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and cash positive operations in the immediate and longer terms.

During the year, the Group disposed of its non-IT related businesses as part of its strategic plan to focus its resources in the wireless communication business.

Additionally, active cost-saving measures to streamline the Group's continuing operations have been implemented to substantially reduce the operating expenses of the Group and cash outflows in the coming year. Notwithstanding its liquidity concerns as at 31 December 2002, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration the measures implemented to date and a loan of approximately HK$30,270,000 advanced by a subsidiary of the new holding company subsequent to year end. The directors also believe that, should it prove necessary, the new holding company will provide adequate funds for the Group to meet its liabilities as and when they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements have not incorporated any adjustments that would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets, should the going concern assumption be inappropriate. The effects of such adjustments have not been reflected in the financial statements.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for the structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 24 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the years, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy "Foreign currencies" in note 4 and in note 31(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinued operations, which were previously included in SSAP 2. The SSAP defines a discontinued operation and prescribes when an enterprise should commence including discontinued operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinued operations are now included in note 8 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group's employees as at the balance sheet date. This SSAP has had no material effect on amounts previously reported in the prior year's financial statements. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, and certain fixed assets and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distribution of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

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

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

Associates

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

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

Goodwill arising from the acquisition of associates, which was not previously eliminated against reserves, is included as part of the Group's interests in associates.

The results of an associate are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in an associate is treated as a long term asset and is stated at cost less any impairment losses.

Goodwill

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

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

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

Negative goodwill

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

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

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

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the goodwill reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the goodwill reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	2%
Buildings	3⅓%
Furniture, fixtures and equipment	20% to 33⅓%
Motor vehicles	20% to 50%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

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

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

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

Long term investments

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

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

Listed and unlisted equity securities which are not classified as investment securities are classified as other investments. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date. Unlisted securities are stated at their estimated fair values as estimated by the directors having regard to information known to them and to market conditions existing at the balance sheet date, on an individual investment basis. The gains and losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories, which comprise finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

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 year plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 31(a) to the financial statements, but no material effect on the amounts of cash flows previously reported for prior periods.

Employee benefits

Paid leave carried forward

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

Prior to the adoption of SSAP 34 during the year, as explained in note 3 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has not resulted in a prior year adjustment as it had no material effect on amounts previously reported in the prior year's financial statements.

Pension schemes

The Group operates defined contribution Mandatory Provident Fund retirement benefits schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Schemes. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

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

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

Share option scheme

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on completion of the transaction;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;

(f) dividend income, when the shareholders' right to receive payment has been established;

(g) advertising service fees, in the period in which the advertisement is displayed, on the straight-line basis over the terms of the contract, provided that no significant Group obligations remain; and

(h) telecommunications revenue, when the services are rendered. 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 to customers.

Related parties

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

Cash and cash equivalents

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

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

5. SEGMENT INFORMATION

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

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

Continuing operations:

- the wireless communication business segment develops technologies, in both applications and enabling sectors, to enhance the transaction and delivery of data and information through wireless networks; and

- the communication solutions consultancy services segment is engaged in services as a digital solutions provider and a multimedia enabler;

- the Internet operations segment is engaged in services as a publishing and content management solutions provider, an on-line expert site and the provision of a vertical trading platform;

- the corporate and other segment includes general corporate income and expense items.

Discontinued operations (note 8):

- the sanitary fixtures and fittings segment consisted of importing, marketing, retailing and distributing sanitary fixtures and fittings;

- the hardware, industrial and consumer products segment consisted of importing, marketing, and distributing a large range of hardware, industrial and consumer products;

- the drainage, plumbing and engineering contracting services segment provides design and installation of plumbing and drainage systems and related engineering services;

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

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

(a) **Business segments**

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

	Sanitary fixtures and fittings (Discontinued)		Hardware, industrial and consumer products (Discontinued)		Drainage, plumbing and engineering contracting services (Discontinued)		Wireless communication business		Communication solutions consultancy services		Internet operations		Corporate and other		Eliminations		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:																		
Sales to external customers	38,860	79,464	20,258	46,270	9,152	60,159	953	—	1,131	10,275	—	1,966	—	—	—	—	70,354	198,134
Intersegment sales	26	78	—	—	—	—	—	—	480	4,690	—	8	—	—	(506)	(4,776)	—	—
Other revenue	714	1,121	369	539	—	—	—	—	1	691	—	15	3	297	(313)	(167)	774	2,496
Total revenue	39,600	80,663	20,627	46,809	9,152	60,159	953	—	1,612	15,656	—	1,989	3	297	(819)	(4,943)	71,128	200,630
Segment results	443	(23,414)	(926)	(3,427)	(1,907)	(18,495)	(29,704)	(10,185)	(4,122)	(12,732)	(598)	(22,324)	(32,077)	(36,556)	(180)	(28)	(69,071)	(127,161)
Interest income and unallocated gains																	1,624	4,321
Provision for loan to Acme Landis Operations Holdings Limited																	(42,115)	—
Provision for loans to to an associate																	(14,216)	—
Provision for impairment of goodwill																	(48,807)	—
Loss on discontinued operations																	(4,615)	—
Loss from operating activities																	(177,200)	(122,840)
Finance costs																	(37)	(458)
Operating loss																	(177,237)	(123,298)
Share of profits and losses of:																		
— Jointly-controlled entities	—	—	—	—	—	—	(32)	(10)	—	—	—	—	(33)	(5)	—	—	(65)	(15)
— An associate	—	—	—	—	—	—	—	—	—	—	—	—	(13,991)	4,014	—	—	(13,991)	4,014
Loss before tax																	(191,293)	(119,299)
Tax																	309	570
Loss before minority interests																	(190,984)	(118,729)
Minority interests																	(440)	269
Net loss from ordinary activities attributable to shareholders																	(191,424)	(118,460)

	Sanitary fixtures and fittings (Discontinued) 2002 HK$'000	Sanitary fixtures and fittings (Discontinued) 2001 HK$'000	Hardware, industrial and consumer products (Discontinued) 2002 HK$'000	Hardware, industrial and consumer products (Discontinued) 2001 HK$'000	Drainage, plumbing and engineering contracting services (Discontinued) 2002 HK$'000	Drainage, plumbing and engineering contracting services (Discontinued) 2001 HK$'000	Wireless communication business 2002 HK$'000	Wireless communication business 2001 HK$'000	Communication solutions consultancy services 2002 HK$'000	Communication solutions consultancy services 2001 HK$'000	Internet operations 2002 HK$'000	Internet operations 2001 HK$'000	Corporate and other 2002 HK$'000	Corporate and other 2001 HK$'000	Eliminations 2002 HK$'000	Eliminations 2001 HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 HK$'000
Segment assets	—	53,890	—	30,232	—	17,605	7,187	2,838	9,707	11,802	7,980	6,062	128,109	216,920	(134,368)	(197,227)	18,615	142,122
Interest in an associate	—	—	—	—	—	—	—	—	—	(16)	—	—	—	23,423	—	—	—	23,407
Interests in jointly-controlled entities	—	—	—	—	—	—	1,128	1,160	—	—	—	—	125	158	—	—	1,253	1,318
Unallocated assets																	—	277
Bank overdrafts included in segment assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total assets																	19,868	167,124
Segment liabilities	—	42,941	—	6,306	—	12,247	47,850	14,974	44,402	29,557	38,326	52,960	4,919	8,229	(127,348)	(132,098)	8,149	35,116
Unallocated liabilities																	—	4,326
Bank overdrafts included in segment assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total liabilities																	8,149	39,442
Other segment information:																		
Capital expenditure	809	1,297	95	1,006	—	—	3,575	3,619	107	558	20	4,972	158	701	(183)	(1,244)	4,581	10,909
Depreciation	819	2,165	244	623	4	51	5,254	2	613	603	512	3,539	1,719	1,663	—	—	9,165	8,646
Deficits arising from revaluation of investment properties	—	—	350	1,020	—	—	—	—	—	—	—	—	—	—	—	—	350	1,020
Deficits arising from revaluation of leasehold land and buildings	158	2,024	—	—	—	—	—	—	—	—	—	—	—	—	—	—	158	2,024
Deficits on revaluation recognised directly in equity	—	—	37	242	—	—	—	—	—	—	—	—	—	—	—	—	37	242
Impairment loss of fixed assets	—	—	—	—	—	—	785	—	—	—	—	5,681	—	—	—	—	785	5,681
Diminution in value of an investment property	—	4,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,000
Provision/(overprovision) for bad debts	(2,032)	(384)	143	173	—	—	39	—	747	3,252	—	—	7,185	750	—	—	6,082	3,791
Stock provisions	93	6,188	36	132	—	—	315	—	—	708	—	—	—	—	—	—	444	7,028

(b) **Geographical segments**

The following table presents revenue, loss and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	64,797	174,939	5,557	23,195	—	—	70,354	198,134
Other segment information:								
Segment assets	13,973	171,787	5,895	16,633	—	(21,296)	19,868	167,124
Bank overdrafts included in segment assets	—	—	—	—	—	—	—	—
							19,868	167,124
Capital expenditure	3,662	7,009	106	3,900	—	—	3,768	10,909

6. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and an appropriate proportion of contract revenue of construction contracts during the year.

