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FORTUNE TELECOM HOLDINGS LIMITED
長遠電信網絡集團有限公司*

(Incorporated in Bermuda with limited liability)

LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock code: 110

Sponsor

South China Capital Limited

Co-sponsor

Watterson Asia Limited

This document is published in connection with the Introduction. This document contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information on the Company.

This document does not constitute an offer of, nor is it calculated to invite offers for, the Shares or other securities of the Company, nor have any such Shares or other securities been allotted with a view to any of them being offered for sale to members of the public. No new Shares will be issued or existing Shares will be offered in connection with, or pursuant to, the publication of this document.

Your attention is drawn to the section headed "Risk factors" in this document.

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS from 16 February 2000, the date on which dealings in the Shares on GEM commenced. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board and the continuous compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once the dealings in the Shares on the Main Board commence.

All necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

* *For identification purpose only*

22 December 2003

EXPECTED TIMETABLE FOR THE INTRODUCTION

Despatch of circular, notice of the Special General Meeting and related forms of proxy to the Shareholders in relation to the proposed withdrawal of listing of the Shares on GEM, the proposed reduction of the notice period for such withdrawal of listing and the proposed adoption of the Proposed Share Option Scheme and the Bye-laws	Monday, 22 December 2003
Despatch of this listing document in relation to the Introduction to the Shareholders	Monday, 22 December 2003
Latest time for lodgement of related forms of proxy for the Special General Meeting	9:00 a.m. on Monday, 12 January 2004
Special General Meeting	9:00 a.m. on Wednesday, 14 January 2004
Date of the announcement of results of the Special General Meeting and the notice of the proposed withdrawal of listing, which are to be published on the GEM website, in The Standard (in English) and in Hong Kong Economic Times (in Chinese)	Thursday, 15 January 2004
Last day of dealings in the Shares on GEM	Wednesday, 21 January 2004
Withdrawal of listing of the Shares on GEM effective from	9:30 a.m. on Monday, 26 January 2004
Commencement of dealings in the Shares on Main Board	9:30 a.m. on Monday, 26 January 2004

Notes:–

1. All time stated herein refers to Hong Kong local time.

2. Shareholders will be informed by public announcement of any change in the above expected timetable.

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The Company has not authorised anyone to provide you with information that is different from what is contained in this document.

Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, the Sponsors, the directors of any of them, or any party involved in the Introduction.

The contents of the Company's website do not form part of this document.

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This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

OVERVIEW OF THE BUSINESS OF THE GROUP

Listed on GEM in February 2000, the Group is one of the leading distributors of mobile phone products in the PRC. As at the Latest Practicable Date, the distribution and service network of the Group in the PRC comprised approximately 140 authorised distributors in certain major PRC cities, such as Beijing, Shanghai, Guangzhou, Shenzhen and Zhuhai. All these distributors are Independent Third Parties. For the financial year ended 31 March 2002, the Group sold approximately two million sets of mobile phone and such sales accounted for approximately 98% of the Group's annual turnover of approximately HK$3,461 million. For the financial year ended 31 March 2003, the Group sold approximately 2.1 million sets of mobile phone and such sales accounted for approximately 96% of the Group's annual turnover of approximately HK$2,945 million.

During the Track Record Period, the Group sold and distributed on a non-exclusive basis selected models of GSM mobile phone with brand names of "Nokia", "Philips" and "Alcatel" and CDMA mobile phones with brand names of "Motorola" and "Hisense". Sales of "Nokia", in aggregate accounted for approximately 90% of the Group's turnover during the three years ended 31 March 2003 and about 70% of the Group's turnover during the five months ended 31 August 2003. As at the Latest Practicable Date, the Group mainly distributed "Nokia 8910i", "Nokia 8250", "Nokia 7210", "Nokia 6610", "Nokia 3610", "Nokia 2100," "Nokia 3100", "Nokia 3300" and "Siemens M55" mobile phones in the PRC. The Group's sales of Nokia mobile phones for the year ended 31 March 2003 amounted to HK$2,778 million, representing approximately 11% of Nokia's reported mobile phone sales of EUR2,802 million (HK$25,723 million) in the PRC in 2002.

The Group also develops its marketing and after-sales service network in the PRC through authorised distributors. As at the Latest Practicable Date, the distribution and service network of the Group comprised approximately 140 authorised distributors. Under the existing arrangement, the Group is responsible for supplying mobile phone products to these authorised distributors and providing technical training and supports for the after-sales services, provided by these authorised distributors to end-users. To further support the provision of the after-sales services by the authorised distributors, an aggregate of 28 mobile phone service centres were established by the authorised distributors in the PRC as at the Latest Practicable Date.

Apart from the authorised distributors, the Group also sells to other wholesalers and retailers in the PRC. The Group currently has a customer base (including the authorised distributors) of approximately 1,000 customers. These customers may act as wholesalers or retailers from time to time of different types of mobile phone products.

The Group acquired 51% interest in Synergy in July 2001 at a consideration of HK$9.4 million. Synergy provides wireless communication solutions to corporate customers in Hong Kong and distributes through independent computer stores and retail chains PDAs and pocket PCs in Hong Kong, with leading brands such as Palm, Acer, Sony, HandEra and AudioVox. For the financial year ended 31 March 2002, the post-acquisition consolidated sales of and the Group's share of profit after tax attributable to Synergy were approximately HK$61.8 million and HK$1.7 million, respectively, accounting for approximately

1.8% and 3.4% of the Group's total turnover and profit after taxation and minority interests, respectively. Respective figures for the financial year ended 31 March 2003 were approximately HK$110 million, accounting for approximately 3.7% of the Group's total turnover, and profit after tax of approximately HK$0.2 million.

Synergy was one of the pioneers in the deployment of WLAN in Hong Kong in 1999. Using the hardware with the brand name of "Orinoco", Synergy has provided wireless internet solutions to a number of shopping malls in Hong Kong, such as Harbour City and Times Square, and educational institutions and commercial organisations. Synergy is also participating in a number of international exhibitions and conferences in Hong Kong and sponsoring the required communications equipment. In June 2002, Synergy secured the distribution right in Hong Kong and Macau for a 2.5G GPRS PDA mobile phone – the O_2 xda.

TRADING RECORD OF THE GROUP

The following is a summary of the audited consolidated results of the Group for each of the Track Record Period which is prepared on the basis of presentation described under "Basis of presentation" in the accountants' report, the text of which is set forth in Appendix I to this document. This summary should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this document:-

	Financial year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover *(Note 1)*	1,544,856	3,461,182	2,944,947	609,683
Cost of sales *(Note 2)*	(1,474,031)	(3,316,149)	(2,795,875)	(589,361)
Gross profit	70,825	145,033	149,072	20,322
Other operating income *(Note 3)*	6,911	11,377	6,656	2,218
Distribution costs	(21,439)	(41,211)	(21,890)	(6,488)
Administrative expenses	(21,249)	(27,401)	(26,518)	(8,358)
Other operating expenses	(1,485)	(6,724)	(9,667)	(1,040)
Profit from operations	33,563	81,074	97,653	6,654
Finance costs	(4,721)	(10,893)	(20,698)	(6,782)
Deficit on revaluation of an investment property *(Note 4)*	(2,500)	(1,000)	(1,500)	–
Unrealised gain on investment securities *(Note 5)*	39,458	–	–	–
Unrealised holding (loss)/gain on other investments *(Note 5)*	(41,448)	(8,292)	1,988	2,996
Impairment loss on other investment	–	–	(390)	–
Impairment loss on goodwill arising on acquisition of an associate	–	(704)	–	–
Gain on disposal of subsidiaries	–	1,187	–	–
Share of results of associates	(261)	(211)	(38)	–
Profit before taxation	24,091	61,161	77,015	2,868
Taxation	(6,109)	(9,222)	(16,018)	(186)
Profit before minority interests	17,982	51,939	60,997	2,682
Minority interests	–	(1,624)	(80)	527
Profit for the year/period	17,982	50,315	60,917	3,209
Dividends paid/payable	15,000	3,021	15,105	15,105
Earnings per Share *(Note 6)*	6.0 cents	16.7 cents	20.2 cents	1.1 cents

Notes:-

1. Turnover represented sales at invoiced value to customers, net of returns, discounts allowed and value-added tax ("VAT"), where applicable.

2. Cost of sales represented purchases at invoiced value, net of returns, discounts and purchase rebates receivable, where applicable. The purchase rebates are granted by suppliers in accordance with the policies of the rebate schemes, details of which are set forth under "Purchase" in the section headed "Business" in this document. The aggregate amount of such purchase rebates received during each of the Track Record Period amounted to approximately HK$157.3 million, HK$184.1 million, HK$313.6 million and HK$52.9 million, respectively.

3. Other operating income comprised mainly interest income from cash deposits and property rental income.

4. The deficit arising from revaluation of investment property of the Group was determined by reference to the estimated open market value of the investment property as valued by an independent professional valuer.

5. Unrealised gain on investment securities arose primarily due to the transfer of PacificNet from investment securities to other investments with reference to its cost of investment. Unrealised holding (loss)/gain on other investments arose principally due to marking the Group's investment in PacificNet to market as at 30 March 2001, 28 March 2002, 31 March 2003 and 29 August 2003.

6. The calculation of earnings per Share is based on the Group's profit attributable to Shareholders for the relevant period and the weighted average number of 300,000,000 Shares, 301,410,000 Shares, 302,100,000 Shares and 302,100,000 Shares in issue during each of the Track Record Period, respectively.

FUTURE PLANS AND PROSPECTS

According to the statistics from MII, Nokia is the leading foreign mobile phone brands in the PRC with a market share of approximately 18% in 2002. According to the 2002 annual report of Nokia, sales of Nokia mobile phones in the PRC amounted to approximately EUR2,802 million (equivalent to approximately HK$25,723 million). The Group's sales of Nokia mobile phones for the financial year ended 31 March 2003 were approximately HK$2,778 million, representing approximately 11% of Nokia's total mobile phone sales in the PRC in 2002. Based on these figures, the Directors believe that the Group is one of the leading mobile phone distributors in the PRC.

During the last decade, the number of mobile phone users in the PRC increased substantially and reached approximately 257 million users as at the end of October 2003. The PRC is currently the largest mobile phone market in the world. According to MII, the number of mobile phone users in the PRC is expected to reach approximately 405 million by the end of year 2007. With an established distribution and service network in the PRC serving approximately 1,000 customers, the Directors believe that the Group will be able to leverage on this distribution and service network to expand its sales and to further consolidate its market position in the PRC.

The Group will also work closely with its business partners to increase the market share and the business volume. To this end, the Group plans to increase its distribution coverage to other PRC cities by further expanding the distribution and service network and recruiting additional sales and marketing staff. The Group will also continue to enhance the logistics support network with regional warehouses in major PRC provinces, with the objective of delivering products within 24 hours to most PRC cities.

In addition, the Group will seek to expand its supplier base and broaden its product portfolio. The Directors believe that current technology development in the wireless telecommunications has led to multiple functionality of mobile phones, migrating from voice transmission to delivery of multi-media contents, such as images, entertainment and business applications. As such, the Directors expect that additional mobile communication products equipped with different features and applications will be gradually accepted by end-users. The Directors are currently in discussion with Nokia and other suppliers to distribute such new mobile phone products in the PRC on either national or regional basis. With an expanded and efficient distribution and service network and its business relationship with its suppliers, the Directors believe that the Group is in a good position to secure the distribution rights for new mobile phone models and new mobile phone models produced by other manufacturers.

The Directors are optimistic of the Group's mobile phone distribution business in the future. This is based on the following reasons:–

(1) Similar to other markets, a large mobile phone replacement market is being generated in the PRC due to the increasing demand for new mobile phone sets with advanced functions, such as colour displays, built-in camera and other SMS and MMS features. This is expected to increase the mobile phone sales in the PRC, which is enjoying a relatively high economic growth.

(2) The Group currently focuses its distribution business for foreign mobile phone manufacturers, such as Nokia and Siemens, which are primarily in the forefront of mobile phone technology as compared with the domestic brands in the PRC.

(3) The Group has secured from Nokia and Siemens the distribution right in the PRC in respect of certain new mobile phone models in the second half of 2003. In addition, the Group is in discussion with them and other manufacturers for the distribution of other mobile phone models.

As a result of the continuous technological development, the convergence of voice, data and multimedia have also led the Group to diversify its product portfolios to include other mobile communication related products, such as PDAs and WLAN equipment. The acquisition of Synergy by the Group in July 2001, which enabled it to diversify its business into the distribution of other handheld mobile devices, such as PDAs and into the provision of wireless internet browsing solutions to institutions and corporations, was part of the Group's strategy to follow the latest technological development. The Group will continue to leverage on the expertise and the synergistic benefits derived from Synergy to expand into other personal mobile products in the PRC market.