An analysis of the Group's turnover, other revenue and gains, is as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Continuing operations:		
Wireless Communication	952	—
Provision of communication solutions consultancy services	1,132	10,275
Internet operations	—	1,966
	2,084	12,241
Discontinued operations:		
Sales of sanitary fixtures and fittings	38,860	79,464
Sales of hardware, industrial and consumer products	20,258	46,270
Drainage, plumbing and engineering contracting services	9,152	60,159
	68,270	185,893
	70,354	198,134
Other revenue and gains		
Continuing operations:		
Interest income from related companies	664	—
Interest income on bank deposits	247	3,007
Others	3	935
	914	3,942
Discontinued operations:		
Rental income	251	1,319
Interest income on bank deposits	50	834
Interest income on overdue balances from customers	663	480
Others	520	242
	1,484	2,875
	2,398	6,817

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2002 HK$'000	2001 HK$'000
Staff costs:*			
Wages and salaries		37,410	72,393
Staff accommodation expenses		1,135	576
Pension scheme contributions		1,034	2,692
Less: Forfeited contributions		—	(145)
Net pension contributions		1,034	2,547
		39,579	75,516
Cost of sales:			
Cost of inventories sold		40,765	82,078
Cost of services rendered		11,007	81,066
Stock provisions		444	7,028
		52,216	170,172
Auditors' remuneration		1,000	1,060
Amortisation of goodwill (included in other operating expenses)	17	97	—
Deficit arising from revaluation of leasehold land and buildings	15	158	2,024
Deficit arising from revaluation of investment properties	16	350	1,020
Depreciation	15	9,165	8,646
Diminution in value of an investment property	16	—	4,000
Impairment loss of fixed assets	15	785	5,681
Information technology business operating costs**		34,584	49,890
Loss on disposal of fixed assets		410	2,541
Minimum lease payments under operating leases in respect of land and buildings***		6,831	10,064
Provision for bad debts		6,082	3,791
Exchange losses/(gains), net		48	(296)
Gross and net rental income		(251)	(1,319)
Interest income		(1,624)	(4,321)

* Staff costs include directors' remuneration as set out in note 9 below. As at 31 December 2002, the Group had no forfeited pension scheme contributions available to offset future contributions (2001: Nil).

** Includes staff costs of HK$1,349,000 (2001: HK$14,264,000), depreciation of HK$6,333,000 (2001: HK$4,144,000), minimum lease payments under operating leases in respect of land and buildings of HK$1,146,000 (2001: HK$2,605,000), impairment loss of fixed assets of HK$785,000 (2001: HK$5,681,000) and loss on disposal of fixed assets of HK$340,000 (2001: HK$2,525,000) as disclosed above.

*** Operating lease rentals include rental expenses of a staff quarters and a director's quarters of HK$800,000 (2001: HK$576,000) which have also been included in staff accommodation expenses.

8. DISCONTINUED OPERATIONS

(a) **Disposal of the Group's entire equity interest in Acme Sanitary Engineering Limited ("ASE")**

On 4 May 2002, Acme Sanitary Ware Company, Limited ("ASW") (an indirectly wholly-owned subsidiary) entered into a sale and purchase agreement with an independent third party for the disposal of ASW's entire 100% equity interest in ASE (a wholly-owned subsidiary of ASW) at a consideration of HK$2. This transaction was completed during the year, upon which the Group's business of the provision of drainage, plumbing and engineering contracting services was discontinued.

(b) **Disposal of the Group's entire equity interest in Acme Landis Operations Holdings Limited ("ALOH")**

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 100% equity interest in ALOH at a consideration of HK$1. This transaction was completed during the year, 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 turnover, other revenue and gains, expenses, loss before tax and net loss attributable to the discontinued operations for the year ended 31 December 2002 are as follows. Comparative information is included in accordance with SSAP 33 "Discontinuing operations".

	Sanitary fixtures and fittings		Hardware, industrial and consumer products		Drainage, plumbing and engineering contracting services		Elimination		Total	Total
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	38,886	79,542	20,258	46,270	9,152	60,159	(26)	(78)	68,270	185,893
Cost of sales	(26,612)	(56,207)	(14,308)	(32,267)	(9,380)	(71,849)	26	78	(50,274)	(160,245)
Gross profit	12,274	23,335	5,950	14,003	(228)	(11,690)			17,996	25,648
Other revenue and gains	1,326	6,252	513	1,085	—	176	(355)	(5,117)	1,484	2,396
Selling and distribution costs	(4,353)	(16,192)	(1,622)	(4,353)	—	—	71		(5,904)	(20,545)
Administrative expenses	(9,623)	(30,493)	(5,117)	(12,598)	(1,679)	(6,805)	13	4,020	(16,406)	(45,876)
Other operating income/ (expenses)	1,659	(16,141)	(506)	(971)	—	—			1,153	(17,112)
Gain/(loss) on disposal of a subsidiary	(6,355)	10,323	—	—	—	—			(6,355)	10,323
Loss from operating activities	(5,072)	(22,916)	(782)	(2,834)	(1,907)	(18,319)			(8,032)	(45,166)
Finance costs	(171)	(962)	(9)	—	(127)	(593)	271	1,097	(36)	(458)
Loss before tax	(5,243)	(23,878)	(791)	(2,834)	(2,034)	(18,912)			(8,068)	(45,624)
Tax	(29)	805	(1)	285	—	—			(30)	1,090
Loss before minority interests	(5,272)	(23,073)	(792)	(2,549)	(2,034)	(18,912)			(8,098)	(44,534)
Minority interests	(443)	(546)	—	—	—	—			(443)	(546)
Net loss for the year	(5,715)	(23,619)	(792)	(2,549)	(2,034)	(18,912)			(8,541)	(45,080)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date were as follows:

	Sanitary fixtures and fittings		Hardware, industrial and consumer products		Drainage, plumbing and engineering contracting services		Elimination		Total	Total
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	—	62,556	—	39,399	—	17,918	—	(23,617)	—	96,256
Total liabilities	—	(118,026)	—	(6,306)	—	(25,248)	—	23,617	—	(125,963)
Minority interests	—	(907)	—	—	—	—	—	—	—	(907)
Net assets/(liabilities)	—	(56,377)	—	33,093	—	(7,330)	—	—	—	(30,614)

The net cash flows attributable to the discontinued operations for the year ended 31 December 2002 were as follows:

	Sanitary fixtures and fittings		Hardware, industrial and consumer products		Drainage, plumbing and engineering contracting services		Elimination		Total	Total
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities	(1,414)	(4,063)	(871)	(2,999)	(3,049)	77	271	1,097	(5,063)	(5,888)
Investing activities	988	10,872	49	(402)	—	(424)	—	—	1,037	10,046
Financing activities	2,176	(11,528)	445	—	—	—	(271)	(1,097)	2,350	(12,625)
Net cash inflow/ (outflow)	1,750	(4,719)	(377)	(3,401)	(3,049)	(347)	—	—	(1,676)	(8,467)

9. DIRECTORS' REMUNERATION

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

	2002	**2001**
	HK$'000	*HK$'000*
Fees paid to non-executive directors	—	—
Executive directors:		
Fees	—	12
Salaries, allowances and benefits in kind	6,593	7,711
Performance related bonuses	—	3,500
Pension scheme contributions	64	195
	6,657	11,418

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

	2002	**2001**
	Number of directors	**Number of directors**
Nil-HK$1,000,000	8	8
HK$2,000,001-HK$2,500,000	2	—
HK$2,500,001-HK$3,000,000	—	2
HK$5,000,001-HK$5,500,000	—	1
	10	11

During the year, two directors waived part of their remuneration totalling HK$450,000 (2001: Nil).

During the year, no share options were granted to any of the directors of the Company in respect of their services to the Group. Further details of the share option scheme and the director's options remaining outstanding under the scheme at the balance sheet date are set out in note 29 to the financial statements.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included two (2001: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2001: two) non-director, highest paid employees are set out below:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	4,773	6,915
Pension scheme contributions	35	65
	4,808	6,980

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

	Number of employees	
	2002	2001
Nil-HK$1,000,000	1	—
HK$1,000,001-HK$1,500,000	1	—
HK$2,000,000-HK$2,500,000	—	—
HK$2,500,001-HK$3,000,000	1	1
HK$4,000,001-HK$4,500,000	—	1

During the year, no share options were granted to the non-director, highest paid employees in respect of their services to the Group. Further details of the share option scheme and the options remaining outstanding under the scheme at the balance sheet date are included in the disclosures in note 29 to the financial statements.

11. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within one year or on demand	37	458

12. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Group:		
Provision for the year	(189)	(393)
Overprovision in prior years	159	1,484
	(30)	1,091
Share of tax attributable to an associate	339	(521)
Tax credit for the year	309	570

The principal components of the Group's net deferred tax asset not recognised in the financial statements are as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Tax losses carried forward	24,545	25,983
Decelerated/(accelerated) capital allowances	(1,432)	414
	23,113	26,397

The revaluation of the Group's leasehold land and buildings and investment properties do not constitute timing differences. Accordingly, no deferred tax has been provided thereon.

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$159,231,000 (2001: HK$114,893,000).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$191,424,000 (2001: HK$118,460,000) and the weighted average of 1,059,407,247 ordinary shares (2001: 1,001,798,855 ordinary shares) in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2002 and 2001 have not been shown as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:				
At beginning of year	15,400	31,110	3,747	50,257
Additions	—	4,476	—	4,476
Acquisition of subsidiaries *(note 31(b))*	—	105	—	105
Disposals	—	(759)	(292)	(1,051)
Disposal of subsidiaries *(note 31(c))*	(14,800)	(15,927)	(2,487)	(33,214)
Deficit on revaluation	(600)	—	—	(600)
At 31 December 2002	—	19,005	968	19,973
Accumulated depreciation and impairment:				
At beginning of year	—	18,077	2,152	20,229
Depreciation provided during the year	405	8,429	331	9,165
Impairment during the year recognised in the profit and loss account	—	785	—	785
Disposals	—	(342)	(292)	(634)
Disposal of subsidiaries *(note 31(c))*	—	(13,360)	(1,806)	(15,166)
Written back on revaluation	(405)	—	—	(405)
At 31 December 2002	—	13,589	385	13,974
Net book value:				
At 31 December 2002	—	5,416	583	5,999
At 31 December 2001	15,400	13,033	1,595	30,028

The Group's land and buildings were stated at valuation and were held by certain subsidiaries which were disposed of during the year. All other fixed assets are stated at cost. The Group's leasehold land and buildings were revalued at 31 May 2002 by Debenham Tie Leung, independent professionally qualified valuers, at HK$14,800,000 on an open market value, existing use basis, giving rise to a revaluation deficit of HK$195,000. HK$37,000 of this deficit was charged to the leasehold land and buildings revaluation reserve and the remaining balance of HK$158,000 has been charged to the profit and loss account for the year.

All of the Group's leasehold land and buildings are situated in Hong Kong and are held under medium term leases.

At 31 December 2001, had the Group's land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been HK$15,400,000.

16. INVESTMENT PROPERTIES

	Group 2002	Group 2001
	HK$'000	*HK$'000*
At beginning of year	3,980	20,000
Revaluation deficit charged to the profit and loss account	(350)	(1,020)
Diminution in value of an investment property	—	(4,000)
Disposal of a subsidiary *(note 31(c))*	(3,630)	(11,000)
At end of year	—	3,980

All of the Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	Group 2002	Group 2001
	HK$'000	*HK$'000*
Medium term leases	—	1,180
Long term leases	—	2,800
	—	3,980

The Group's investment properties were held by a subsidiary which was disposed of during the year. The Group's investment properties were revalued at 31 May 2002 on an open market value, existing use basis by Debenham Tie Leung, independent professionally qualified valuers, at HK$3,630,000. The investment properties were leased to third parties under operating leases, further summary details of which are included in note 33 to the financial statements.

In the prior year, an investment property was pledged to a bank to secure banking facilities.

Particulars of the Group's investment properties as at 31 December 2001 were as follows:

Location	**Lease terms**	**Use**	**Gross floor area** *(sq. ft.)*	**Percentage of Group's interest**
Units A & B 18th Floor Harbour Commercial Building 122-124 Connaught Road, Central Hong Kong	Long term	Commercial	1,598	100
Unit B2 1st Floor 14 Sze Shan Street Yau Tong Kowloon Hong Kong	Medium term	Industrial	4,785	100

17. GOODWILL

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

Group

	Goodwill
	HK$'000
Cost:	
Acquisition of subsidiaries during the year and as at 31 December 2002 *(note 31(b))*	485
Accumulated amortisation:	
Amortisation provided during the year and as at 31 December 2002	97
Net book value:	
At 31 December 2002	388

As detailed in note 4 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions of subsidiaries which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

18. INTERESTS IN SUBSIDIARIES

	Company 2002	Company 2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	304,200	—
Due from subsidiaries	3,329	351,914
Due to subsidiaries	(1,350)	—
	306,179	351,914
Provision for impairment	(305,393)	(249,737)
	786	102,177

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued/ registered share capital	Class of shares held	Percentage of equity attributable to the Company 2002	2001	Principal activities
IT-related subsidiaries						
ask100.com (BVI) Limited	British Virgin Islands	US$2	Ordinary	66.67*	66.67*	Investment holding
ask100.com (Hong Kong) Limited	Hong Kong	HK$2	Ordinary	66.67*	66.67*	Provision of an on-line expert site
ask100.com Corporation	Cayman Islands	US$30,000	Ordinary	66.67*	66.67*	Investment holding
Beijing Footnet100 Information Technology Company Limited#	Mainland China	HK$1,200,000	—	60*	60*	Electronic trading platform for food industry
Castlebright Limited	Hong Kong	HK$2	Ordinary	100*	100*	Provision of management services
Copplestone Limited	Cayman Islands	US$39,000,001	Ordinary	100	100	Investment holding
Foodnet100 Holdings Limited	Cayman Islands	US$15,750	Ordinary	60*	60*	Investment holding
Golden Throne Holdings Limited	British Virgin Islands	US$1	Ordinary	100*	100*	Investment holding

Name	Place of incorporation/ operations	Nominal value of issued/ registered share capital	Class of shares held	Percentage of equity attributable to the Company 2002	2001	Principal activities
i100 Asiaweb Holdings Corporation	British Virgin Islands	US$1	Ordinary	100*	100*	Investment holding
i100 OnAir Limited	British Virgin Islands	US$1	Ordinary	100*	100*	Investment holding
i100 Technological Shenzhen Company Limited#	Mainland China	HK$1,000,000	—	100*	100*	Development of computer hardware and software and provision of related technical advisory services
i100 Wireless Limited	British Virgin Islands	US$1	Ordinary	100*	100*	Investment holding
i100 Wireless (Hong Kong) Limited	Hong Kong	HK$2	Ordinary	100*	100*	Wireless data service provider
OnAir100 Limited	Hong Kong	HK$2	Ordinary	100*	100*	Multimedia enabler
solution100 (Shanghai) Limited#	Mainland China	US$150,000	—	100*	100*	Provision of network solutions services
solution100 Corporation	Cayman Islands	US$50,000	Ordinary	100*	100*	Investment holding
solution100 Limited	Hong Kong	HK$10,000	Ordinary	75*	100*	Digital solutions provider
Digital Empires Company Limited	Hong Kong	HK$100	Ordinary	75*	—	Provision of computer system consultancy services
Photo 2U Company Limited	Hong Kong	HK$100	Ordinary	75*	—	Provision of information technology consultancy services

Name	Place of incorporation/ operations	Nominal value of issued/ registered share capital	Class of shares held	Percentage of equity attributable to the Company 2002	2001	Principal activities
Non IT-related subsidiaries						
Acme Landis Operations Holdings Limited	British Virgin Islands	US$1	Ordinary	—	100	Investment holding
Acme Sanitary Ware Company, Limited	Hong Kong	HK$10,000 HK$3,958,000	Ordinary Deferred	— —	100* 100*	Importing, marketing and distributing sanitary fixtures and fittings
Acme Sanitary Ware (Asia) Company, Limited	British Virgin Islands	US$1	Ordinary	—	100*	Selling and promoting sanitary fixtures and fittings, hardware, industrial and consumer products
Acme Sanitary Engineering Company Limited	Hong Kong	HK$1,000,000	Ordinary	—	100*	Designing and installing plumbing and drainage systems
Acme United Engineering Company Limited	Hong Kong	HK$1,000,000	Ordinary	—	100*	Designing and installing mechanical and electrical systems
Alpha Pacific International Limited	Hong Kong	HK$2	Ordinary	—	100*	Importing, marketing and distributing consumer products
Glory Top Building Materials Limited	Hong Kong	HK$100	Ordinary	—	52*	Selling and promoting sanitary fixtures and fittings

Name	Place of incorporation/ operations	Nominal value of issued/ registered share capital	Class of shares held	Percentage of equity attributable to the Company 2002	2001	Principal activities
Landis Brothers & Company, Limited	Hong Kong	HK$10,000 HK$1,000,000	Ordinary Deferred	— —	100* 100*	Importing, marketing and distributing hardware, industrial and consumer products
Landis Brothers (Asia) Company, Limited	British Virgin Islands	US$1	Ordinary	—	100*	Importing, marketing and distributing industrial products
Marrick Corporation	British Virgin Islands	US$1	Ordinary	—	100*	Investment holding
Snowball Corporation	British Virgin Islands	US$1	Ordinary	—	100*	Investment holding
U'Land Sanitary Ware Company Limited	Hong Kong	HK$100	Ordinary	—	51*	Retailing sanitary fixtures and fittings

* Held through subsidiaries.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets of jointly-controlled entities	1,231	1,296	—	—
Loan to a jointly-controlled entity	22	22	—	—
	1,253	1,318	—	—
Due to a jointly-controlled entity	(1,234)	—	—	—

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

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ operations	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
iSTT100 Limited*	Corporate	Cayman Islands/ Singapore	45	45	45	Provision of financial, technical, operational, marketing and strategic support to Internet, media, and technology businesses
Vector Entertainment Corporation*	Corporate	British Virgin Islands	45	50	45	Entertainment business

* Neither of the above Companies are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

20. INTEREST IN AN ASSOCIATE

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	—	13,584	—	—
Loans to an associate	14,216	9,823	12,429	8,919
Provision for loans to an associate	(14,216)	—	(12,429)	—
	—	9,823	—	8,919

In the prior year, the loans to the associate were unsecured, interest-bearing at 10% per annum and were repayable on or before 15 June 2002 or such later date as may be agreed between the two parties.

During the year, the Group has recognised an impairment of the goodwill on acquisition of an associate remaining eliminated against consolidated reserves amounting to HK$48,807,000 (2001: Nil). Further details are set out in note 30 to the financial statements.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ and operations	Percentage of equity attributable to the Group 2002	2001	Principal activity
AsiaWeb ASP Limited*	Corporate	Hong Kong	49	49	Investment holding

* The above company is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The Group's voting power held and profit sharing ratio in relation to the associate is 49%.

21. LONG TERM INVESTMENTS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment securities:				
Unlisted equity investments, at cost	3,900	6,048	—	—
Provision for impairment	—	(350)	—	—
	3,900	5,698	—	—
Other investments:				
Listed equity investments in Hong Kong, at market value	—	1	—	—
	3,900	5,699	—	—

22. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED ("ALOH")

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
Loan to ALOH	45,815	—
Provision for loan to ALOH	(42,115)	—
	3,700	—

The loan to ALOH is secured by a pledge given by the purchaser of ALOH in respect of 76 million shares of the Company. 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, or upon the disposal of the last remaining share, any principal outstanding will be reduced to zero.

23. CONSTRUCTION CONTRACTS

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Gross amount due from contract customers	—	13,825
Gross amount due to contract customers included in accounts payable, other payables and accruals	—	(3,059)
	—	10,766
Contract costs incurred plus recognised profits less recognised losses to date	—	674,745
Less: Progress billings	—	(663,979)
	—	10,766

At 31 December 2001, no retention monies were held by customers for contract works and no advances had been received from customers for contract works.

24. ACCOUNTS RECEIVABLE

The Group grants credit periods of up to 90 days to its customers. An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Current	85	8,641
1 to 3 months	133	12,926
Over 3 months	40	18,216
	258	39,783
Bad debt provision	(39)	(15,744)
	219	24,039

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1,822	6,113	698	478
Time deposits	—	25,529	—	23,051
Pledged time deposits for banking facilities granted but not utilised	—	1,120	—	—
Cash and cash equivalents	1,822	32,762	698	23,529

26. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts and bills payables	693	16,482	—	—
Other payables and accruals	6,097	13,819	1,235	99
Due to contract customers *(note 23)*	—	3,059	—	—
Deferred income	115	—	—	—
Customer deposits	10	1,756	—	—
	6,915	35,116	1,235	99

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Current	4	6,371
1 to 3 months	—	4,956
Over 3 months	689	5,155
	693	16,482

27. INTEREST-BEARING BANK LOANS

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Bank loans repayable within one year — secured	—	4,326

At 31 December 2001, the Group's bank loans were secured by mortgages over certain of the Group's leasehold land and buildings, which had an aggregate net book value at that date of approximately HK$15,400,000.