KEY FINANCIAL INFORMATION

Earnings per Share for the financial year ended 31 March 2003 *(Note 1)* .... HK20.2 cents

Adjusted net tangible asset value per Share *(Note 2)* .... HK$1.03

Board lot size .... 2,000 Shares

Notes:-

1. The calculation of earnings per Share is based on the profits attributable to Shareholders for the financial year ended 31 March 2003 and the 302,100,000 Shares in issue during the year.

2. The adjusted net tangible asset value per Share has been arrived at after the adjustments set forth under "Adjusted net tangible assets" in the section headed "Financial information" in this document and on the basis of a total of 302,100,000 Shares in issue, but taking no account of any Shares which may be issued pursuant to the exercise of any option that may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme or upon exercise by the Directors of the general mandates granted to them to allot and issue Shares or Shares which may be repurchased by the Company.

DISCONTINUE OF QUARTERLY REPORTING

Under the GEM Listing Rules, the Company is required to publish its quarterly results on the internet website operated by the Stock Exchange. Upon its listing on the Main Board, the Company will cease the practice of quarterly reporting and will follow the relevant requirement of the Listing Rules which include, among other things, through paid announcements on newspapers generally circulated in Hong Kong, publish its interim results and the annual results within three months and four months from the end of relevant period or financial year-end respectively. The Directors are of the view that quarterly results may not reflect the full year performance of the Group, as they are bound to be affected by various matters beyond the control of the Group, such as the market strategies of the leading brands of mobile phones, the availability of the required mobile phone models and the holidays in a particular quarter. The Directors are of the view that following the reporting requirements under the Listing Rules will provide investors and shareholders a relatively completed picture of the performance of the Group during the relevant period without being affected by the factors described above.

RISK FACTORS

The Directors consider that the operations and results of the Group are subject to certain risks which may be broadly categorised into (i) risks relating to the business of the Group; (ii) risks relating to the industry in which the Group operates; and (iii) risks relating to the PRC. The following is a summary of these risk factors:–

Risks relating to the business of the Group

- Sustainability of the profitability of the Group
- Rebates from suppliers
- Reliance on Nokia and the sales of selected "Nokia" mobile phone models
- Reliance on certain major customers
- Reliance on Shanghai Xin Development for trading activities in the PRC
- Preferential tax treatment in the PRC
- Sales impact due to Severe Acute Respiratory Syndrome (SARS)
- Credit risks
- Inventory
- RMB receipts and purchases
- Reliance on certain key management

Risks relating to the industry in which the Group operates

– Low entry barriers

– PRC's accession to the WTO

– Changes in technology and product models

– Competition in the mobile phone market

Risks relating to the PRC

– Changes in the PRC laws and regulations

– Economic environment and political structure of the PRC

– Foreign exchange control

In this document, unless the context otherwise requires, the following terms and expressions shall have the following meanings:–

"associate(s)"	shall have the meaning ascribed thereto in the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Bye-laws"	the new bye-laws of the Company proposed to be adopted by the Shareholders at the Special General Meeting
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Act"	the Companies Act 1981 of Bermuda
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Fortune Telecom Holdings Limited(長遠電信網絡集團有限公司)*, a company incorporated in Bermuda on 22 October 1999 with limited liability
"Director(s)"	the director(s) of the Company
"Existing Bye-laws"	the bye-laws adopted by the Company on 10 December 1999
"Existing Share Option Scheme"	the share option scheme conditionally adopted by the Company on 2 February 2000, the principal terms of which are summarised under "Existing Share Option Scheme" in Appendix IV to this document
"FEC"	Fortune E-Commerce Limited, a company incorporated in the BVI on 29 September 1999 with limited liability and an indirect wholly-owned subsidiary of the Company
"FHK"	Express Fortune Limited, a company incorporated in Hong Kong on 18 February 1992 with limited liability and an indirect wholly-owned subsidiary of the Company
"FSH"	長遠(上海)國際貿易有限公司(Fortune (Shanghai) International Trading Co., Ltd.*), a wholly foreign-owned enterprise established on 3 September 1998 in the Waigaoqiao Zone and an indirect wholly-owned subsidiary of the Company

* *For identification purpose only*

"FTL"	Fortune Telecom Limited, a company incorporated in Hong Kong on 19 January 1998 with limited liability and a wholly-owned subsidiary of the Company
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Rules"	The Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Guangzhou Fortune"	廣州市長遠電信發展有限公司(Guangzhou Fortune Telecommunications Development Co. Ltd.*), a limited liability company established in the PRC, which is not a member of the Group
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Independent Third Party" or "Independent Third Parties"	a person(s) or company(ies) who/which is/are independent of and not connected with any directors, chief executives, substantial shareholders of any members of the Group or any of their respective associates
"Introduction"	the proposed listing of the Shares on the Main Board by way of introduction pursuant to Chapter 7 of the Listing Rules
"Latest Practicable Date"	15 December 2003, being the latest practicable date of ascertaining certain information contained in this document prior to its publication
"Listing Rules"	The Rules Governing the Listing of Securities on the Main Board
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"MII"	the Ministry of Information Industry of the PRC, a ministry formed following a ministerial reorganisation in 1998 into which the former Ministry of Post and Telecommunications and the Ministry of Electronics Industry have merged
"Mr. Steve Lau"	Lau Siu Ying, Steve, the founder, Chairman and the Chief Executive Officer of the Group and an executive Director

* *For identification purpose only*

"PacificNet"	PacificNet Inc., a limited liability company incorporated under the laws of the State of Delaware, the United States, the shares of which are listed on the NASDAQ National Market in the United States
"PRC" or "China"	the People's Republic of China which for the purpose of this document only, excludes Hong Kong, Taiwan and Macau
"Proposed Share Option Scheme"	the share option scheme proposed to be adopted at the Special General Meeting, the principal terms of which are summarised under "Proposed Share Option Scheme" in Appendix IV to this document
"Prospectus"	the prospectus of the Company dated 9 February 2000 in connection with the listing of the Shares on GEM
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Xin Development"	上海新發展進出口貿易實業有限公司(Shanghai Xin Development Imp. & Exp. Enterprise Co. Ltd.), a limited company established in the PRC which is an Independent Third Party
"Share(s)"	ordinary share(s) of $0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"South China Capital"	South China Capital Limited, a deemed licensed corporation under the SFO, which is one of the Sponsors
"Special General Meeting"	the special general meeting of the Company to be held at 9:00 a.m. on 14 January 2004 at Room 1505-7, 15th Floor, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong or any adjournment thereof for the purpose of approving, inter alia, the voluntary withdrawal of the listing of the Shares on GEM and the Proposed Share Option Scheme
"Sponsors"	South China Capital and Watterson Asia
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Synergy"	Synergy Pacific (Holding) Limited, a company incorporated in Hong Kong on 6 December 1994 with limited liability and is owned as to 51% by the Company, being a non-wholly owned subsidiary of the Company

"Track Record Period"	the three financial years ended 31 March 2003 and five months ended 31 August 2003
"Waigaoqiao Zone"	上海外高橋保稅區(the Shanghai Waigaoqiao Free Trade Zone)* in Pudong, Shanghai, the PRC
"Watterson Asia"	Watterson Asia Limited, a deemed licensed corporation under the SFO, which is one of the Sponsors
"Well Force"	Well Force International Inc., an investment holding company and is owned by Mr. Fong Kin Kiu, Ken, who is a director and the Chief Executive Officer of Synergy, and Mr. Yu Sau Ning, Homer, who is a director of Synergy
"WTO"	World Trade Organisation
"Shanghai Yuen Jia"	上海遠嘉國際貿易有限公司 (Shanghai Yuen Jia International Trade Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC on 15 April 2002 and an indirect wholly-owned subsidiary of the Company
"US$"	United States dollars, the lawful currency of the United States
"$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"RMB"	Renminbi yuan, the lawful currency of the PRC
"sq.ft."	square feet
"sq.m."	square metres

Unless the context requires otherwise, translations of RMB into HK$ and US$ into HK$ are made in this document, for illustration purpose only, at the rate of RMB1.00 = HK$0.94 and US$1.00 = HK$7.8. No representation is made that any amount in RMB, US$ or HK$ could have been or could be converted at the above rates or at any other rates or at all.

* *For identification purpose only*

This glossary of terms contained definitions of certain terms used in this document in connection with the business of the Group. As such, these terms and their meanings may not correspond to standard industry meaning or usage of these terms:-

"Alcatel"	Alcatel Telecommunications Co. Ltd., a company incorporated in France and an Independent Third Party, where the context requires, its relevant operating subsidiaries or the brand name under which their products are marketed
"analogue"	a communication method of transmitting information through a continuously varying representation of the input signal
"Bluetooth"	an industry standard for wireless connection and transmission of data based on short range radio link connecting two or more specified devices within a 10-metre range
"CDMA"	"code division multiple access" technology, a continuous digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless communication
"DBTel"	上海迪比特實業有限公司, a limited liability company established in the PRC and an Independent Third Party, which is engaged in mobile phone setting and manufacturing
"digital"	a method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1
"e-commerce"	electronic commerce, a mean of purchasing and selling of goods and services via the internet
"Gemplus"	Gemplus S C A, a company incorporated in France and an Independent Third Pasty, where the context requires its relevant operating subsidiaries or the brand name under which their products are marketed
"GPRS" or "2.5G"	"general packet radio service", commonly referred as 2.5G, that utilizes packet switching technology where information is transmitted in short bursts of data over an IP-based network. GPRS-enabled mobile phones allow users to retrieve information and database at a faster pace, as compared to GSM mobile phones
"GSM"	"global system for mobile communications", a digital mobile telecommunications standard that originates in Europe and operates in 900 MHz frequency band

"Hisense"	海信通信有限公司 (Hisense Communications Company Limited), a limited company established in the PRC and an Independent Third Party, which is engaged in, inter alia, mobile phone manufacturing and selling and where the context requires, its operating subsidiaries or the brand name under which their products are marketed
"HSCSD"	"high speed circuit switched data" is an upgrade to GSM network, enabling data transmission to increase from 14.4kbps to 57.6kbps. With HSCSD, subscribers can download data at a faster rate and are able to transmit larger data files over mobile links
"internet"	a worldwide computer network which allows users to gain access to information from different sources
"IP telephony"	internet Protocol telephony, the technology that uses the internet Protocol's packet-switched connections to exchange voice, fax, and other information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network
"Kejian"	科健信息有限公司 (Kejian Communication Ltd), a limited liability company established in the PRC and an Independent Third Party, which is engaged in, inter alia, mobile phone manufacturing and where the context requires, its operating subsidiaries or the brand under which their products are marketed
"LAN"	"local area network" is a group of computers and associated devices that share common communication lines and typically share the resources of a single computer server within an area
"MHz"	megahertz, a measurement unit of frequency; one MHz is equal to one million cycles per second
"MMS"	"multimedia messaging service" is an adaptation of SMS that allows mobile phone users to send, apart from text, pictures and sounds
"Motorola"	Motorola, Inc., a company incorporated in United States and an Independent Third Party, which is engaged in information technology business and where the context requires, its relevant operating subsidiaries or affiliates or the brand name under which their products are marketed
"multi-media"	the use of computers to combine text, graphics, sound and video
"Nokia"	Nokia Mobile Phones Limited, a company incorporated in Finland and where the context requires, its relevant operating subsidiaries or affiliates or the brand name under which their products are marketed. Nokia is the major supplier of the Group

"OKWAP"	英華達股份有限公司, a limited liability company established in the PRC and an Independent Third Party, which is engaged in, inter alia, mobile phone manufacturing and where the context requires, its operating subsidiaries or the brand under which their products are marketed
"PCS"	"personal communications service", a digital mobile telecommunications standard that operates in the 1800 MHz
"penetration"	number of subscribers per 100 of population
"penetration rate"	total number of subscribers divided by the population of the relevant service area
"Philips"	Royal Philips Electronics, a company incorporated in Netherlands and an Independent Third Party and where the context requires, its relevant operating subsidiaries or the brand name under which their products are marketed
"roaming"	a service which permits subscribers to use their handset and telephone number where travelling in other countries outside their local network
"Siemens"	Siemens AG, a company incorporated in Germany and an Independent Third Party and where the context requires, its relevant operating subsidiaries or the brand name under which their products are marketed
"SIM card"	"subscriber identity module card", an electronic card that is inserted into a handset and identifies the subscriber to the network, which contains the personal identification number of the subscriber and identifies the network to which the subscriber uses
"SMS"	"short message service" is a text-messaging service for sending messages of up to 160 characters between mobile phone users under GSM system
"WAP"	"wireless application protocol", a specification for a set of communication protocols to standardise the way that wireless devices, such as mobile phones and radio transceivers, can be used for internet access
"WLAN"	"wireless local area network", a transmission technology that a mobile user can connect to a LAN through wireless radio connection

"3G" or "third generation"	a digital mobile transmission technology which allows communicators to transmit multimedia messaging capability including still imaging, videos, video streaming, wireless internet browsing, and voice calls

RISKS RELATING TO THE BUSINESS OF THE GROUP

Sustainability of the profitability of the Group

The selling prices and the profit margins of mobile phone products generally decrease over time following launch until the end of their product life cycles. The product life cycle of a particular model of mobile phone depends on the level of competition, the launch of other new mobile phone models and the pace of technological development. Given the increasing number of new mobile phone models offered by different brands and the even faster pace of technological development in recent years, the product life cycle of mobile phone set is becoming shorter. The Group has no control over the timetable of launching new mobile phone models by different brands and as such, the Group's sales and profits could be adversely affected as a result of decreasing selling prices or if the Group was unable to procure new mobile phone new models.