In addition, at 31 December 2001, the Group was granted banking facilities, which had not been utilised at that date, secured by the pledge of the Group's time deposits of HK$1,120,000 *(note 25)*.

28. SHARE CAPITAL

Shares

	2002	**2001**
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2001: 3,000,000,000) ordinary shares of HK$0.10 each	300,000	300,000
Issued and fully paid:		
1,101,873,000 (2001: 1,001,873,000) ordinary shares of HK$0.10 each	110,187	100,187

A summary of the movements of the Company's ordinary share capital during the year is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2001	1,001,000,000	100,100	237,182	337,282
Shares issued for the acquisition of a business	873,000	87	367	454
At 31 December 2001 and at 1 January 2002	1,001,873,000	100,187	237,549	337,736
Shares issued during the year	100,000,000	10,000	20,000	30,000
	1,101,873,000	110,187	257,549	367,736
Share issue expenses	—	—	(2,519)	(2,519)
At 31 December 2002	1,101,873,000	110,187	255,030	365,217

During the year, the movements in share capital were as follows:

(a) On 4 June 2002, i100 Capital Corporation, a substantial shareholder of the Company, placed 124 million shares of the Company to more than six independent professional and/or institutional investors at a price of HK$0.30 per share (the "Placing Price"). The Placing Price represented a discount of approximately 24.1% to the closing price of HK$0.395 per share as quoted on The Stock Exchange of Hong Kong Limited on 3 June 2002.

(b) On the same date, i100 Capital Corporation agreed to subscribe for 100 million new shares issued by the Company at the price equal to the Placing Price less all expenses incurred in connection with the private placement. The new shares issued represented approximately 10% of the Group's issued share capital immediately before the private placement and approximately 9.1% of the enlarged issued share capital. The net proceeds of the subscription of approximately HK$29 million were used in the development of the wireless data service business and as general working capital of the Group. All shares issued rank pari passu with the existing shares in issue in all respects.

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 21 August 1991, the Company approved a share option scheme (the "1991 Share Option Scheme") which was terminated by an ordinary resolution of the shareholders at the annual general meeting on 22 May 2001. The subsisting options granted under the 1991 Share Option Scheme 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 the shareholders at the annual general meeting 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 the same date, solution100 Corporation, being 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.

On 6 June 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of the Company pursuant to the new requirements of Chapter 17 of the Listing Rules. Under the terms of the 2002 Share Option Scheme, the board of directors (the "Board") 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 2002 Share Option Scheme since its adoption.

On the same date, i100 Wireless Corporation, being a wholly-owned subsidiary of the Company, adopted a share option scheme (the "i100 Wireless Share Option Scheme") pursuant to the new 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 i100 Wireless Share Option Scheme since its adoption.

Details of the 2002 Share Option Scheme (the "Scheme") are as follows:

(i) **Purposes of the Scheme**

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(ii) **Participants of the Scheme**

The Board may, at its absolute discretion, offer any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to take up options to subscribe for the Company's shares.

No share options were issued to any of the directors, chief executive and substantial shareholders or their associates during the year.

(iii) **Maximum number of shares available for issue under the Scheme**

The maximum number of shares subject to the Scheme must not (when aggregate with any shares subject to any other share option scheme of the Company including 1991 Share Option Scheme and 2001 Share Option Scheme) exceed 10% of the shares in issue from time to time, excluding for this purpose shares allotted and issued upon the exercise of options granted under the 1991 Share Option Scheme and the 2001 Share Option Scheme. The total number of shares available for issue under the Scheme as at the date of the annual report is 82,939,300, representing approximately 7.5% of the issued share capital of the Company as of that date.

(iv) **Maximum number of options to each participant**

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

(v) **Exercise period**

The exercise period of the share options granted is determinable by the Board, 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.

(vi) **Amount payable on acceptance**

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.

(vii) **Basis of determining the exercise price**

The exercise price in respect of any particular option of the Scheme may be determined by the board in its absolute discretion and notified to each offeree but may not be less than the higher of (i) the closing price of the Company's shares on the date of grant, which must be a business day, and (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant in accordance with the new rule 17.03 of the Listing Rules.

(viii) **Remaining life of the Scheme**

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

The following share options granted to the continuous contract employees of the Group were outstanding under the Scheme during the year:

Date of options granted	Outstanding options as at 1 January 2002	Granted during the year	Lapsed during the year	Outstanding options as at 31 December 2002	Exercise Period(2)	Exercise price of share options(3)	Share price at grant date of options(4)
						HK$	*HK$*
2 Aug 2000(1)	3,475,000	—	1,400,000	2,075,000	2 Aug 2001 to 1 Aug 2010	0.75	0.80
6 Oct 2000(1)	1,540,000	—	1,250,000	290,000	6 Oct 2001 to 5 Oct 2010	0.47	0.56
26 Mar 2001(1)	6,875,000	—	3,100,000	3,775,000	26 Mar 2002 to 25 Mar 2011	0.385	0.39
31 Aug 2001(1)	38,736,000	—	6,668,000	32,068,000	31 Aug 2002 to 30 Aug 2011	0.4032	0.50
	50,626,000	—	12,418,000	38,208,000			

Notes:

(1) 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.

(2) The exercise period commenced on the first anniversary of the date of grant and ends 10 years after the grant date. No share options were exercised or cancelled during the year.

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

(4) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

As at 31 December 2002, the Company had 38,208,000 outstanding share options. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 38,208,000 additional ordinary shares of HK$0.10 each and cash proceeds to the Company of approximately HK$16,075,743 before the related share issue expenses.

30. RESERVES

(a) **Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

In the prior year, the balance of the investment property revaluation reserve, as set out in the statement of changes in equity on page 24 to the financial statements, was transferred from the leasehold land and building revaluation reserve upon the reclassification of the related properties. This balance was frozen and was not available to offset the current and future years' revaluation deficits on investment properties. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

As detailed in note 4 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisition of subsidiaries and an associate, are as follows:

	Group	
	Goodwill included in goodwill reserve	Negative goodwill included in goodwill reserve
	HK$'000	*HK$'000*
Cost:		
At 1 January 2002	(48,807)	27
Disposal of subsidiaries	—	(27)
At 31 December 2002	(48,807)	—
Accumulated impairment:		
At 1 January 2002	—	—
Impairment provided during the year	48,807	—
At 31 December 2002	48,807	—
Net amount:		
At 31 December 2002	—	—
At 31 December 2001	(48,807)	27

(b) **Company**

	Note	Share premium account	Contributed surplus	Accumulated losses	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001		237,182	46,962	(134,033)	150,111
Issue of shares	28	367	—	—	367
Net loss attributable to shareholders		—	—	(114,893)	(114,893)
At 31 December 2001 and 1 January 2002		237,549	46,962	(248,926)	35,585
Issue of shares	28	20,000	—	—	20,000
Share issue expenses	28	(2,519)	—	—	(2,519)
Net loss attributable to shareholders		—	—	(159,231)	(159,231)
At 31 December 2002		255,030	46,962	(408,157)	(106,165)

The contributed surplus of the Company arose from the Group reorganisation in August 1991 and originally represented the excess of the fair value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities and interest received is now included in cash flows from investing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 4 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchanges rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchanges rates at the balance sheet date. This change in accounting policy has had no material effect on the amounts previously reported in the prior year's cash flow statement.

(b) Acquisition of subsidiaries/a business

		2002	**2001**
	Notes	*HK$'000*	*HK$'000*
Net assets acquired:			
Fixed assets	15	105	118
Inventories		52	—
Accounts receivable		421	1,900
Prepayments, deposits and other receivables		15	—
Cash and bank balances		97	25
Accounts payable and accruals		(672)	(934)
		18	1,109
Goodwill on acquisition	17	485	—
Negative goodwill on acquisition		—	(655)
		503	454

In the current year, 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 wholly-owned subsidiary. HK$200,000 of the cash consideration of HK$500,000 was paid upon completion of the acquisition and the remaining HK$300,000 is to be paid by two equal instalments six months and nine months after the acquisition date.

In the prior year, the consideration of HK$454,000 for the acquisition of a business was satisfied by the issuance of 873,000 ordinary shares of the Company, had no cash flow impact on the Group.

Negative goodwill of HK$655,000 arising on the acquisition of a business in the prior year was recognised as income in the consolidated profit and loss account during that year.

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries/a business:

	2002	**2001**
	HK$'000	*HK$'000*
Cash consideration	(200)	—
Cash and bank balances acquired	97	25
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries/a business	(103)	25

The subsidiaries acquired during the year made no significant contribution to the Group in respect of turnover and contribution to the consolidated loss after tax and before minority interests for the year.

(c) **Disposal of subsidiaries**

	Notes	2002 HK$'000	2001 HK$'000
Net assets disposed of:			
Fixed assets	15	18,048	—
Investment properties	16	3,630	11,000
Long term investment		1,799	—
Inventories		20,736	—
Construction contracts		13,919	—
Accounts receivable		29,716	—
Cash and bank balances		4,894	13
Prepayments, deposits and other receivables		5,437	219
Tax recoverable		323	—
Loan from i100 Limited		(53,000)	—
Accounts payable and accruals		(27,226)	(10)
Due to contract customers		(2,418)	—
Customer deposits		(1,716)	(296)
Tax payable		—	(2)
Interest-bearing bank loans and overdrafts		(8,150)	—
Minority interests		(1,350)	—
		4,642	10,924
Release of goodwill		(27)	—
Gain/(loss) on disposal of subsidiaries		(4,615)	76
		—	11,000
Satisfied by:			
Cash		—	11,000

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration	—	11,000
Cash and cash equivalents disposed of	(4,894)	(13)
Net inflow/ (outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(4,894)	10,987

During the year, the total cash consideration received for the disposal of subsidiaries was HK$3 (2001: HK$11,000,000).

The results of the subsidiaries disposed of during the year are set out in note 8 to the financial statements.

The subsidiary disposed of in the prior year made no significant contribution to the Group in respect of turnover and contribution to the consolidated loss after tax and before minority interests for that year.

(d) **Major non-cash transactions**

The deficit arising from the revaluation of the Group's leasehold land and buildings of HK$158,000 (2001: HK$2,024,000) and the deficit arising from the revaluation of the Group's investment properties of HK$350,000 (2001: HK$1,020,000) had no cash flow impact on the Group.

The profit and loss account includes a provision for bad debts of HK$6,082,000 (2001: HK$3,791,000), a provision for loans to an associate of HK$14,216,000 (2001: Nil) and impairment of goodwill of HK$48,807,000 (2001: Nil). These items had no cash flow impact on the Group.

In the prior year, the Group acquired all of the assets (including cash and bank balances of HK$25,000 and accounts receivable of HK$1,900,000) and liabilities (including accounts payable of HK$934,000) of Shanghai Cyberway for a consideration of HK$454,000 which was satisfied by the issuance of 873,000 ordinary shares of the Company at a price of HK$0.52 per share, which had no cash flow impact on the Group.

32. CONTINGENT LIABILITIES

	Group		**Company**	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank guarantees given to secure general banking facilities granted to the ALOH Group	87,100	—	87,100	87,100

The ALOH Group was disposed of by the Company during the year and the above bank guarantees given by the Company were subsequently released in January 2003.

33. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

In the prior year, a subsidiary of the Group leased its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two years. This subsidiary was disposed of during the year.

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

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Within one year	—	558
In the second to fifth years, inclusive	—	406
	—	964

(b) **As lessee**

The Group leases certain of its office and warehouse properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Within one year	911	7,930
In the second to fifth years, inclusive	—	3,567
	911	11,497

34. CAPITAL COMMITMENTS

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital commitments contracted for:				
Capital injection related to the Group's interests in jointly-controlled entities and non wholly-owned subsidiaries	24,238	24,238	—	—

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date.

35. RELATED PARTY TRANSACTIONS

During the year, certain Group companies had the following transactions with related companies:

		Group	
		2002	**2001**
	Notes	*HK$'000*	*HK$'000*
Office rental expenses paid to Avon Limited	(i), (iii)	1,282	2,690
Warehouse rental expenses paid to:	(ii), (iii)		
Come Trend Limited		200	540
Chung Yuen Electrical Company Limited		200	480
Warehouse rental income received from Chung Yuen Electrical Company Limited	(ii), (iii)	100	240
Purchase of an upgraded web content management system from Asiaweb Technologies Limited	(iv)	—	1,807

(i) The office expenses were calculated by the 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.

Details of the office rental expenses paid to Avon Limited during the period from 1 January 2002 to the date of disposal of ALOH and ASE are as follows:

Group company	**Location of Premises**	**Lease terms**	*HK$'000*
Acme Sanitary Ware Company, Limited	Part of basement & 1/F., Acme Building	1 January 2002 to 31 December 2003	277
Acme Sanitary Ware Company, Limited	G/F., Acme Building	1 April 2000 to 31 March 2003	636
Acme Sanitary Ware Company, Limited	12/F., Acme Building	1 January 2002 to 31 December 2003	171
Acme Sanitary Engineering Company, Limited	Part of basement, Acme Building	1 January 2002 to 31 December 2003	75
Landis Brothers & Company, Limited	6/F., Acme Building	1 October 2001 to 30 September 2003	123
			1,282

(ii) The warehouse rental income and expense were determined by the directors by reference to open market rentals prevailing at the times when the tenancy agreements were entered into.

(iii) Chiu Chung Kwong, John has a minority equity interest in Come Trend Limited. Chiu Chung Kwong, John and Chiu Chun Leong, David are beneficiaries under various discretionary trusts which have minority equity interests in Avon Limited. Chiu Chung Kwong, John and Chiu Chun Leong, David have indirect beneficial interests in Chung Yuen Electrical Company Limited.

In the opinion of the directors, all of the above transactions were carried out in the ordinary course of the Group's business.

(iv) AsiaWeb Technologies Limited was a wholly-owned subsidiary of AsiaWeb ASP Limited, an associate of the Group. The purchases were carried out at prices and terms comparable with those charged by independent third-party suppliers of the Group.

In addition to the related party transactions as set out above, in the prior year, HK$1 million was deposited with a bank as security for a banking facility of HK$1 million granted to Asiaweb Technologies Limited. The security over the HK$1 million deposit was released by the bank on 20 August 2001.

36. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

(a) On 24 January 2003, a sale and purchase agreement was entered into between Asia Pacific Growth Fund III, L.P., i100 Capital Corporation and i100 Holdings Corporation (collectively, the "Vendors"), Landmark Profits Limited ("Landmark Profits"), a wholly-owned subsidiary of Easyknit International Holdings Limited ("Easyknit"), Easyknit, and Mr. Cheuk Ho Yeung, Gerald, Mr. Kan Siu Kei, Laurie and Mr. Vong Tat Ieong, David, directors of the Company (collectively, the "Vendor Guarantors"), pursuant to which Landmark Profits agreed to purchase and the Vendors agreed to sell 609,000,000 shares (the "Sale Shares") in the capital of the Company for an aggregate consideration of HK$6.09 million (equivalent to HK$0.01 per share) (the "Sale and Purchase Agreement"). The Sale Shares represented 55.27% of the entire issued share capital of the Company as at the date of the joint announcement in respect thereof dated 6 February, 2003. The completion of the Sale and Purchase Agreement in accordance with its terms took place on 28 January 2003 (the "Completion") and the Company became a subsidiary of Easyknit.

Upon Completion, Easyknit procured the grant of a loan facility of HK$30.27 million through its wholly-owned subsidiary, Planetic International Limited, to the Company for the sole purpose of subscribing for shares in Copplestone Limited, a wholly-owned subsidiary of the Company, for its use as working capital for the Group. The entire amount of HK$30.27 million was released to the Company on 20 February 2003.

Upon Completion, Landmark Profits was required under Rule 26.1 of the Hong Kong Code on Takeovers and Mergers to make a mandatory unconditional cash offer for all the issued shares in the share capital of the Company and all outstanding options granted by the Company to eligible participants to subscribe for the Company's shares (other than those shares in the Company already owned and/or agreed to be acquired by Landmark Profits or parties acting in concert with it) (the "Offers"). An offer document containing, inter alia, details of the Offers together with the form of acceptance and transfer and the form of renunciation and acceptance was despatched on 27 February 2003 to the shareholders and optionholders of the Company. On 31 March 2003, a document containing, among other things, (i) information on the Company; (ii) a letter from the board of directors of the Company; (iii) a letter from the independent director; and (iv) a letter from the joint independent financial advisers to the independent director in respect of the terms of the Offers, was despatched to the shareholders and optionholders of the Company. On 14 April 2003, being the closing date of the Offers, Landmark Profits had received valid acceptances in respect of 369,460 issued shares representing approximately 0.03% of the issued shares of the Company and no acceptance had been received from the optionholders. Further details of the Offers are set out in a circular of Easyknit dated 27 February 2003 and a circular of the Company dated 31 March 2003, and in joint announcements issued by Easyknit and the Company dated 6 February 2003, 26 February 2003, 12 March 2003 and 28 March 2003. As at the date of this annual report, Landmark Profits and parties acting in concert with it were interested in an aggregate of 609,369,460 shares, representing 55.3% of the total issued share capital of the Company.

(b) On 8 January 2003, the directors of the Company resolved to put forward proposals to the shareholders including:

(i) a proposed capital reorganisation of the Company involving a reduction in the par value of each of the issued shares from HK$0.10 to HK$0.01, a subdivision of each of the authorised but unissued shares of HK$0.10 each in the capital of the Company into 10 new shares of HK$0.01 each, and the cancellation of the entire amount standing to the credit of the share premium account, which amounting to approximately HK$255,030,000 of the Company (the "Capital Reorganisation") and;

(ii) proposed amendments to the Bye-laws of the Company.

The Capital Reorganisation and the proposed amendments to the Bye-laws of the Company were approved by the shareholders at a special general meeting of the Company on 7 February 2003 and the Capital Reorganisation became effective on 10 February 2003.

(c) The Group was involved in an outstanding litigation. On 5 February 2003 and 22 February 2003, a writ of summons and an amended writ of summons were issued, respectively, against i100 Wireless (Hong Kong) Limited, a wholly-owned subsidiary of the Company, by Right Choice Development Limited (a landlord of the premises as stated below) claiming a total sum of HK$596,860 being the alleged arrears of rental, management fees and rates plus any anticipated subsequent arrears of rental, management fees and rates until the date of delivery of vacant possession in relation to an alleged breach of a tenancy agreement for the premises known as Shop Nos. 7 and 8 on Ground Floor and the whole First Floor of Hang Lung Mansion, Nos. 578 - 580 Nathan Road, Nos. 44-46 Dundas Street, Kowloon, Hong Kong. An acknowledgement of service was filed in respect of the claim. On 17 March 2003, vacant possession of the premises was duly delivered to the landlord. The Group has issued a defence. On the basis that the directors consider that the Group has valid defences against the claims and therefore, no provision has been made in the financial statements.

37. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.

7. FINANCIAL SUMMARY

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

Results

	2002	**2001**	**2000**	**1999**	**1998**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	70,354	198,134	247,003	449,123	421,605
Net profit/(loss) attributable to shareholders	(191,424)	(118,460)	(132,580)	4,276	3,773

Assets, liabilities and minority interests

	2002	**2001**	**2000**	**1999**	**1998**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	5,999	30,028	39,161	26,878	39,030
Investment properties	—	3,980	20,000	23,300	23,200
Goodwill	388	—	—	—	—
Interests in jointly-controlled entities	1,253	1,318	180	—	—
Interest in an associate	—	13,584	10,155	—	—
Long term investments	3,900	5,699	5,836	1,551	1,551
Loan to Acme Landis Operations Holdings Limited	3,700	—	—	—	—
Current assets	4,628	112,515	231,055	142,252	167,066
Total assets	19,868	167,124	306,387	193,981	230,847
Total liabilities, all of which are current	8,149	39,442	59,783	57,416	81,543
Minority interests	—	829	1,437	8	—
	11,719	126,853	245,167	136,557	149,304

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company nor any subsidiaries have been prepared in respect of any period subsequent to 31 December, 2002.