Rebates from suppliers

Rebates are usually granted by mobile phone and PDA suppliers as an incentive to distributors on the purchases made. During the Track Record Period, the total rebates granted by suppliers to the Group amounted to approximately HK$157.3 million, HK$184.1 million, HK$313.6 million and HK$52.9 million, respectively, of which approximately HK$157.3 million, HK$180.2 million, HK$299.9 million and HK$50.0 million, respectively were received from Nokia. Without the rebates from Nokia, the Group would have been in a gross loss position for the Track Record Period of approximately HK$78.3 million, HK$35.2 million, HK$150.8 million and HK$29.7 million, respectively. Rebates in relation to mobile phone sales are based on the rebate scheme set up by suppliers which may vary year from year. Currently, Nokia grants rebates to the Group in the form of volume rebates, price rebates and special rebates which are all subject to review by, and negotiations with, Nokia from time to time. In particular, the monthly volume rebates are currently based on 3.5% of total purchase from Nokia within the month, subject to the Group achieving its prescribed monthly volume target. There can be no assurance that the above rate of volume rebate will not change upon the expiry of the current distribution agreement with Nokia on 31 December 2003**.** In the event that the above rate is reduced in the future, the Group's profitability could be adversely affected.

Price rebates are also granted to the Group by Nokia when there are discounts implemented by Nokia on products which the Group purchased earlier at higher prices. In recognition of the fact that the selling prices of mobile phones decrease over their product life cycles, special rebates are also granted at the discretion of Nokia as part of its incentive plans to distributors, all of which are subject to sales performance and negotiations among the parties. The terms of the special rebates are not contained in the Group's distribution agreement with Nokia. Consequently, there can be no assurance that the above rebates will continue to be granted by Nokia in the future. In the event the Group is unable to reach agreement with Nokia on the continuation of the grant of above rebates in the future, the Group's profitability could be adversely affected.

Reliance on Nokia and the sales of selected "Nokia" mobile phone models

The Group currently relies on Nokia on the supply of mobile phones. Sales of Nokia mobile phones accounted for more than 90% of the Group's turnover for the three years ended 31 March 2003 and about 70% for the five months ended 31 August 2003. For the financial year ended 31 March 2003, such sales accounted for approximately 94.3% of the Group's turnover. The Group's trading arrangements with Nokia are governed by a distribution agreement, which will expire on 31 December 2003. The Group is currently negotiating with Nokia with regard to the renewal of its distribution agreement. Based on previous experience, it is expected that such distribution agreement will be entered into within 3 months after its expiry. Prior to such renewal, business will continue between the Group and Nokia in accordance with terms set out in the previous agreement. The Group's operations and profitability depend on the continuation of the distribution agreement with Nokia and on the timely and adequate supply of mobile phone models on commercially viable terms. In the event that the distribution agreement with Nokia was not renewed, the Group's business and profitability would be significantly and adversely affected. In addition, the Group's operations and profitability would be adversely affected should the Group be unable to obtain adequate supply of the required mobile phone models in a timely manner or on commercial terms acceptable to the Group or should there be a significant increase in the cost of such supply imposed by Nokia or other supplies.

The Group currently primarily relies on the sale of a few mobile phone models supplied by Nokia, namely "8250", "3610", "8910i" and "3100". Sales of such models started in December 2000, July 2002, February 2003 and August 2003, respectively. For the financial year ended 31 March 2003, the aggregate sales of "8250", "3610" and "8910i" models accounted for approximately 92.7% of the Group's annual turnover. In the event that the Group is unable to secure new and popular mobile phone models from Nokia in the future, or if the overall demand for "Nokia" mobile phone decreases, as a result of keen competition or otherwise, the Group's operations and profitability could be adversely affected.

Reliance on certain major customers

For the five months ended 31 August 2003, sales to the largest and the five largest customers accounted for approximately 15.4% and approximately 36.2% of the Group's total turnover, respectively. There is and will be no long-term contract entered into between the Group and its major customers and as such, there can be no assurance that the Group's existing major customers will continue to place orders with the Group in the future. In the event that any of these major customers will not continue to source mobile phones from the Group for reasons out of the control of the Group or choose to reduce its sourcing volume from the Group, the sales and profitability of the Group would be adversely affected.

Reliance on Shanghai Xin Development for trading activities in the PRC

During the Track Record Period, sales of the Group derived in the PRC accounted for approximately 66.4%, 95.8%, 95.8% and 94.0% of its total turnover, respectively. The Group's trading and sales of mobile phone and related accessory products in the PRC are principally conducted through FSH. FSH's business activities are regulated by the laws and regulations of the PRC as well as the relevant regulations governing the conduct of business within the Waigaoqiao Zone. According to「對外貿易經濟合作部關於保税區外經貿政策有關問題的通知」(the Notice Relating to the Policy Concerning Free Trade Zone) issued on 17 July 1997, trading activities conducted between enterprises within free trade zones (including the Waigaoqiao Zone) as one party and enterprises outside free trade zones as the other party in the PRC are treated as foreign trading activities and can only be carried out through enterprises that possess the requisite import and export licence.

Currently, all trading activities between FSH and other PRC enterprises outside the Waigaoqiao Zone are conducted through Shanghai Xin Development that possesses the requisite import and export licence to provide import and export clearance services for enterprises within and outside the Waigaoqiao Zone. So far as the Directors are aware, Shanghai Xin Development is owned by 上海市外高橋保税區

新發展有限公司 (Shanghai Waigaoqiao Free Trade Zone New Development Company Limited) and 上海對外經濟貿易實業公司(Shanghai Foreign Economy and Trade Enterprises Company), both of which were established with the approval of Shanghai Municipal Foreign Economic & Trade Committee and are Independent Third Parties. The arrangement between FSH and Shanghai Xin Development is renewed on a regular basis, and the current arrangement will expire on 31 December 2004. Particulars of the arrangements between FSH and Shanghai Xin Development are set forth under "Trading arrangements in the PRC" in the section headed "Business" in this document. Nevertheless, in the event that the arrangement with Shanghai Xin Development was not renewed or that the terms of the arrangement were changed significantly, the Group's operations in the PRC would be adversely affected.

Preferential tax treatment in the PRC

FSH and Shanghai Yuen Jia are subject to the PRC enterprise income tax at a rate of 33%. However, FSH and Shanghai Yuen Jia are entitled to a preferential PRC enterprise income tax rate of 15% which is granted to enterprises established in the Waigaoqiao Zone. The continuity of preferential tax treatment in the future is subject to the prevailing policy of the PRC government from time to time. Consequently, in the event that there is any change to the preferential tax arrangement by the relevant governmental authority in the future, the Group's profitability could be adversely affected.

Sales impact due to Severe Acute Respiratory Syndrome (SARS)

The outbreak of SARS in the PRC in early 2003, following official acknowledgement of the disease by the authorities in April 2003, had impacted retail sales in general, including that of mobile phones. It was also observed that consumer spending in the PRC was significantly reduced due to self-imposed restriction on people's mobility within some major cities. Consequently, the Group's sales for the six months to 30 September 2003 recorded a decline of approximately 45% to approximately HK$926.5 million, from approximately HK$1,683.5 million for the same period in the year before. Unaudited profits after tax during the six months period ended 30 September 2003 also recorded a decrease of approximately 55%, as compared with the same period in 2002, from approximately HK$34.4 million to approximately HK$15.6 million. There can be no assurance that new SARS cases will not recur. If this happens, the Group's sales and financial position will be adversely affected.

Credit risks

Given the nature of its distribution business in the PRC, the Group grants credit to selected distributors to which it supplies mobile phones. Credit sales to these customers accounted for approximately 12%, 23%, 20% and 35% of the Group's total turnover for the Track Record Period, respectively. In addition, sales of PDAs and pocket PCs to local chain stores and computer stores, and WLAN equipment to local wireless internet operators and property developers, are also made on credit.

As at 31 March 2001, 31 March 2002, 31 March 2003 and 31 August 2003, the Group's trade receivables were approximately HK$69.1 million, HK$91.7 million, HK$104.1 million and HK$87.1 million, respectively, representing approximately 33%, 36%, 34% and 30% of the Group's net tangible assets for the respective periods. Out of the trade receivables of approximately HK$87.1 million as at 31 August 2003, an amount of approximately HK$5 million was unsettled as at 31 October 2003. During the Track Record Period, the Group (excluding Synergy) had made bad debt provisions of approximately nil, HK$0.9 million, HK$6.0 million and nil, respectively. During the period from 1 August 2001 (immediately following the Group's acquisition of 51% interest in Synergy) to 31 March 2002, for the year ended 31

March 2003 and the five months ended 31 August 2003, Synergy had made bad debt provisions of approximately HK$0.03 million, HK$0.03 million and nil respectively. As the Group's sales increased over the Track Record Period, the Group's trade receivables also increased. Noretheless, any delay or failure to settle such trade receivables by its customers would have an adverse impact on the working capital and financial position of the Group.

Inventory

In respect of mobile phone sets, the Group's policy is not to keep more than two months' inventory of the expected sales at any time and generally keeps one to two months' inventory level. The Group made a provision of about HK$1.0 million for the financial year ended 31 March 2001 and has not made any provision of obsolete stock during each of the two years ended 31 March 2003 and the five months ended 31 August 2003 as most of the inventory comprised current mobile phone models. In respect of PDA and WLAN, the Group's policy is to keep not more than seven weeks of inventory. During the financial year ended 31 March 2003 and five months ended 31 August 2003, the Group made a provision of about HK$1.5 million and HK$1.8 million respectively of slow moving and obsolete PDA and WLAN products. In the event that the Group purchased mobile phones that are slow-moving, obsolete and at such selling prices below cost in the future, the Group may need to make provisions in respect thereof, in which event the Group's profitability and financial position could be adversely affected.

RMB receipts and purchases

Currently, all the Group's mobile phones sales and purchases are denominated in RMB, whereas the accounts of the Group are denominated in HK dollars. In the event that RMB depreciates against the HK dollars, the Group's financial position could be adversely affected.

Reliance on certain key management

The Group's success is, to a significant extent, attributable to the leadership of Mr. Steve Lau and certain key senior management staff of the Group. The future success of the Group will continue to depend on the performance of this management team and their continued service. If any of this staff decides to leave leaves the Group, the Group's operation and future development could be adversely affected.

RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

Low entry barriers

There are few entry barriers to the business of sales and distribution of mobile phone sets and accessories in the PRC and in Hong Kong. Access to this business is generally available once the distribution right is secured from a supplier/manufacturer of mobile phones. As such, any increase in competition, in terms of number of distributors, is likely to affect the profitability and the turnover of the Group.

PRC's accession to the WTO

The PRC became a member of the WTO in 2001. The WTO regulates trade and tariffs and is aimed to promote free trade among its members. The PRC government has reduced import tariffs on a wide range of products over the years. This process towards the general opening of the PRC markets is expected to continue. Also, pursuant to the requirements under the WTO, the PRC government would deregulate the telecommunications market, which will induce more international consortiums, including mobile phone manufacturers, distributors and retailers, to enter into the PRC market. This may lead to increase in competition encountered by the Group, which may in turn have an adverse impact on the sales and profit margin of the Group. As a result, the Group's results could be severely adversely affected.

The Directors believe that trade tariffs and import controls of foreign goods into the PRC will be reduced and will be fully eliminated over time. A reduction in import tariffs and trade barriers will intensify competition and may force the Group to lower the prices of its products. In the event that prices are forced down, the profit margin of the Group, and its sales and profitability, could be adversely affected.

Changes in technology and product models

The wireless communication industry is characterised by its rapid evolving nature and short product life cycle for each model of mobile phone which may not be longer than two to three years. Mobile phone manufacturers must invest heavily in research and development of new technology and new models in order to remain competitive. Should the Group's major suppliers not able to continue to develop new technologies and deliver new, innovative and marketable models of mobile phone, the business and the profitability of the Group could be adversely affected.