9. PRO FORMA STATEMENT OF UNAUDITED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited consolidated balance sheet of the Group as at 31 Decmeber 2003	**Estimated net proceeds of the Rights Issue**	**Unaudited consolidated balance sheet of the Group as at 31 December 2003 after the Rights Issue and before the Acquisition**	**Audited consolidated balance sheet of the Po Cheong Group as at 31 January 2004** *(Note a)*	**Adjustments** *(Note b)*	**Unaudited consolidated balance sheet of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	4,082	—	4,082	14,648	49,967	68,697
Current assets	19,675	73,113	92,788	28,143	(51,150)	69,781
Current liabilities	29,151	—	29,151	17,775	15,000	61,926
Net current (liabilities) assets	(9,476)	73,113	63,637	10,368	(66,150)	7,855
Non-current liabilities	—	—	—	8,833	—	8,833
Minority interests	209	—	209	—	—	209
Net (liabilities) assets	(5,603)	73,113	67,510	16,183	(16,183)	67,510

Note a: The audited consolidated balance sheet of the Po Cheong Group as at 31 January, 2004 has been adjusted taking into account the Loan Discharge.

Note b: The adjustments represent goodwill recognised and expenses incurred in relation to the Acquisition and the remaining balance of Consideration payable to Easyknit by the Company following Completion.

10. STATEMENT OF PRO FORMA UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is a statement of pro forma unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated net asset value of the Group as at 31 December, 2002, after making the following adjustments:

	HK$'000	*HK$'000*
Audited consolidated net asset value of the Group as at 31 December, 2002		11,719
Less: Intangible assets of the Group, representing the net book value of the goodwill in respect of acquisitions of subsidiaries, as at 31 December, 2002		(388)
Audited consolidated net tangible asset value of the Group as at 31 December, 2002		11,331
Unaudited consolidated loss for the period from 1 January, 2003 to 31 December, 2003	(46,821)	
Less: Impairment loss recognised in respect of goodwill	(388)	(46,433)
		(35,102)
Add: Gross proceeds from rights issue of shares in August 2003		13,773
Gross proceeds from placing of new shares in October 2003		7,148
Gross proceeds from placing of new shares in November 2003		8,578
Estimated net proceeds from the Rights Issue		73,113
Unaudited adjusted net tangible asset value of the Group before Completion		67,510
Add: Net assets value of the Po Cheong Group as at 31 January, 2004 taking into account the Loan Discharge		16,183
Less: Consideration for acquisition of Po Cheong Group		(65,000)
Less: Estimated cash expenses for acquisition of Po Cheong Group		(1,150)
Add: Goodwill arising on acquisition of Po Cheong Group		49,967
Less: Intangible assets of the Group, representing the goodwill arising on acquisition of Po Cheong Group		(49,967)
Pro forma unaudited adjusted consolidated net tangible asset value of the Group immediately after Completion		17,543
Pro forma unaudited adjusted consolidated net tangible asset value per Share before Completion		HK$0.189
Pro forma unaudited adjusted consolidated net tangible asset value per Share immediately after Completion		HK$0.049

11. WORKING CAPITAL

The Directors are of the opinion that, with the internal resources and the net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements.

12. INDEBTEDNESS

At the close of business on 29 February, 2004, being the latest practicable date for ascertaining the indebtedness prior to the printing of the Circular, the Group had in aggregate outstanding borrowings of approximately HK$25.7 million of which approximately HK$4.4 million were secured by charges over shares of a wholly-owned subsidiary of the Company. The borrowings comprised a loan from a wholly-owned subsidiary of Easyknit of approximately HK$21.3 million (the "Easyknit Loan"), another loan of HK$4.0 million and interest payable in respect of the above borrowings of approximately HK$0.4 million.

A writ has been issued against a wholly-owned subsidiary of the Company, details of which are set out in the section headed "Litigation" in Appendix III to the Circular.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 29 February, 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Subsequent to 29 February, 2004, the Easyknit Loan was repaid in full.

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Deloitte Touche Tohmatsu

23 April 2004

The Board of Directors
Asia Alliance Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Po Cheong International Enterprises Limited ("Po Cheong") and its subsidiary (hereinafter collectively referred to as the "Po Cheong Group") for the period from 10 January, 2001 (date of incorporation of Po Cheong) to 31 March, 2002, the year ended 31 March, 2003 and the period from 1 April, 2003 to 31 January, 2004 (the "Relevant Periods"), for inclusion in the circular of Asia Alliance Holdings Limited (the "Company") dated 23 April, 2004 in connection with the Company's proposed acquisition of the entire issued share capital of Po Cheong (the "Circular").

Po Cheong is an investment holding company and was incorporated in Hong Kong on 10 January, 2001 with limited liability.

As at the date of this report, Po Cheong owns the entire equity interest in 東莞永耀漂染有限公司 ("Wing Yiu"). Wing Yiu is a wholly foreign owned enterprise established in the People's Republic of China (the "PRC") with registered capital of HK$11,260,000, to be operated for ten years up to 20 August, 2011, and is engaged in bleaching and dyeing.

We have acted as auditors of Po Cheong for the Relevant Periods. The financial statements of Po Cheong for the Relevant Periods were prepared in accordance with accounting principles generally accepted in Hong Kong.

The statutory financial statements of Wing Yiu were prepared in accordance with PRC accounting principles and regulations applicable to wholly foreign owned enterprises. We have carried out our own independent audits, in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA"), of the consolidated financial statements of the Po Cheong Group prepared in accordance with accounting principles generally accepted in Hong Kong for the Relevant Periods.

We have examined the Financial Information of the Po Cheong Group for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKSA.

The Financial Information of the Po Cheong Group for the Relevant Periods set out in this report has been prepared from the consolidated financial statements of the Po Cheong Group.

The directors of Po Cheong are responsible for preparing the audited consolidated financial statements of the Po Cheong Group. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the audited consolidated financial statements of the Po Cheong Group, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Po Cheong and the Po Cheong Group as at 31 March, 2002, 31 March, 2003 and 31 January, 2004, and the results and cash flows of the Po Cheong Group for the period from 10 January, 2001 (date of incorporation of Po Cheong) to 31 March, 2002, the year ended 31 March, 2003 and the period from 1 April, 2003 to 31 January, 2004.

I. FINANCIAL INFORMATION

Consolidated income statements

	NOTES	**10.1.2001 to 31.3.2002**	**1.4.2002 to 31.3.2003**	**1.4.2003 to 31.1.2004**
		HK$'000	*HK$'000*	*HK$'000*
Turnover	3	7,817	29,789	46,721
Cost of sales		(5,388)	(25,176)	(43,865)
Gross profit		2,429	4,613	2,856
Other operating income		79	127	153
Distribution costs		(552)	(622)	(1,210)
Administrative expenses		(2,995)	(4,238)	(2,843)
Loss from operations	5	(1,039)	(120)	(1,044)
Finance costs	7	(403)	(293)	(154)
Net loss for the period/year		(1,442)	(413)	(1,198)
Basic loss per share (HK$)	9	(16,022)	(4,589)	(13,311)

Consolidated balance sheets

	NOTES	**31.3.2002**	**31.3.2003**	**31.1.2004**
		HK$'000	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	10	6,738	11,389	14,648
Current assets				
Inventories	12	679	2,645	1,578
Trade and other receivables	13	6,917	18,712	25,727
Bank balances and cash		1,382	786	838
		8,978	22,143	28,143
Current liabilities				
Trade and other payables	14	5,031	16,990	16,153
Amount due to ultimate holding company	15	208	18,397	20,191
Amount due to immediate holding company	16	9,744	—	—
Amount due to a former shareholder	17	2,175	—	—
Bank loan — amount due within one year	18	—	—	667
		17,158	35,387	37,011
Net current liabilities		(8,180)	(13,244)	(8,868)
		(1,442)	(1,855)	5,780
Capital and reserves				
Share capital	19	—	—	—
Accumulated losses		(1,442)	(1,855)	(3,053)
		(1,442)	(1,855)	(3,053)
Non-current liability				
Bank loan — amount due after one year	18	—	—	8,833
		(1,442)	(1,855)	5,780

Balance sheets

	NOTES	**31.3.2002**	**31.3.2003**	**31.1.2004**
		HK$'000	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	10	—	—	3,576
Investment in subsidiary, unlisted		6,239	8,059	10,782
		6,239	8,059	14,358
Current assets				
Other receivables		—	734	6
Amount due from subsidiary	11	6,146	9,025	14,477
Bank balances and cash		14	224	69
		6,160	9,983	14,552
Current liabilities				
Other payables		1,013	855	832
Amount due to ultimate holding company	15	208	18,397	20,191
Amount due to immediate holding company	16	9,744	—	—
Amount due to a former shareholder	17	1,997	—	—
Bank loan — amount due within one year	18	—	—	667
		12,962	19,252	21,690
Net current liabilities		(6,802)	(9,269)	(7,138)
		(563)	(1,210)	7,220
Capital and reserves				
Share capital	19	—	—	—
Accumulated losses		(563)	(1,210)	(1,613)
		(563)	(1,210)	(1,613)
Non-current liability				
Bank loan — amount due after one year	18	—	—	8,833
		(563)	(1,210)	7,220

Consolidated statement of changes in equity

	Share capital *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Issue of shares since incorporation of HK$90	—	—	—
Net loss for the period	—	(1,442)	(1,442)
At 31 March, 2002	—	(1,442)	(1,442)
Net loss for the year	—	(413)	(413)
At 31 March, 2003	—	(1,855)	(1,855)
Net loss for the period	—	(1,198)	(1,198)
At 31 January, 2004	—	(3,053)	(3,053)

Consolidated cash flow statements

	10.1.2001 to 31.3.2002 *HK$'000*	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2003 to 31.1.2004 *HK$'000*
Cash flows from operating activities			
Loss from operations	(1,039)	(120)	(1,044)
Adjustments for:			
Interest income	(2)	(15)	(14)
Depreciation	425	897	1,340
Allowance for doubtful debts	—	377	350
Loss on disposal of property, plant and equipment	—	11	—
Operating (loss) profit before movement in working capital	(616)	1,150	632
(Increase) decrease in inventories	(679)	(1,966)	1,067
Increase in trade and other receivables	(6,917)	(12,172)	(7,365)
Increase (decrease) in trade and other payables	5,031	11,959	(837)
Cash used in operations	(3,181)	(1,029)	(6,503)
Interest paid	(403)	(293)	(154)
Net cash used in operating activities	(3,584)	(1,322)	(6,657)
Cash flows from investing activities			
Interest received	2	15	14
Proceeds from disposal of property, plant and equipment	—	5	—
Purchase of property, plant and equipment	(7,163)	(5,564)	(4,599)
Net cash used in investing activities	(7,161)	(5,544)	(4,585)
Cash flows from financing activities			
New bank loan raised	—	—	10,000
Advances from ultimate holding company	208	18,189	1,794
Repayment of bank loan	—	—	(500)
Advance from (repayment to) immediate holding company	9,744	(9,744)	—
Advance from (repayment to) a former shareholder	2,175	(2,175)	—
Net cash from financing activities	12,127	6,270	11,294
Net increase (decrease) in cash and cash equivalents	1,382	(596)	52
Cash and cash equivalents at beginning of the period/year	—	1,382	786
Cash and cash equivalents at end of the period/year, represented by bank balances and cash	1,382	786	838

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Po Cheong is a private limited company incorporated in Hong Kong. Its ultimate holding company is Easyknit International Holdings Limited, a company incorporated in Bermuda.