Competition in the mobile phone market

Increasing competitions in mobile communication service and mobile phone markets in the PRC have led to reduction in the telecommunication service fee and the prices of mobile phone sets. Such price decreases could adversely affect the Group's profitability.

Since the 1990's, the PRC government has placed high priority in development of the telecommunications industry. The telecommunications market has experienced rapid growth as well as keen competition among the distributors of mobile phones. As most of the Nokia models that the Group currently distributes in the PRC are on a non-exclusive basis, the Group will have to compete with other non-exclusive distributors distributing the same models at the same or competitive prices and offering better after-sales services. If Nokia proceeds to grant additional distribution rights to other distributors in the PRC distributing the same models as currently distributed by the Group, the Group's sales and profitability could be adversely affected.

RISKS RELATING TO THE PRC

Changes in the PRC laws and regulations

The PRC legal system is based on the PRC constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, may be subject to policy changes. Further, judicial precedent cases are not binding on future decisions. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in other jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC or to obtain enforcement of judgment by a foreign court.

Economic environment and political structure of the PRC

Since 1978, the PRC government has undergone various reforms of the economic system. Such reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and readjustment process may consequently have a material impact on the Group's business in the PRC or a material adverse impact on the Group's financial performance.

A significant part of the Group's revenue is currently derived from the sales in the PRC. Therefore, results and financial conditions could be adversely affected by changes in the PRC's political, economic and social conditions or by any change in the policy of the PRC government or any change in the laws, regulations or the interpretation or implementation thereof.

Foreign exchange control

The PRC government imposes control over the convertibility of RMB into foreign currencies. With effect from 1 January 1994, the PRC government implanted a unified floating exchange rate system based on market supply and demand. Under the new regime, the People's Bank of China ("PBOC") publishes a RMB exchange rate based on the previous day's dealings in the inter-bank foreign exchange market. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and decide their own rates, which are within the floating range specified by PBOC, to enter into foreign exchange sales and purchase transactions with customers. Although new regulations have provided for greater liquidity, RMB is still not a freely convertible currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the State Administration for Foreign Exchange of PRC (中華人民共和國國家外匯管理局) ("SAFE"). These limitations could affect the Group's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures.

Under the existing foreign exchange regulations in the PRC, the Company may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the SAFE, by producing relevant documents evidencing such transactions, provided that they are processed through PRC banks licenced to engage in foreign exchange transactions.

The value of the RMB may be influenced by factors such as changes in the PRC government's policies, the PRC's domestic and international economic and political developments as well as the supply and demand in PRC domestic market. Since 1994, the official exchange rate for the conversion of RMB to US$ has generally been stable. However, there is no assurance that the value of the RMB will continue to remain stable against the US$ or any other foreign currency. The value of the Group's investments in the PRC could be adversely affected by any devaluation of the RMB.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information on the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this document is accurate and complete in all material aspects and not misleading; there are no other facts the omission of which would make any statement in this document misleading; and all opinions expressed in this document have been arrived at after due and careful consideration and are found on the bases and assumption that are fair and reasonable.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of the Company and the Sponsors to subscribe for or purchase any of the Shares. Neither this document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of making, and the delivery, distribution and availability of this document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of the Company and the Sponsors to subscribe for or purchase any of the Shares.

NO CHANGE IN BUSINESS

No change in the business of the Group is contemplated following the Introduction.

APPLICATION FOR LISTING ON THE MAIN BOARD

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal on the Main Board in, (i) the Shares in issue; (ii) any Shares which may fall to be issued pursuant to the exercise of any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme. Except that prior to the Introduction, the Shares are listed on GEM, no part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in any of its securities on any other stock exchange.

DISCONTINUE OF QUARTERLY REPORTING

Under the GEM Listing Rules, the Company is required to publish its quarterly results on the internet website operated by the Stock Exchange. Upon its listing on the Main Board, the Company will cease the practice of quarterly reporting and will follow the relevant requirement of the Listing Rules which include, among other things, through paid announcements on newspapers generally circulated in Hong Kong, publish its interim results and the annual results within three months and four months from the end of relevant period or financial year-end respectively. The Directors are of the view that quarterly results may not reflect the full year performance of the Group, as they are bound to be affected by various matters beyond the control of the Group, such as the market strategies of the leading brands of mobile phones, the availability of the required mobile phone models and the holidays in a particular quarter. The Directors are of the view that following the reporting requirements under the Listing Rules will provide investors and shareholders a relatively completed picture of the performance of the Group during the relevant period without being affected by the factors described above.

SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 16 February 2000, the date dealings in the Shares on GEM commenced. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All necessary arrangements have been made with HKSCC for the Shares in issue and the Shares which may fall to be issued upon the exercise of the options which were granted under the Existing Share Option Scheme and which may be granted under the Proposed Share Option Scheme to continue to be accepted as eligible securities of CCASS.

STAMP DUTY

Dealings in Shares registered on the register of members kept by the Company's Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, the Sponsors, any of their respective directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the holding of or dealing in the Shares.

CONDITIONS OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the conditions that, among other things, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal on the Main Board in, (i) the Shares in issue; and (ii) any Shares which may fall to be issued pursuant to the exercise of any option may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, the Company has been granted a waiver from the Stock Exchange from strict compliance with Rule 9.19(3) of the GEM Listing Rules that requires a notice of three months to be made for a proposed withdrawal of listing of the Shares on GEM. The Special General Meeting will be convened to approve, amongst other things, the withdrawal of the listing of the Shares on GEM.

The Directors expect that dealings in the Shares on the Main Board are expected to commence on or about 26 January 2004. Shares will continue to be traded in broad lots of 2,000 shares each.

EXECUTIVE DIRECTORS

Name	Residential address	Nationality
LAU Siu Ying, Steve *(Chairman)*	Flat A, 19th Floor Tower 1, Park Tower No. 1, King's Road Hong Kong	Chinese
LUO Xi Zhi	25 Gao On Road Xu Jia Hui Shanghai The PRC	Chinese
TIN Ding Hong, William	4C, Tower One 18 Bridges Street Mid-levels Hong Kong	Canadian

NON-EXECUTIVE DIRECTORS

Name	Residential address	Nationality
FUNG Oi Ip, Alfonso	4th Floor, 11J, Parkvale Drive Discovery Bay Lantau Island Hong Kong	Chinese
LO Wing Yat, Kelvin	B1, 4th Floor Evergreen Villa 43, Stubbs Road Hong Kong	Canadian

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Residential address	Nationality
CHANG Wing Seng, Victor*	34, Jalan Naga Sari Singapore 288864	Singaporean

LIU Kwok Fai, Alvan*	House D The Chalet 36 Hang Hau Wing Lung Road Clear Water Bay New Territories Hong Kong	Chinese

* *Member of the Audit Committee*

PARTIES INVOLVED IN THE INTRODUCTION

Sponsor	South China Capital Limited 28th Floor, Bank of China Tower One Garden Road Hong Kong
Co-Sponsor	Watterson Asia Limited 5th Floor, 8 Queen Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law:–* Koo and Partners *in Association with* Paul, Hastings, Janofsky & Walker LLP 21st Floor, Bank of China Tower One Garden Road Hong Kong *As to PRC law:–* Commerce & Finance Law Offices Room 714, Huapu International Plaza No. 19, Chaowai Avenue Chaoyang District Beijing 100020 PRC *As to Bermuda law:–* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Hong Kong

Auditors and reporting accountants	Deloitte Touche Tohmatsu *Certified Public Accountants* 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Property valuer	Midland Surveyors Limited Room 2505-7, 25th Floor World-wide House 19 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head office and principal place of business in Hong Kong	Room 1505-7 15th Floor, Tower A Regent Centre 63 Wo Yi Hop Road Kwai Chung New Territories Hong Kong
Principal place of business in the PRC	Room C, E and F 8th Floor, East Tower Shanghai Hi-Tech King World 666 Beijing East Road Huang Pu District Shanghai The PRC
Company website	www.fortunetele.com *(Information on this website does not constitute part of this document)*
Company secretary	TIN Ding Hong, William, FCCA, FHKSA, CGA
Authorised representatives	LAU Siu Ying, Steve TIN Ding Hong, William
Members of the Audit Committee	CHANG Wing Seng, Victor LIU Kwok Fai, Alvan
Principal share registrar and transfer office in Bermuda	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office	Abacus Share Registrars Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Hong Kong

Principal bankers

In Hong Kong:–
CITIC Ka Wah Bank Limited
9th Floor, Tower 1, Lippo Centre
89 Queensway
Hong Kong

Standard Chartered Bank
23rd Floor
4-4A Des Voeux Road Central
Hong Kong

The Bank of East Asia, Limited
19th Floor
10 Des Voeux Road Central
Hong Kong

In the PRC:–
China Merchant Bank
Shanghai Branch
No 16 Zhong Shan Road
Shanghai
The PRC

CITIC Industrial Bank
Shanghai Branch
61 Nan Jing Road
Shanghai
The PRC

China Everbright Bank
Shanghai Branch
29 Zhong Shan Road
Shanghai
The PRC

The information presented in this section is extracted from publicly available official and unofficial materials. Both the Sponsors and Directors believe such information to be correct and have exercised reasonable care in extracting such information to be included in this document. However, the Company, the Sponsors or any of their respective affiliates and all parties involved in the Introduction have not undertaken any independent verification of such information and accept no responsibility for the accuracy of such information.

OVERVIEW OF WIRELESS TELECOMMUNICATIONS INDUSTRY IN THE PRC

The regulatory framework

MII is the regulator of the telecommunications industry in the PRC. MII formulates policies and strategies to promote the development of the telecommunications industry, rules and regulations; develops technical and quality control standards and issues licenses to operators within the industry.

MII has overseen the provision of fixed-line and mobile telephone services through China Telecom, which had until late 1990s enjoyed monopoly status. In 1999, MII decided to cancel service fees to increase consumers' access to advanced telecommunications technology and reformed the fee structure to prepare for the then anticipated accession to the WTO. The reform increased the popularity of telephone in rural areas in the PRC, accelerated the number of population in the PRC accessing the internet and enabled telephone operators in the PRC to expand their business and telecommunications facilities.

In 1999, MII divided the basic telecommunications service industry into six State-owned companies, namely China Telecom and China Netcom, both of which operate the provincial fixed-line phone business of the former China Telecom, China Mobile, China Unicom, Railcom and China Satellite. To facilitate the transition from State-owned enterprises to market economies and to compensate the decreased income caused by State-imposed fee reform, these State-owned enterprises have sought financing in both the PRC and international capital markets.

Following the PRC's accession to WTO in December 2001, telecommunications services related to the internet, e-commerce and telecommunications networks in the PRC will be gradually opened to foreign participations. This relaxation is expected to create a level playing field for foreign telecommunications companies operating in the PRC but, at the same time, allow domestic enterprises a period of time to substantiate their businesses. Such a relaxation is expected to spur more rapid development of telecommunications industry in the PRC, for both existing mobile network operators and related telecommunications equipment manufacturers.

The telecommunications industry in the PRC

The PRC government has announced plan to restructure the telecommunications industry in the PRC to bring in competition to fixed-line, mobile, data broadband and other basic telecommunications services. As a result, a more competitive telecommunications market has been created. The business of China Telecom was geographically divided into two parts. The northern part, comprising 10 provinces in northern part of the PRC, was merged with China Netcom and Jitong Telecommunication to form the new China Network Communications Corporation, whilst the southern and eastern parts are operated under the name of China Telecom Group, maintaining its services to 21 provinces in the PRC. After this restructuring, there are two mobile communications providers in the PRC, namely China Mobile and China Unicom, and three fixed-line operators in the PRC, namely China Telecom Group, China Network Communications Corporation and China Railcom, and one satellite communications service provider in the PRC, namely China Satcom.

WIRELESS TELECOMMUNICATIONS INDUSTRY IN TRANSITION

Rapid changes in technological standards and market trends are the major characteristics of wireless telecommunications industry. Such changes are driven by:–

– voice through wireless;

– transition from analogue to digital;

– increasing affordability of wireless airtime; and

– increased popularity of mobile telecommunication devices.

From 2000 to 2002, the number of worldwide wireless subscribers increased by approximately 415 million, or approximately 56%, to approximately 1,155 million. At the end of 2002, wireless penetration rate was estimated at approximately 49% of the population in the United States, and approximately 84% amongst the countries in Western Europe. According to a market study conducted by "Nokia", the world's handset market for 2003 is expected to be approximately 445 million units. The industry is currently in transition from 2G to 2.5G and ultimately to 3G. Leading industry players are launching their new multi-media products and services under 2.5G or 3G services.