Po Cheong is engaged in investment holding. Its subsidiary is engaged in bleaching and dyeing.

2. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention and has 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 information incorporates the financial statements of Po Cheong and its subsidiary made up to respective balance sheet date.

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

Investment in subsidiary

Investment in subsidiary is included in Po Cheong's balance sheet at cost less any identified impairment loss.

Revenue recognition

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

Service income is recognised when services are rendered.

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

Impairment

At each balance sheet date, the Po Cheong Group reviews the carrying amounts of its 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 only 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 and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Motor vehicles	9% to 18%

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average 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. 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 periods and it further excludes items that are never taxable or deductible. The Po Cheong Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial information 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 goodwill (or negative goodwill) or 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, except where the Po Cheong Group is able to control the reversal of the temporary difference 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Po Cheong Group intends to settle its current tax assets and liabilities on a net basis.

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 dealt with in the income statement.

On consolidation, the assets and liabilities of the Po Cheong 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 Po Cheong Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

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

Operating leases

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

3. TURNOVER

The amount represents the aggregate of the net amounts received and receivable for goods sold and services rendered by the Po Cheong Group during the Relevant Periods, and is analysed as follows:

	10.1.2001 to 31.3.2002	**1.4.2002 to 31.3.2003**	**1.4.2003 to 31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods	—	17,445	39,959
Service income	7,817	12,344	6,762
	7,817	29,789	46,721

4. BUSINESS AND GEOGRAPHICAL SEGMENT

The Po Cheong Group was solely in the business of bleaching and dyeing and substantially all of the Po Cheong Group's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

5. LOSS FROM OPERATIONS

	10.1.2001 to 31.3.2002 *HK$'000*	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2003 to 31.1.2004 *HK$'000*
Loss from operations has been arrived at after charging:			
Directors' remuneration	—	—	—
Other staff costs			
— salaries and other allowances	2,131	2,636	2,304
— retirement benefit costs	9	25	21
Total staff costs	2,140	2,661	2,325
Allowance for doubtful debts	—	377	350
Auditors' remuneration	9	181	100
Depreciation	425	897	1,340
Loss on disposal of property, plant and equipment	—	11	—
Minimum lease payments in respect of premises under operating leases	685	898	734
Preliminary expenses written off	8	—	—
and after crediting:			
Interest income	2	15	14

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

No remuneration was paid to Po Cheong's directors during the Relevant Periods.

(ii) Employees' remuneration

Details of remuneration paid by the Po Cheong Group to the five highest paid employees for each of the Relevant Periods are as follows:

	10.1.2001 to 31.3.2002 *HK$'000*	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2003 to 31.1.2004 *HK$'000*
Salaries and other allowances	472	858	423

During the Relevant Periods, no remuneration was paid by the Po Cheong Group to the directors or the five highest paid employees as an inducement to join or upon joining the Po Cheong Group or as compensation for loss of office. No directors have waived any remuneration during the Relevant Periods.

7. FINANCE COSTS

	10.1.2001 to 31.3.2002 *HK$'000*	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2003 to 31.1.2004 *HK$'000*
Interest on:			
— bank loan not wholly repayable within five years	—	—	154
— amount due to immediate holding company	291	263	—
— amount due to a former shareholder	112	30	—
	403	293	154

8. TAXATION

No provision for taxation has been made as Po Cheong and its subsidiary incurred a loss for the Relevant Periods.

The taxation can be reconciled to net loss for the period/year per income statement as follows:

	10.1.2001 to 31.3.2002 *HK$'000*	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2003 to 31.1.2004 *HK$'000*
Net loss for the period/year	(1,442)	(413)	(1,198)
Hong Kong Profits Tax (10.1.2001 to 31.3.2002 = 16%, 1.4.2002 to 31.3.2003 = 16%, 1.4.2003 to 31.1.2004 = 17.5%)	(231)	(66)	(210)
Tax effect of expenses not deductible for tax purpose	42	5	27
Effect of different tax rate of subsidiary operating in other jurisdiction	140	(37)	139
Effect of tax losses not recognised	49	98	44
Taxation	—	—	—

No provision for deferred taxation has been made as the amount involved is insignificant.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period/year for each of the Relevant Periods and the number of shares in issue during the Relevant Periods.

There were no potentially dilutive shares in existence during the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE PO CHEONG GROUP				
COST				
Acquired during the period and balance at 31 March, 2002	4,687	2,476	—	7,163
Reclassification	1,168	(1,168)	—	—
Additions	5,046	428	90	5,564
Disposals	(18)	—	—	(18)
At 31 March, 2003	10,883	1,736	90	12,709
Additions	3,764	558	277	4,599
At 31 January, 2004	14,647	2,294	367	17,308
DEPRECIATION				
Provided for the period and balance at 31 March, 2002	180	245	—	425
Provided for the year	715	181	1	897
Eliminated on disposals	(2)	—	—	(2)
At 31 March, 2003	893	426	1	1,320
Provided for the period	974	348	18	1,340
At 31 January, 2004	1,867	774	19	2,660
NET BOOK VALUE				
At 31 March, 2002	4,507	2,231	—	6,738
At 31 March, 2003	9,990	1,310	89	11,389
At 31 January, 2004	12,780	1,520	348	14,648

	Plant and machinery
	HK$'000
PO CHEONG	
COST	
Acquired during the period and balance at 31 January, 2004	3,732
DEPRECIATION	
Provided for the period and balance at 31 January, 2004	156
NET BOOK VALUE	
At 31 January, 2004	3,576

11. AMOUNT DUE FROM SUBSIDIARY

PO CHEONG

The amount is unsecured, non-interest bearing and repayable on demand.

12. INVENTORIES

THE PO CHEONG GROUP

The amount represents raw materials and consumables which are carried at cost.

13. TRADE AND OTHER RECEIVABLES

The Po Cheong Group allows a credit period normally ranging from 60 to 90 days to its trade customers. However, customers with established trading records could be granted longer credit period. An aged analysis of trade receivables is as follows:

	THE PO CHEONG GROUP		
	31.3.2002	**31.3.2003**	**31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	2,295	7,076	2,701
Between 31 to 60 days	970	2,498	5,900
Between 61 to 90 days	1,570	5,501	6,511
Over 90 days	2,073	2,070	10,260
	6,908	17,145	25,372

14. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE PO CHEONG GROUP		
	31.3.2002	**31.3.2003**	**31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	903	6,824	1,540
Between 31 to 60 days	479	5,931	4,256
Between 61 to 90 days	615	1,085	4,009
Over 90 days	883	1,626	4,538
	2,880	15,466	14,343

15. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

THE PO CHEONG GROUP AND PO CHEONG

The amount is unsecured, non-interest bearing and repayable on demand.

16. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

THE PO CHEONG GROUP AND PO CHEONG

The amount was unsecured and bore interest at prevailing market rates.

17. AMOUNT DUE TO A FORMER SHAREHOLDER

THE PO CHEONG GROUP AND PO CHEONG

The amount was unsecured and bore interest at prevailing market rates.

18. BANK LOAN

	THE PO CHEONG GROUP AND PO CHEONG		
	31.3.2002	31.3.2003	31.1.2004
	HK$'000	*HK$'000*	*HK$'000*
The bank loan is repayable as follows:			
Within one year	—	—	667
Between one to two years	—	—	1,333
Between two to five years	—	—	2,667
After five years	—	—	4,833
	—	—	9,500
Less: Amount due within one year shown under current liabilities	—	—	667
Amount due after one year	—	—	8,833

The bank loan bears interest at prevailing market rates and is repayable in instalments. It is supported by corporate guarantee from the ultimate holding company.

19. SHARE CAPITAL

	31.3.2002, 31.3.2003 & 31.1.2004
	HK$'000
Authorised:	
1,000,000 ordinary shares of HK$1 each	1,000
Issued and fully paid:	
90 ordinary shares of HK$1 each	—

Po Cheong was incorporated on 10 January, 2001 with an authorised share capital of HK$1,000,000 divided into 1,000,000 ordinary shares of HK$1 each. At the time of incorporation, two ordinary shares of HK$1 each were issued, for cash at par, to the subscribers to provide the initial capital for Po Cheong. On 15 January, 2001, 88 additional ordinary shares of HK$1 each were issued, for cash at par, to provide additional working capital to Po Cheong.

Other than the above, there were no changes in Po Cheong's authorised, issued and fully paid share capital in the Relevant Periods.

20. OPERATING LEASE COMMITMENTS

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

	THE PO CHEONG GROUP			PO CHEONG		
	31.3.2002	**31.3.2003**	**31.1.2004**	**31.3.2002**	**31.3.2003**	**31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	682	898	898	682	—	—
In the second to fifth year inclusive	2,726	3,590	3,590	2,726	—	—
After five years	2,726	2,693	1,945	2,726	—	—
	6,134	7,181	6,433	6,134	—	—

Operating lease payments represent rentals payable by the Po Cheong Group for its office and factory premises. The lease is negotiated for a term of approximately ten years.