Convergence of voice, data and multimedia

The technology revolution in wireless telecommunications industry enables the functionality of mobile phones to move from voice to multimedia, imaging, entertainment and business applications. According to Ericsson Consumer Lab., mobile phone subscribers are keen to transmit multi-media contents and it is expected to be approximately 38% of mobile phone subscribers in Western Europe sending MMS by the year 2006. Nokia also announces a number of new multi-function phone models, including the "Nokia 7650" model, which incorporates a digital camera, and the "Nokia 3300", which has a MP3 music player and a game console. These products are expected to create new markets. In 2003, Nokia starts selling mobile phone models with colour display while most of Nokia's mobile phone are planned to be MMS enabled.

THE PRC WIRELESS TELECOMMUNICATIONS MARKET

PRC's mobile phone market

There has been significant growth in the number of mobile phone users in the PRC and has reached approximately 257 million users as at end October 2003, being the largest mobile phone market in the world. According to MII, the number of mobile phone users is growing at approximately 4 to 5 million every month. It is also estimated by MII that by the end of year 2003, the number of mobile phone users in the PRC will reach approximately 258 million and by the end 2007 to 405 million.

Mobile phone sets with GPRS and bluetooth capabilities are already in the PRC market with certain advance features, such as built-in camera, built-in MP3 player, enriched LCD color display, polyphonic ring tones, WAP browser and SMS, etc.

According to Gartner Inc. a research company and an Independent Third Party, as at March 2003, Nokia continued to be one of the market leaders in the global mobile phone market with an estimated market share of approximately 35.8% in the fourth quarter of 2002. According to MII, the aggregate market share of Motorola and Nokia currently accounted for approximately 44% of the PRC mobile phone market in 2002. Domestic brand handset manufacturers in the PRC, such as TCL, Bird and Kejian, has begun to enter into the PRC mobile phone market since the last decade and have continued to expand their respective market shares. Nevertheless, it is expected that increasing price competition amongst the local mobile phone brands will accelerate market consolidation.

CDMA and GPRS

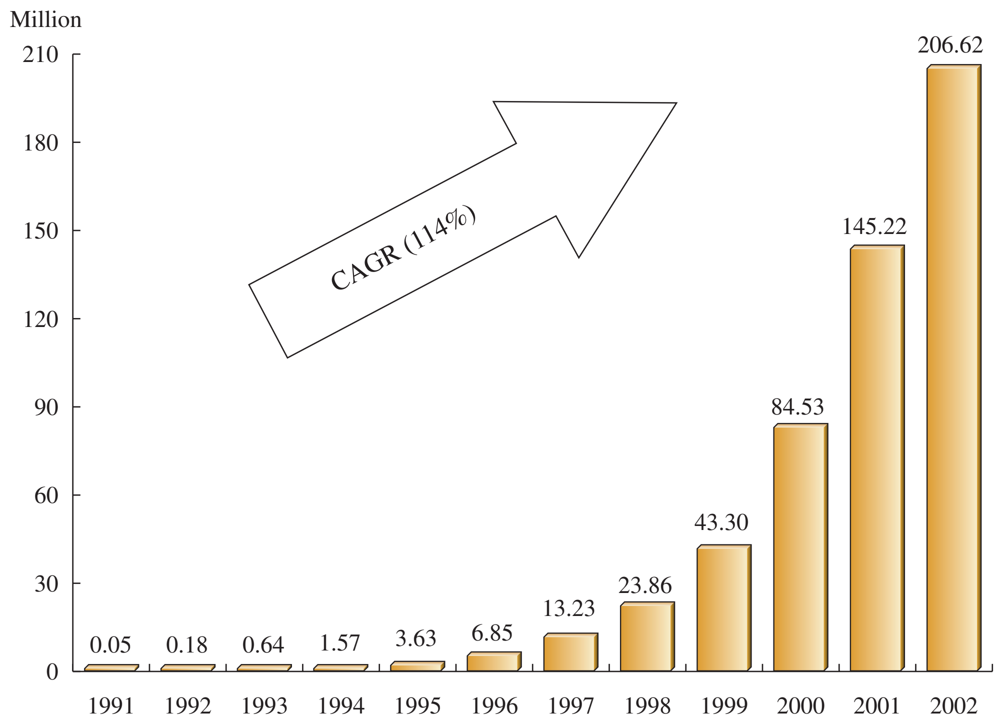
China Mobile, being the largest GSM network operator in the PRC, focused on the establishment of 2.5G GPRS network. In May 2002, China Mobile announced the application of GPRS technology to commercial usage in 160 PRC cities and targeted to expand its customer base substantially in 2003. Major mobile phone suppliers have already launched various GPRS mobile phone models, such as 6510, 6610, 7210 and 8910i (which is bluetooth enabled). Ericsson also launched mobile phone models, such as T65 and T68, that are bluetooth enabled.

In April 2002, China Unicom officially launched the CDMA mobile phone network in the PRC. As at March 2003, according to China Unicom, the number of CDMA users in the PRC was approximately nine million and China Unicom expected such number to increase to approximately 20 million by the end of 2003. China Unicom further expected its CDMA network to gradually mature, reaching 50 million users by year 2005 or approximately 36% of the mobile telecommunications market in the PRC.

Growth in mobile phone subscribers in the PRC

Mobile telecommunications is one of the fastest growing sectors within the PRC telecommunications industry. The number of mobile service subscribers in the PRC increased from approximately 47,500 at the end of 1991 to approximately 206.62 million at the end of 2002, representing an average compound annual growth rate of approximately 114% during the period.

Mobile service subscribers in the PRC (1991-2002)



Source: China Statistical Abstract 2002/MII

Despite the strong growth rate in the number of mobile service subscribers in the PRC, the overall penetration rate of mobile service subscribers in the PRC remained relatively low at an average rate of approximately 20% in October 2003 as compared with an average of approximately 50% for North America, Western Europe and Japan. As a result, this has attracted global brand names, such as Nokia, Ericsson and Motorola, to enter into the market by establishing business presence in the PRC.

Traditionally, the mobile phone market in the PRC has been dominated by international brands, such as Nokia, Ericsson and Motorola. These international brands have invested significant resources to establish their business presences in the telecommunications market in the PRC. According to the latest statistics available from China Economic Information Network, PRC, Motorola and Nokia had predominant positions in the PRC, with aggregate market shares of approximately 28% in November 2003.

Distributions of mobile phones in the PRC

Both domestic and international brand mobile phone manufacturers distribute their phones through distributors. Mobile phone manufacturers primarily choose their key distributors according to the size of their distribution networks and their distribution capabilities in the PRC as well as their financial strength.

Given vast market covering 23 provinces, five autonomous regions and four administrative municipalities (Beijing, Shanghai, Tianjin and Chongqing) in the PRC, mobile phone manufacturers do not usually appoint exclusive distributors for their mobile phone products for the entire country but instead appoint distributors covering particular models and particular geographical areas.

Based on the statistics provided by MII, approximately 50 million mobile phones were sold in the PRC in 2001. The two largest mobile phone distributors were China National Post and Telecommunications Appliances Corporation and Cellstar, a NASDAQ listed company, which sold approximately 8 million and 4.3 million handsets, respectively. The Group sold approximately 2 million mobile phones in 2001.

Competition in the mobile phone distribution market is intense with increasing numbers of distributors and retailers. With a view to respond to the market demand promptly and to better understand the latest market trends, distributors with stronger financial support are also setting up their own retail channels in different cities and provinces.

HISTORY AND DEVELOPMENT OF THE GROUP

The Group started with the incorporation of FHK in February 1992 of which Mr. Steve Lau was the sole beneficial shareholder. At the time of its incorporation, FHK was involved in the sales and distribution of mobile phones and related accessories business in Hong Kong. FHK first obtained the distribution rights of Nokia mobile phones in Hong Kong in 1993. Apart from developing the distribution business in Hong Kong, Mr. Steve Lau also began to develop marketing channels in the PRC for mobile phone distribution business.

During the years between 1993 and 1996, Mr. Steve Lau continued to explore the business opportunities in the PRC with other major suppliers of mobile phones. In March 1998, the Group was granted by "Philips" a non-exclusive distribution right for its "Genie-828" mobile phone set. Starting from November 1998, the Group started distributing mobile phone sets for other leading brands.

In September 1998, FSH was established as a wholly foreign-owned enterprise in the Waigaoqiao Zone in order to facilitate the Group's trading of mobile phones and related accessories in the PRC. The Group also began appointing authorised distributors in various PRC cities and municipalities for distribution of mobile phone sets and related accessories and for providing after sales services to customers in the PRC.

In October and November 1999, the Group subscribed for a total of 21% interest in PacificNet.com LLC for a total consideration of US$400,001 (equivalent to approximately HK$3.11 million) based on its par value. PacificNet.com LLC was then a private company specialised in e-commerce solutions which included order processing, warehousing, delivery, credit card validation, etc. The percentage of shareholding of the Group in PacificNet.com LLC was subsequently diluted to approximately 11.67% in November 1999 as a result of an issue of additional equity interest of PacificNet.com LLC to an independent investor. In March 2000, the Group acquired from Mr. Richard Hui, a then non-executive Director an additional 3% equity interest in PacificNet.com LLC at a consideration of HK$8.8 million. The consideration was arrived at after arm's length negotiations between the parties. In April 2000, the Group disposed of its entire interest in PacificNet.com LLC, which then became a wholly-owned subsidiary of Creative Master Inc., a company listed on the NASDAQ National Market, in exchange for approximately 9% equity interest in Creative Master Inc. which subsequently changed its name to PacificNet. In February 2002, PacificNet issued new shares to an Independent Third Party to raise US$4 million, resulting in a further dilution of the Group's shareholding in PacificNet to 3.5%. As at 31 August 2003, the Group's interest in PacificNet had further reduced to approximately 2.1%.

The Company was incorporated in October 1999 as part of the reorganisation for the purpose of listing the Shares on GEM. Thereafter the Company became the ultimate holding company of the Group. Shares have been trading on the Stock Exchange since 16 February 2000.

In 2000, the Group distributed a number of Nokia mobile phone models, such as "Nokia 3310" , "Nokia 8850" and "Nokia 8250", in the PRC. In addition, the Group was granted a non-exclusive distribution right in the PRC of certain mobile phone models with the brand name of "NEC". During the same year, the Group also started the mobile phone distribution business in Hong Kong under the "Telecom-port" name.

In order to diversify its business and to expand the Group's capability in wireless communications applications, the Group acquired from Well Force 51% interest in Synergy in July 2001 at a consideration of HK$9.4 million. Well Force is currently a shareholder of Synergy holding 49% interest and a shareholder in the Company holding approximately 0.7% interest. Out of the total consideration, HK$8.1 million was paid in cash with the remaining balance of HK$1.3 million settled by allotment of 2.1 million Shares. The consideration was arrived at after arm's length negotiations between the parties. The business of Synergy included distribution of PDAs in Hong Kong and provision of wireless internet infrastructure services in Hong Kong.

In December 2001, the Group obtained a non-exclusive distribution right of Motorola CDMA mobile phone sets operated under the China Unicom's CDMA mobile network in the PRC. This distribution agreement expired in December 2002. With a view to focus on GSM mobile phones distribution, the Group did not renew the agreement with Motorola upon its expiry.

In May 2002 and June 2003, FSH was acknowledged by the Shanghai Waigaoqiao Free Trade Zone Management Committee, the regulator of the Waigaoqiao Zone, as one of the best enterprises in achieving high commodity sales during 2001 and 2002, respectively. The Group's authorised distributors in the PRC grew from approximately 80 in the year ended 31 March 2000 to approximately 140 as at the Latest Practicable Date.

In October 2002, Synergy was appointed by Agere System, a telecommunications equipment manufacturer in the United States, as the master distributor for "Orinoco" wireless broadband products in the PRC, Hong Kong, Macau and Taiwan, and was selected by a local internet service provider as the equipment provider and technical partner for its wireless broadband services.

During the second half of the year ended 31 March 2002, because of the sluggish retail sector in Hong Kong, the Group decided to close down all of its mobile phone retail outlets in Hong Kong.

In October 2002, the Group began to distribute "Nokia 7210", a GPRS-enabled phone, in Shanghai.

In December 2002 and January 2003, the Group began to distribute PRC brand's GSM handsets "DBTel 2017C" in Shangdong province and "Kejian K320" in Guangdong province (except Shenzhen), respectively. Both of these two mobile phone manufacturers are Independent Third Parties.

In February 2003 and March 2003, the Group began to distribute "Nokia 8910i", a WAP and GPRS-enabled phone in the PRC on a nationwide basis and "Nokia 7250", a tri-band GSM phone with built-in camera for Yunnan province, respectively.

In May 2003, Synergy obtained the sole distribution right for Qtek 7070, the first Chinese language Windows Powered Smartphone, in Hong Kong and Macau.

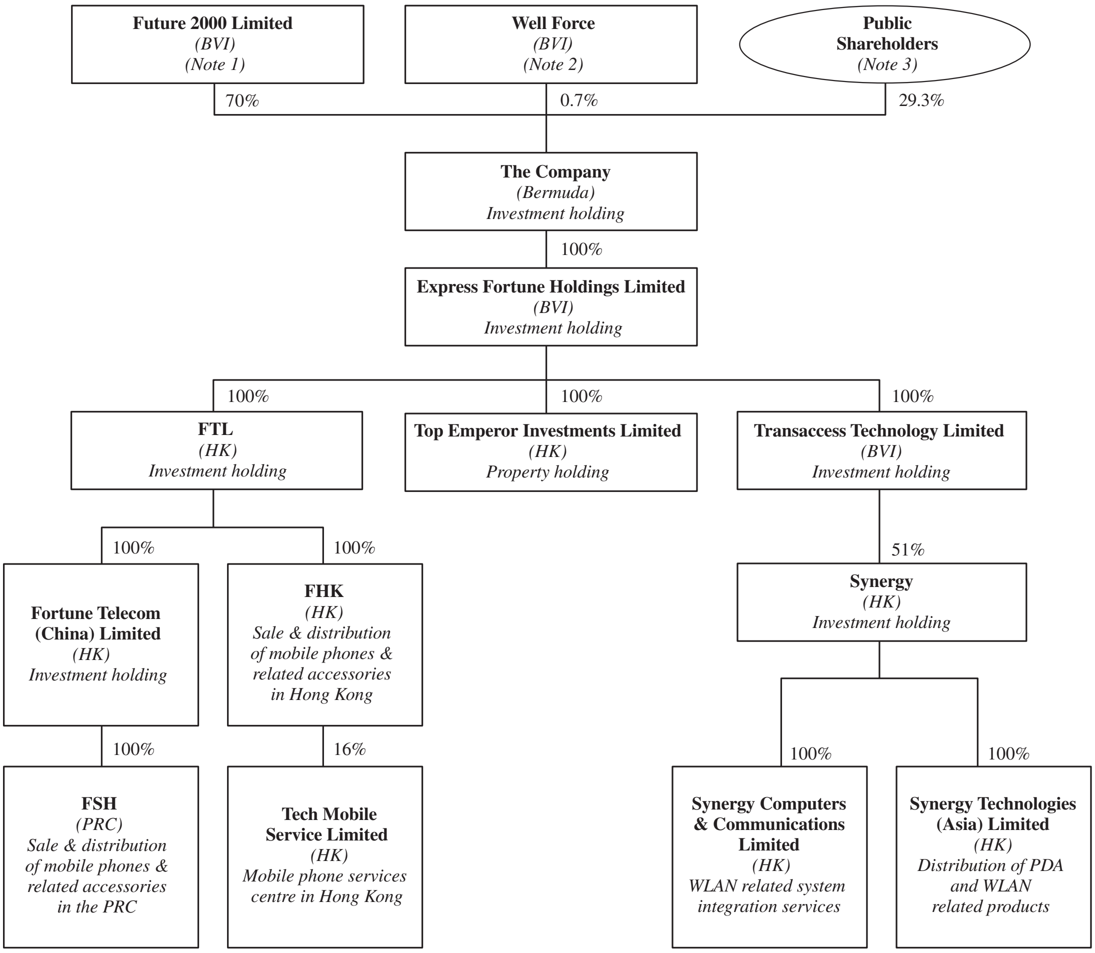
In June 2003, the Group began to distribute "Nokia 2100", a GSM mobile phone, and "OKWAP 510", a PRC branded GSM and GPRS-enabled mobile phone, in Xinjiang and Guangdong province respectively.

In July 2003, the Group began to distribute "Siemens M55", a tri-band GPRS, MMS and WAP enabled mobile phone in the PRC on a nationwide basis.

In August 2003, the Group began to distribute "Nokia 3300", a MP3 and WAP-enabled mobile phone and "Nokia 3100", a tri-band and GPRS-enabled phone in the PRC.

CORPORATE STRUCTURE

The following chart sets forth the shareholding structure, the principal operating subsidiaries and associated company comprising the Group:–



Notes:–

1. Future 2000 Limited, which holds 211,500,013 Shares, is a company incorporated in the BVI and having its registered office situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. Future 2000 Limited is wholly-owned by Mr. Lee Wai, Timothy as trustee of the Lau's Family Trust (being a discretionary trust) of which Mr. Steve Lau, his spouse, Madam Xiao Lei, Theresa and their two children, Mr. Lau Ka Yun, Billy and Ms. Lau Michelle Zi Yin, are the current eligible beneficiaries but who do not have a fixed interest in the assets of the Lau's Family Trust.

2. Well Force holds 2,100,000 Shares and is owned by Mr. Fong Kin Kiu, Ken, who is a director and the Chief Executive Officer of Synergy, and Mr. Yu Sau Ning, Homer, who is a director of Synergy.

3. The total number of Shares held by the public Shareholders is 88,499,987 which includes 13,499,987 Shares held by Fortune 97 Associates Limited. Fortune 97 Associates Limited is a company incorporated in the BVI and having is registered office situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI, and is wholly-owned by Mr. Lau Chin Ying. Pursuant to the Listing Rules, Fortune 97 Associates Limited is not regarded as connected person (as defined in the Listing Rules) of the Company. Hence, the Shares held by Fortune 97 Associates Limited are regarded as part of the total number of the Shares held by members of the public.

4. The Group structure chart above only includes those principal operating subsidiaries and associated company of the Company.

COMPARISON OF BUSINESS OBJECTIVES OF THE GROUP AND THE ACTUAL BUSINESS PROGRESS

The Shares have been listed on GEM since 16 February 2000. Pursuant to the requirements of the GEM Listing Rules, the Group set forth in the Prospectus certain business objectives; and in its subsequent interim reports and annual reports, the actual business progress *vis-a-vis* these business objectives. The following information is an extract of this information from the Prospectus and the interim and the annual reports of the Group.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
In respect of the mobile phone distribution business:	
For the six months ended 30 September 2000	
Sales target of mobile phones	
Increase monthly mobile phone sales target to about 130,000 – 170,000 sets	Monthly sales of mobile phones increased to around 130,000 sets for the three months ended June 2000. Monthly sales dropped to around 100,000 sets for the three months ended 30 September 2000 due to the delay of new models launched by the Group's major supplier. The Group has incurred about HK$1 million in cost.
Launch of new model mobile phones	The Group took delivery and launched the NEC SB1000 and DB3300 in April 2000. The Group incurred costs of about HK$0.5 million.
Development of fulfilment facility	
Development of fulfilment facility in Dongguan, the PRC	As the Group was still in the negotiation with its major suppliers, the establishment of this fulfilment facility has not yet commenced. The Group has not yet incurred any cost.
Development of distribution network in the PRC	
Increase authorised distributor shops and dealer shops to 210	As at 30 September 2000, total distributor shops and dealer shops reached 190, spreading over 50 cities and across 20 provinces. The Group has incurred about HK$0.5 million cost.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
After-sales service development	
Increase after-sales facilities along its distribution network in South China	Mobile phone service centres increased to 20 as at September 2000. The Group has incurred about HK$0.2 million in cost.
Staff recruitment	
Recruiting 10 more staff to support its distribution network in the PRC and more technicians to support after-sales services	The Group recruited the necessary staff to support its distribution network and after-sales service in the PRC. Costs incurred were about HK$0.3 million.
For the six months ended 31 March 2001	
Sales target of mobile phones	
Increase monthly mobile phone sales target to about 150,000 – 200,000 sets	Monthly mobile phone sales reached 150,000 sets. The Group incurred about HK$2 million in costs as estimated.
Development of fulfilment facility	The establishment of this fulfilment facility has not yet commenced.
Development of distribution network in the PRC	
Increase authorised distributor shops and dealer shops to 250	Total distributor shops and dealer shops reached 250, spreading over 100 cities and across 28 provinces. The Group has incurred about HK$1 million cost.
After-sales service development	
Increase after-sales facilities along its distribution network in the PRC	Mobile phone service centres increased to 28 as at 31 March 2001. The Group has incurred about HK$2 million in cost as estimated.
Staff recruitment	
Recruiting sufficient staff to support its distribution network in the PRC.	The Group recruited the necessary staff to support distribution network and after-sales service in the PRC. Costs incurred were about HK$3 million.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
For the six months ended 30 September 2001	
Sales target of mobile phones	
Monthly sales target of mobile phones was 150,000 sets to 200,000 sets during the period.	The average monthly sales of mobile phone sets reached approximately 150,000 sets. The Group has incurred cost of approximately HK$2 million in promoting its sales of mobile phone sets.
Development of fulfilment facility	Due to increasingly competitive and changing market condition, the Directors were of the view that it was not the appropriate time for the Group to commence its investment in fulfilment facilities.
Development of distribution network in the PRC	
Increase the number of authorised distributors shops to 140 and authorised dealers shops to 150	Total number of distributor shops and dealer shops has reached to 250 and authorised dealer shops to 150. The Group has incurred approximately HK$1 million.
After-sales service development	
Increase after-sales service facilities along its distribution network in the PRC	The number of mobile phone service centres was 28 and the Group has incurred approximately HK$0.5 million.
Staff recruitment	
To recruit sufficient staff to support its distribution network in the PRC	The Group recruited additional staff in Hong Kong and the PRC and cost incurred was approximately HK$0.5 million.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
For the six months ended 31 March 2002	
Sales target of mobile phones	
Monthly sales target of mobile phones was approximately 200,000 to 230,000 sets during the period	The average monthly sales of mobile phones exceeded 210,000 per month during the fourth quarter ending 31 March 2002. The Group has incurred cost of approximately HK$10 million in promoting its sales of mobile phones.
Development of fulfilment facility	
The Group plans to increase its fulfilment capacity to an annual target of 3 million Nokia branded mobile phones	Due to increasingly competitive and changing market condition, the Directors were of the view that it was not the appropriate time for the Group to commence its investments in fulfilment facilities.
Development of distribution network in the PRC	
Development of distribution network in the PRC Increase authorized distributors shops to 160 and authorized dealers shops to 170	Total distributor shops and dealer shops in the PRC reached 300. The Group has incurred approximately HK$1 million as set forth in the Prospectus.
After-sales service development	
Increase after-sales service facilities	The number of mobile phone service centres in the PRC was 28 and the Group has incurred approximately HK$0.5 million along its distribution network in the PRC
Staff recruitment	
To recruit sufficient staff to support its distribution network in the PRC	The Group recruited additional staff in Hong Kong and the PRC and the cost incurred was approximately HK$0.5 million.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
In respect of e-commerce business:	
For the six months ended 30 September 2000	
Finalisation of joint venture between the Group and PacificNet.com	The Group finalized the joint venture agreement with Mobilemode.com for the provision of wireless solutions in the PRC. The Group has incurred expenses of about HK$0.3 million.
Continuous technical support, maintenance and enhancement of e-commerce facilities through the strengthening of online wholesaling facilities on www.fortunetele.com; upgrading its technology to enhance value-added features including software and ringer tone download; and upgrade contents of portal site	The Group upgraded the corporate site on www.fortunetele.com to enhance its e-commerce facilities and other value-added features. The Group has incurred costs of about HK$0.2 million.
Cooperation with PacificNet.com to apply WAP solutions to www.telecom-port.com to allow users of WAP-based mobile phones to gain access to the Group's WAP-based portal site	The Group launched its WAP-based portal site. The Group is currently enhancing the site's features and has incurred about HK$0.2 million in costs.
For the six months ended 31 March 2001	
Continuous technical support, maintenance and enhancement on e-commerce facilities	The Group upgraded the corporate site on www.fortunetele.com to enhance its e-commerce facilities and other value-added features. The Group has incurred costs of about HK$5 million.
For the six months ended 30 September 2001	
Continuous enhancement of contents of the Group's websites	The content of the Group's website was under continuous maintenance and enhancement. Due to the competitive market environment, the Group has taken a cautious approach and restricted the investment to approximately HK$0.25 million during the period.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
For the six months ended 31 March 2002	
Continue to explore suitable investment opportunities with synergy and to seek strategic partner to enhance the Group's operations in e-commerce.	The Group's 50/50 joint venture with Mobilemode.com, a Finnish based company, set up in early 2000 for the provision of wireless solutions was aborted in December 2001 due to uncertain e-commerce business environment. The Group also evaluated a number of e-commerce investment opportunities but due to the uncertainty on profitability and pay-back period, the Group decided to take a cautious approach and did not identify suitable investment targets.
In respect of multimedia business:	
For the six months ended 30 September 2000	
Continuous research and development in IP telephony architecture	The Group completed the set up of the IP telephony architecture for the provision of IP telephony services.
Testing of IP telephony architecture	Incurring costs of about HK$2 million as estimated. Pre-launch testing has been satisfactorily completed and IP Telephony service was launched in early November 2000. The Group incurred costs of about HK$0.5 million as estimated.
For the six months ended 31 March 2001	
Launch of IP services in Hong Kong, thereby provide "voice over IP" IDD services to subscribers in Hong Kong	The Group launched prepaid IP calling services under the international "Fortune Multimedia" Brand using the latest voice over IP technology in early November 2000. The Group has incurred costs of about HK$5 million.