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

21. CAPITAL COMMITMENTS

	PO CHEONG		
	31.3.2002	**31.3.2003**	**31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*
Capital contribution to Wing Yiu	—	3,201	478

22. RETIREMENT BENEFITS SCHEMES

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

23. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Po Cheong Group had the following transactions with related parties:

	THE PO CHEONG GROUP		
	10.1.2001 to 31.3.2002	**1.4.2002 to 31.3.2003**	**1.4.2003 to 31.1.2004**
	HK$'000	*HK$'000*	*HK$'000*
Interest paid to:			
— immediate holding company	291	263	—
— a former shareholder	112	30	—

Interest is determined with reference to the principal outstanding and at the prevailing market rate of interest.

III. SUBSEQUENT EVENT

On 5 March, 2004, Easyknit International Holdings Limited, the ultimate holding company, unconditionally and irrevocably released and discharged Po Cheong from its obligation to repay the amount due to it of HK$19,236,185.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Po Cheong or its subsidiary have been prepared in respect of any period subsequent to 31 January, 2004.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest
Koon Wing Yee *(Note)*	Interest of spouse	128,259,324	35.93%
Lui Yuk Chu *(Note)*	Beneficiary of a trust	128,259,324	35.93%

Note: The Shares are beneficially owned by Landmark Profits, which is a wholly-owned subsidiary of Easyknit. Magical Profits Limited is interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited is wholly-owned by Accumulate More Profits Limited which in turn is wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, is deemed to be interested in the 128,259,324 Shares by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

None of the Directors is interested in any assets which have been since 31 December, 2002 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of or leased to any member of the Group.

Save as disclosed in the section headed "Material Contracts" in this appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contracts with any member of the Group, save for the contracts which will expire or are terminable by the employer within one year without payment of compensation, other than statutory compensation.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (the "Substantial Shareholders") (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such shares are set out below:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of interest
Landmark Profits *(Note)*	Beneficial owner	128,259,324	35.93%
Easyknit *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Magical Profits Limited *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Accumulate More Profits Limited *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Newcourt Trustees Limited *(Note)*	Trustee	128,259,324	35.93%
Au Yeung Man Yin	Beneficial owner	47,624,136	13.34%
Chan So Chun	Beneficial owner	37,191,000	10.42%

Note: These Shares are beneficially owned by Landmark Profits, which is a wholly-owned subsidiary of Easyknit. Magical Profits Limited is interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited is wholly-owned by Accumulate More Profits Limited which in turn is wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members).

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this Circular and are or may be material:

(a) a share acquisition agreement dated 29 May, 2002 entered into between the Company and Mountial Investment Co. Ltd. ("Mountial") relating to disposal of the entire issued share capital of Acme Landis Operations Holdings Limited ("ALOH"), formerly a wholly-owned subsidiary of the Company, for a consideration of HK$1;

(b) a deed of loan restructure dated 29 May, 2002 entered into between ALOH, Mountial and the Company to amend the terms of the original loan by the Company to ALOH in connection with an asset transfer agreement dated 20 May, 2000;

(c) a deed of equitable mortgage of shares dated 29 May, 2002 entered into between the Company and Mountial relating to the pledge of 100 million shares by Mountial in the capital of the Company as security for the repayment of the outstanding loan under the deed of loan restructure dated 29 May, 2002 (as referred to in sub-paragraph (b) above);

(d) a top-up subscription agreement dated 4 June, 2002 entered into between the Company and i100 Capital Corporation as subscriber relating to the subscription of 100 million new shares of the Company by the subscriber for a total consideration of HK$28,934,831;

(e) a sale and purchase agreement dated 23 August, 2002 entered into between Digital Empires Company Limited as vendor, solution100 Limited (a wholly-owned subsidiary of the Company) as purchaser, Chung Wai Keung, David, Chan Chun Hung, Addison, Lo Yuet Sun, Keymaster Management Limited, Time Matrix Holdings Limited, Major Circle Limited (collectively the "Vendor's Guarantors") and the Company relating to the acquisition of the entire share capital of Digital Empires Company Limited in consideration of a sum of HK$502,500 and the allotment and issue to the Vendor's Guarantors, credited as fully paid, a total of 2,500 shares of HK$1.00 each in the capital of solution100 Limited;

(f) a facility agreement dated 6 January, 2003 entered into between Copplestone Limited (a wholly-owned subsidiary of the Company) ("Copplestone") as borrower and Acro Consulting Inc. as lender relating to a term loan facility of up to HK$4,000,000 secured by all the shares in the share capital of i100 Wireless Corporation (a wholly-owned subsidiary of Copplestone);

(g) a facility letter dated 24 January, 2003 entered into between the Company and Planetic International Limited (a wholly-owned subsidiary of Easyknit) ("Planetic") in relation to the granting of the Easyknit Loan by Easyknit through Planetic to the Company;

(h) an escrow agreement dated 24 January, 2003 entered into between the Company, Planetic and Messrs. Simmons & Simmons as escrow agent relating to the Easyknit Loan pursuant to the loan facility letter dated 24 January, 2003 (as referred to in sub-paragraph (g) above);

(i) an underwriting agreement dated 30 July, 2003 entered into between the Company and Get Nice Investment Limited in relation to a rights issue of not less than 13,773,412 rights shares at a price of HK$1.00 per rights share whereby Get Nice Investment Limited agreed to fully underwrite 6,988,494 rights shares under the rights issue;

(j) a placing agreement dated 13 October, 2003 entered into between the Company and Get Nice Investment Limited in relation to the placing of 8,264,047 new shares at a price of HK$0.865 per placing share whereby Get Nice Investment Limited agreed to fully underwrite all the placing shares;

(k) a placing agreement dated 21 November, 2003 entered into between the Company and Kingston Securities Limited in relation to the placing of 9,916,856 new shares at a price of HK$0.865 per placing share whereby Kingston Securities Limited agreed to fully underwrite all the placing shares;

(l) an underwriting agreement dated 2 January, 2004 entered into among the Company, Get Nice Investment Limited, Kingston Securities Limited and Cheer Union Securities Limited in relation to the Rights Issue; and

(m) the Sale and Purchase Agreement.

5. LITIGATION

On 5 February, 2003 and 22 February, 2003 respectively, a writ and an amended writ were issued against i100 Wireless (Hong Kong) Limited, a wholly-owned subsidiary of the Company, by Right Choice Development Limited (landlord of the premises as stated below) claiming a total sum of HK$596,860 being the alleged arrears of rental, management fees and rates plus any subsequent arrears of rent, management fees and rates until the date of delivery of the premises known as Shop Nos. 7 and 8 on Ground Floor and the whole First Floor of Hang Lung Mansion, Nos. 578-580 Nathan Road, Nos. 44-46 Dundas Street, Kowloon, Hong Kong, the full amount of which has been provided for in the Company's income statement as at the Latest Practicable Date. An acknowledgement of service has been filed in respect of the claim. On 17 March, 2003, vacant possession of the premises was delivered to the landlord. An amended defence was filed into court on 22 December, 2003 to contest the legal proceedings.

Save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any litigation of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries as at the Latest Practicable Date.

6. MATERIAL ADVERSE CHANGES

The Directors are of the opinion that there has not been any material adverse change in the financial or trading position of the Group since 31 December, 2002, being the date to which the latest published audited accounts of the Group were made up.

7. EXPERT

The following are the qualifications of the experts who have been named in this Circular or have given opinions or advice which are contained in this Circular:

Name	Qualification
Barits	Corporation deemed licensed under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Ernst & Young	Certified Public Accountants

None of Barits, Deloitte Touche Tohmatsu or Ernst & Young has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Barits, Deloitte Touche Tohmatsu and Ernst & Young has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

None of Barits, Deloitte Touche Tohmatsu or Ernst & Young has any direct or indirect interests in any assets which have been, since 31 December, 2002 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

The English text of this Circular shall prevail over the Chinese text in the case of any inconsistency between the two texts.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong up to and including 10 May, 2004:

(a) the memorandum of association and bye-laws of the Company;

(b) the Sale and Purchase Agreement;

(c) the letters of consent referred to in the paragraph headed "Experts" above;

(d) the letter of advice from Bartis, the text of which is set out in this Circular;

(e) the unaudited interim financial statements of the Company for the twelve months ended 31 December, 2003;

(f) the unaudited interim financial statements of the Company for the six months ended 30 June, 2003;

(g) the audited financial statements of the Company for the years ended 31 December, 2001 and 31 December, 2002; and

(h) the material contracts referred to in the section headed "Material Contracts" of this appendix.

Asia Alliance Holdings Limited
亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Asia Alliance Holdings Limited (the "Company") will be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road,Cheung Sha Wan, Kowloon, Hong Kong on Monday, 10 May, 2004 at 9:00 a.m. for the purpose of considering and, if though fit, passing the following resolution with or without amendment as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT

(a) the sale and purchase agreement (the "Agreement") dated 5 March, 2004 between Best Ability Limited ("Best Ability"), a wholly-owned subsidiary of the Company and Easyknit International Trading Company Limited ("Easyknit International Trading"), a wholly-owned subsidiary of Easyknit International Holdings Limited whereby, inter alia, Best Ability has conditionally agreed to acquire from Easyknit International Trading the entire issued share capital of Po Cheong International Enterprises Limited for a consideration of HK$65,000,000 subject to adjustments of which details are set out in the Agreement, and the transactions contemplated in the Agreement be and are hereby approved; and

(b) the directors of the Company be and are hereby authorised to do all acts and things which in their opinion are necessary or desirable to give effect to the terms of the Agreement and for completion of the Agreement."

By Order of the Board
Koon Wing Yee
President & Chief Executive Officer

Hong Kong, 23 April, 2004

* *For identification only*

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one proxy or more proxies to attend and vote in his/her behalf. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the meeting, personally or by proxy, then one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the meeting is enclosed.

4. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's office at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting should they so wish, in which case the form of proxy shall be deemed to be revoked.

5. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Landmark Profits Limited and its associates are required to abstain from voting in respect of the Resolution to be proposed at the meeting which shall be voted only by way of poll.