BUSINESS OBJECTIVES	ACTUAL BUSINESS PROGRESS
For the six months ended 30 September 2001	
Increase on IP telephony gateways in different locations in the PRC	Due to the competitive telecommunication market, the Directors have decided not to expand the number of IP telephony gateways in different locations in the PRC. Also, it is not in the interest of the Group to invest further in additional IP telephony gateways in different locations in the PRC unless the market shows positive sign of recovery and that the Group is able to generate contribution from such investment. The Group has spent approximately HK$0.6 million during the period to explore investment opportunities in this sector of business.
For the six months ended 31 March 2002	
The Group to continuously enhance and upgrade its IP telephony system to cope with advance in technology and to cater for increasing number of subscribers	Due to the competitive telecommunication market, the Directors had decided to discontinue the Group's e-commerce and IP telephony businesses.

COMPARISON OF USE OF PROCEEDS AS STATED IN THE COMPANY'S INITIAL PUBLIC OFFERING WITH ACTUAL APPLICATION

Intended use of net proceeds from the six-month period ended 31 March 2000 to the financial year ended 31 March 2002 as stated in the Prospectus	Actual application of net proceeds from the six-month period ended 31 March 2000 to the financial year ended 31 March 2002
In respect of the mobile phone distribution business:	
• approximately HK$35 million for expansion of mobile phone distribution business	• Utilised approximately HK$31.5 million for meeting sales target of mobile phones, launching of new models of mobile phones, development of distribution network in the PRC and after-sales services, and recruitment of staff.
In respect of the development of e-commerce business:	
• approximately HK$42 million for the development of and investment in e-commerce business	• Utilised approximately HK$15.8 million for further investments in PacificNet and joint venture with Mobilemode.com, development of E-commerce, advertising program, continuous technical support, maintenance and enhancement on e-commerce facilities, WAP development on www.telecom-port.com and continuous enhancement of www.fortunetele.com and www.telecom-port.com, the Group's websites. The joint venture with Mobilemode.com was aborted in 2001 due to adverse market condition in relation to e-commerce businesses.
In respect of the development of IP telephony business:	
• approximately HK$21 million for the development of IP telephony business	• Utilised approximately HK$10 million for the distribution of IP telephony products, development of IP telephony services, setting up IP telephony architecture and exploring alliances with third parties.
• the remaining balance of approximately HK$35.38 million for general working capital	• Due to the general downturn in Internet business and e-business in Hong Kong and the increasing competitive market condition in the PRC, the Directors had decided to discontinue the Group's e-commence and IP telephony businesses. As such, the original intended use of proceeds for these two businesses as well as the remaining balance of approximately HK$35.38 million were placed as deposits with banks and applied as general working capital of the Group for its mobile phone distribution business in the PRC.

Of the net proceeds of approximately HK$133.38 million raised at the time of the listing of the Shares on GEM in February 2000, the amount intended for specific business objectives was approximately HK$98 million and the amount intended for general working capital was approximately HK$35.38 million. From the six months period ended 31 March 2000 to the financial year ended 31 March 2002 (the "Relevant Period"), the Group applied approximately HK$57.3 million to achieving the specific business objectives stated in the Prospectus with the balance applied by the Group as working capital to meet increasing sales volume of the Group's mobile phone distribution business in the PRC.

The Group has broadly followed the objectives and intended use of proceeds as set out in the Prospectus with regard to its mobile phone distribution business. In respect of the e-commerce business, the aggregate amount spent during the Relevant Period was HK$15.8 million, much less than HK$42 million as set out in the Prospectus. This was mainly due to the downturn in e-commerce business in Hong Kong and the lack of suitable investment opportunities in the e-commerce area during the period. In respect of the development of IP telephony business, the aggregate amount spent during the Relevant Period was HK$10 million, less than HK$21 million as set out in the Prospectus. This was principally due to increasing competitiveness in the telecommunications market and, as such, the Directors had decided not to expand the number of IP telephony gateways in different locations in the PRC as previously planned. As a result of these developments, the Directors believe that the business strategy of the Group should focus on its core business of mobile phone distribution in the PRC.

The Directors consider that the difference between the amount invested and the original business objectives set forth in the Prospectus, which was estimated before the downturn of the global internet market, reflects a responsible attitude of the Directors to all Shareholders, and the investment decisions were made in the best interest of the Group. The Directors do not consider that any of these differences has any material impact on the Group's mobile phone distribution business.

OVERVIEW OF THE BUSINESS OF THE GROUP

Listed on GEM in February 2000, the Group is one of the leading distributors of mobile phone products in the PRC. As at the Latest Practicable Date, the distribution and service network of the Group in the PRC comprised approximately 140 authorised distributors in certain major PRC cities, such as Beijing, Shanghai, Guangzhou, Shenzhen and Zhuhai. All these distributors are Independent Third Parties. For the financial year ended 31 March 2002, the Group sold approximately two million sets of mobile phone and such sales accounted for approximately 98% of the Group's annual turnover of approximately HK$3,461 million. For the financial year ended 31 March 2003, the Group sold approximately 2.1 million sets of mobile phone and such sales accounted for approximately 96% of the Group's annual turnover of approximately HK$2,945 million.

During the Track Record Period, the Group sold and distributed on a non-exclusive basis selected models of GSM mobile phone with brand names of "Nokia", "Philips" and "Alcatel" and CDMA mobile phones with brand names of "Motorola" and "Hisense". Sales of "Nokia", both in aggregate accounted for approximately 90% of the Group's turnover during the three years ended 31 March 2003 and about 70% of the Group's turnover during the five months ended 31 August 2003. As at the Latest Practicable Date, the Group mainly distributed "Nokia 8910i", "Nokia 8250", "Nokia 7210", "Nokia 6610", "Nokia 3610", "Nokia 2100," "Nokia 3100", "Nokia 3300" and "Siemens M55" mobile phones in the PRC. The

Group's sales of Nokia mobile phones for the year ended 31 March 2003 amounted to HK$2,778 million, representing approximately 11% of Nokia's reported mobile phone sales of EUR2,802 million (HK$25,723 million) in the PRC in 2002.

The Group also develops its marketing and after-sales service network in the PRC through authorised distributors. As at the Latest Practicable Date, the distribution and service network of the Group comprised approximately 140 authorised distributors. Under the existing arrangement, the Group is responsible for supplying mobile phone products to these authorised distributors and providing technical training and supports for the after-sales services, provided by these authorised distributors to end-users. To further support the provision of after-sales services by the authorised distributors, an aggregate of 28 mobile phone service centres were established by the authorised distributors in the PRC as at the Latest Practicable Date.

Apart from the authorised distributors, the Group also sells to other wholesalers and retailers in the PRC. The Group currently has a customer base (including the authorised distributors) of approximately 1,000 customers. These customers may act as wholesalers or retailers from time to time of different types of mobile phone products.

The Group acquired 51% interest in Synergy in July 2001 at a consideration of HK$9.4 million. Synergy provides wireless communication solutions to corporate customers in Hong Kong and distributes through independent computer stores and retail chains PDAs and pocket PCs in Hong Kong, with leading brands such as Palm, Acer, Sony, HandEra and AudioVox. For the financial year ended 31 March 2002, the post-acquisition consolidated sales of and the Group's share of profit after tax attributable to Synergy were approximately HK$61.8 million and HK$1.7 million, respectively, accounting for approximately 1.8% and 3.4% of the Group's total turnover and profit after taxation and minority interests, respectively. Respective figures for the financial year ended 31 March 2003 were approximately HK$110 million, accounting for approximately 3.7% of the Group's total turnover, and profit after tax of approximately HK$0.2 million.

Synergy was one of the pioneers in the deployment of WLAN in Hong Kong in 1999. Using the hardware with the brand name of "Orinoco", Synergy has provided wireless internet solutions to a number of shopping malls in Hong Kong, such as Harbour City and Times Square, and educational institutions and commercial organisations. Synergy is also participating in a number of international exhibitions and conferences in Hong Kong and sponsoring the required communications equipment. In June 2002, Synergy secured the distribution right in Hong Kong and Macau for a 2.5G GPRS PDA mobile phone – the O_2 xda.

PRODUCTS DISTRIBUTED BY THE GROUP

During each of the Track Record Period, the Group distributed a variety of mobile phones in the PRC and PDAs and WLAN products in Hong Kong. All of these the products were distributed by the Group on a non-exclusive basis. The following table sets forth a breakdown of the sales of the Group by products during each of the Track Record Period:–

	Financial year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mobile phones and related accessories	1,538,262	3,379,963	2,828,286	560,828
PDAs	–	37,597	71,557	26,026
WLAN and system integration	–	28,631	38,014	9,665
Others *(Note)*	6,594	14,991	7,090	13,164
	1,544,856	3,461,182	2,944,947	609,683

Note:– Included sales of pre-paid IDD calling cards in Hong Kong amounting to approximately HK$2.6 million in year ended 31 March 2001, approximately HK$11.4 million in financial year ended 31 March 2002 and nil in the financial year ended 31 March 2003 and the five months ended 31 August 2003.

Set out below are the products that the Group is currently distributing in the PRC and Hong Kong:–

Mobile phones

Based on the market statistics gathered by the Group, prices of mobile phone sets between the range of RMB1,000 and RMB2,000 are the most popular in the PRC market, representing approximately 60% of the entire mobile phone market in the PRC.

During each of the Track Record Period, sales attributable to Nokia mobile phones amounted to approximately HK$1,522 million, HK$3,352 million, HK$2,778 million and HK$478 million, representing approximately 99%, 99% 98% and 85% of the Group's total mobile phones turnover respectively.

"Nokia 8250"

"Nokia 8250" is a GSM mobile phone, featuring a blue lit screen and SMS function. The retail price of "Nokia 8250" is approximately RMB1,130. The Group is currently selling Nokia 8250 on a nation-wide basis in the PRC. "Nokia 8250" mobile phone is currently one of the best selling mobile phone models in the PRC. In certain Southern PRC cities, such as Guangzhou, Dongguan and Zhongshan, "Nokia 8250" mobile phone is the best selling "Nokia" models with market share of approximately 10%. It is the policy of Nokia not to enter into any exclusive distribution arrangements for any of its products. However, so far as the Directors are aware, the Group is a key authorised distributor of "Nokia 8250" mobile phones in the PRC.

The Group's sales of "Nokia 8250" have increased steadily since its first launch in December 2000. The Group's marketing strategy to promote this product includes offering to customers promotional gifts, such as complementary battery, mobile phone set cover and hands-free device, etc.

"Nokia 3610"

"Nokia 3610" features a light-weighted body with different phone covers offered with different colour patterns. The Group obtained a distribution right of this model of mobile phone set in July 2002 for a number of provinces and cities in the PRC. "Nokia 3610" is currently sold at approximately RMB830.

"Nokia 7210"

"Nokia 7210" is a GPRS-enabled phone that comes with a high resolution colour display supporting MMS and WAP. It allows users to send messages with visual, text and audio attachments. It also incorporates an integrated stereo radio. The Group obtained a distribution right of this model of mobile phone set in October 2002 for Shanghai. "Nokia 7210" is currently sold at approximately RMB1,980.

"Nokia 6610"

"Nokia 6610" is a GPRS-enabled phone that incorporates colour display supporting MMS, WAP and stereo FM radio. The Group obtained a distribution right of this model of mobile phone set in November 2002 in Shanghai. "Nokia 6610" currently retails at around RMB1,990.

"Nokia 8910i"

"Nokia 8910i" features a titanium outer casing and auto-opening grip mechanism. It is equipped with a color display screen, WAP, GPRS, Bluetooth wireless technology, plus MMS and Java capabilities. The Group obtained a distribution right of this model of mobile phone set in February 2003 in the PRC, and is currently sold at approximately RMB5,880.

"Nokia 2100"

"Nokia 2100" is a dual-band GSM mobile phone that features messaging and time management options such as customizable distribution lists, SMS, full-sized clock screensaver, alarm and reminders. The Group began distributed this mobile phone model in June 2003 in Xinjiang province, PRC. Nokia 2100 currently retails at approximately RMB900.

"Nokia 3300"

"Nokia 3300" is a GPRS mobile phone incorporating MP3 music player and FM radio. The phone also features MMS, SMS, email and comes with a 4.5MB internal data memory as well as a WAP browser. The Group began distributed this mobile phone model in August 2003 in the PRC. Nokia 3300 currently retails at approximately RMB2,650.

"Nokia 3100"

"Nokia 3100" is a tri-band color display, GPRS and MMS enabled mobile phone that features pre-installed Java games and xHTML browser, storage of camera pictures and wallpapers. The Group began distributed this mobile phone model in August 2003 in the PRC. Nokia 3100 currently retails at approximately RMB1,650.

"DBTel 2017C"

"DBTel 2017C" is a GSM phone featuring a colour display. In November 2002, the Group obtained the distribution right of this model of mobile phone set for Shangdong province, the PRC. The phone is currently sold at approximately RMB1,300.

"OKWAP 510"

"OKWAP 510" is a PRC branded GSM and GPRS-enabled mobile phone that features messaging and personal information management functions. Distribution of this model of mobile phone started in June 2003 in Guangdong province and is currently selling at approximately RMB1,580.

"Siemens M55"

"Siemens M55" is a tri-band GPRS, MMS and WAP enabled mobile phone that features colour display and light signals and is currently selling at approximately RMB1,580. The Group also distributes another model of "Siemens M55" which equips with additional accessories like clip-on camera and integrated flash. The Group began to distribute these two models of mobile phone in the PRC on a nationwide basis in July 2003 and is currently selling at approximately RMB1,880.

Distribution of mobile phone sets was the Group's core business during the Track Record Period. For the financial year ended 31 March 2003, mobile phone sales accounted for approximately 96% of the Group's total turnover. During the same financial year, the Group sold a total of approximately 1.98 million sets of "Nokia 8250" mobile phone and approximately 6,600 sets of "Nokia 6610", 6,300 sets of "Nokia 7210" and 116,400 sets of "Nokia 3610" mobile phone.

The Directors are currently in discussion with Nokia and other suppliers, both foreign suppliers and domestic suppliers in the PRC to distribute new models of mobile phone on either national or regional basis.

Personal Digital Assistants (PDAs)

Set out below is the breakdown of turnover of PDAs and related accessories during each of the Track Record Period:–

	Financial year ended 31 March		Five months ended 31 August
	2002	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Palm and other brands PDA	37,597	27,358	15,165
Pocket PC and O_2 xda	–	34,107	3,899
Smartphone	–	16	4,363
Others	–	10,076	2,599
	37,597	71,557	26,026

Palm PDAs

The Group is currently distributing various models of Palm PDAs on a non-exclusive basis; amongst them are M515 and M130, Tungsten T, Tungsten W, Tungsten C and Palm Zire 71. Tungsten T is a Bluetooth enabled PDA with high color resolution, featuring the Palm 5.0 operating system and random-access memory. The Tungsten W, featuring the Palm 4.1.1 operating system, has a built-in keyboard, supports the GPRS network for wireless data access and GSM network for voice calls. Tungsten C features a Palm PDA with built-in Wi-Fi wireless networking, 400MHz Intel processor and Palm 5.2.1 operating system. Palm Zire 71 is a multimedia handheld features a built-in digital camera. In addition, the Group also distributes PDAs of various brands, such as Sony, HandEra and Acer. For example, Acer S10 is a Chinese Palm-powered PDA incorporating features, such as audio recording and playback, dual memory stick and connector expansion capabilities. The PDA products distributed by the Group and sold at prices between HK$1,580 to HK$3,820 in Hong Kong.

Pocket PCs

The Directors anticipated that pocket PCs will become increasingly popular in the near future, with its data and communication power comparable with a PC and the compact size that allows users to easily manage their work and life at any time. With the expected growth of the market share of the Pocket PC, Synergy extends its carried PDA range to Pocket PC by starting to sell Audiovox Maestro handheld pocket PC, a WLAN and Bluetooth enabled pocket PC with dual compact flash manufactured by Toshiba in April 2002.

In June 2002, Synergy obtained the distribution right of O_2 xda PDA-phone in Hong Kong and Macau on a non-exclusive basis. It was reported as the first colour PDA-mobile phone operating under the GPRS network system in the market. The O_2 xda runs on Microsoft Pocket PC 2002 Phone edition.

O_2 xda phone currently retails at approximately HK$5,880 in Hong Kong. In October 2002, new version of xda with 64MB RAM expanded memory was launched by Synergy in Hong Kong.

Smartphone

Synergy obtained the sole distribution right for Qtek 7070, being one of the first Chinese language Windows powered Smartphone in Hong Kong and Macau upon its first introduction in May 2003. The above distribution right is for one year and is renewable for an additional year upon expiry. Qtek 7070 is a tri-band and GRPS-enabled mobile phone equipped with other accessories including camera and Chinese input keyboard. Qtek 7070 currently retails at approximately HK$4,380.

Synergy distributes PDAs, pocket PCs, and Smartphone primarily through independent computer stores and electronics retail chains in Hong Kong. There are currently approximately 20 of such computer stores and retail chains in Hong Kong to which Synergy supplies PDAs and pocket PCs.

Wireless Local Area Network (WLAN)

A WLAN delivers connectivity throughout a localised site, such as a university campus, a corporate network, or even a small home network without connecting with cables, by placing "access points", which are base stations that can transmit signals within a maximum distance of 150 metres.

Synergy was one of the pioneers in the deployment of WLAN since 1999. The technology has gained wide popularity in Hong Kong when WLAN product emerged in 1999. Jointly with its business partners, Synergy successfully extended such wireless internet infrastructure to educational institutions, shopping malls and household use through the introduction of wireless broadband network by local internet service providers. Synergy is also participating in a number of international exhibitions and conferences in Hong Kong and sponsoring the wireless internet equipment, and these included the Hong Kong Information Infrastructure Expo & Conference 2001 and 2002, the Computer Expo 2001 and 2002, the Software Exhibition 2001, Asian IT Expo and the ITU TELECOM ASIA 2000 and 2002.

In April 2002, Synergy was appointed as the master distributor of "Orinoco" WLAN products in the PRC, Hong Kong, Macau and Taiwan by Agere Systems for a period of 18 months. With the promotion of several broadband service providers in Hong Kong, Orinoco RG series of wireless residential gateway has become one of the best selling models of WLAN in small office and household markets in Hong Kong. As such, the Directors believe that Synergy is one of the major WLAN related system integration service providers in Hong Kong. It is expected that increasing adoption of WLAN in commercial and household use in Hong Kong and the PRC will provide additional business opportunities for the Group.

TRADING ARRANGEMENTS IN THE PRC

General information

During each of the Track Record Period, sales of the Group in the PRC accounted for approximately 66.4%, 95.8%, 95.8% and 94.0% of its total turnover, respectively. The Group's trading and sales of mobile phone and related accessories in the PRC are principally conducted through FSH. FSH was established in the Waigaoqiao Zone in Shanghai in September 1998. Under「上海外高橋保稅區條例」

(The Regulations of the Shanghai Waigaoqiao Zone), foreign enterprises such as FSH are required to apply to the 上海外高橋保稅區管理委員會(“Administrative Committee of the Shanghai Waigaoqiao Zone”) for a business licence. According to the Regulations of the Shanghai Waigaoqiao Zone, granting of a business licence to foreign enterprise such as FSH is subject to the meeting of a minimum registered share capital of US$200,000. Approval from the above committee is expected within 20 days from the date of application, and a business licence will be issued within three days following such approval.

FSH’s business activities are regulated by the laws and regulations in the PRC as well as the relevant regulations governing the conduct of business within the Waigaoqiao Zone. According to「對外貿易經濟合作部關於保稅區外經貿政策有關問題的通知」(The Notice Relating to the Policy Concerning Free Trade Zone) issued on 17 July 1997, trading activities conducted between enterprises within free trade zones (including the Waigaoqiao Zone) and enterprises outside free trade zones in the PRC are treated as foreign trading activities and can only be carried out with enterprises that possess the requisite import and export licence. Consequently, FSH signed agreement with Shanghai Xin Development, a semi-government entity incorporated in the Waigaoqiao Zone that has the relevant import and export licences in June 2000. So far as the Directors are aware, Shanghai Xin Development is owned by 上海市外高橋保稅區新發展有限公司(Shanghai Waigaoqiao Free Trade Zone New Development Company Limited) and 上海對外經濟貿易實業公司(Shanghai Foreign Economy and Trade Enterprises Company), both of which were established with the approval of the Shanghai Municipal Foreign Economic & Trade Committee and are Independent Third Parties.

The Waigaoqiao Zone is one of the free trade zones in the PRC. The Group chooses the Waigaoqiao Zone as its headquarters in the PRC because of the fact that Shanghai is strategically located to facilitate the Group’s mobile phone distribution business in the PRC. In addition, FSH enjoys an enterprise income tax at a preferential rate of 15% without expiry date.

Current arrangement between FSH and Shanghai Xin Development

Similar to other foreign enterprises established in the Waigaoqiao Zone, FSH is required by authorities in the Waigaoqiao Zone to join as member of the Shanghai No. 2 Bonded Commodity Market (the “Secondary Market”) established under Shanghai Xin Development within the Waigaoqiao Zone. One purpose of the Secondary Market is to ensure that value-added tax invoices（增值稅發票）are properly issued by enterprises established in the Waigaoqiao Zone. This is a key control area by Shanghai Xin Development over the business activities of foreign enterprises, including FSH, established in the Waigaoqiao Zone. Value-added tax invoices issued by FSH are required to be printed on serial numbered forms supplied by the Secondary Market at designated computer terminals. Issued value-added tax invoices will need to be filed with the Secondary Market for record. This procedure enables the tax authority in the Waigaoqiao Zone to ascertain the amount of sales of FSH for the calculation of the PRC value-added tax and PRC enterprise income tax payable by FSH.

The following is a description of the invoicing procedure of FSH, together with the scope of work performed by the Secondary Market relating to FSH’s trading business:–

1. FSH secures purchase orders from customers.

2. FSH then takes such purchase orders to the offices of the Secondary Market to have them authorized, before printing out the serial numbered value-added tax invoices to such customers using the designated computer terminals.

3. FSH arranges delivery of mobile phones to customers in the PRC and presents to such customers the relevant VAT invoices.

4. Copies of VAT invoices are filed with to the Secondary Market for record.

Under the current PRC regulations, foreign enterprises incorporated in the Waigaoqiao Zone, including FSH, are required to appoint a PRC trading company which possesses the relevant import and export licenses to conduct trading activities between themselves and enterprises outside the Waigaoqiao Zone. As far as the business operations of FSH are concerned, the main function of Shanghai Xin Development is to monitor the issuance of value-added tax invoices by FSH, without such invoices FSH cannot operate its business.

Under the agreements entered into between FSH and Shanghai Xin Development on 1 June 2000 with the expiry date on 31 December 2003, apart from providing the value-added tax invoicing services mentioned above, Shanghai Xin Development agrees to provide import and export clearance services to FSH at an annual handling charge of 1.5% of the total contract value of the goods traded through the Waigaoqiao Zone. At the time of entering into the agreements, FSH was unsure as to the principal source of the mobile phone and accessory products that it would use to re-sale in the PRC. Hence FSH agreed with Shanghai Xin Development on the provision of these import and export clearance services. These agreements were prepared on the assumption that goods would be imported into the Waigaoqiao Zone and that Shanghai Xin Development would be responsible for delivering the imported goods to other destinations in the PRC as specified by FSH. It became clear to FSH in late 2000 that Nokia would make bulk delivery of mobile phones to FSH from their manufacturing bases in the PRC without the need to go through the Waigaoqiao Zone. As all mobile phones currently traded by FSH are produced by the suppliers in the PRC and are sold and delivered directly from FSH to its customers outside the Waigaoqiao Zone, without physically passing through the Waigaoqiao Zone and without Shanghai Xin Development taking possession of such goods, Shanghai Xin Development has never been required to take up its responsibility to deliver products to FSH's customers in the PRC in accordance with the above agreements. This arrangement has been separately confirmed by Shanghai Xin Development. Shanghai Xin Development has confirmed that trading activities between foreign enterprises, including FSH, and enterprises outside the Waigaoqiao Zone do not necessarily involve physical delivery of the goods to the Waigaoqiao Zone. In addition, Shanghai Xin Development has also confirmed that this trading arrangement is a practice for certain foreign enterprises established in the Waigaoqiao Zone that trade with enterprises outside the Waigaoqiao Zone.

While the agreement remained valid under the PRC law, the Company's legal advisers as to the PRC law have advised that, since FSH has not used the services provided by Shanghai Xin Development, FSH did not incur any liability to pay the 1.5% annual handling charge as provided in the above agreements. During the Track Record Period, FSH did not pay, and Shanghai Xin Development did not request for payment of, the annual handling charge. In addition, the Company's legal advisers as to the PRC law have also confirmed that, under「上海外高橋保稅區條例」(The Regulations of the Shanghai Waigaoqiao Zone) and「保稅區海關監管辦法」(The Regulatory Outlines of Customs of Free Trade Zones), FSH is not required to pay customs duty as there is no physical delivery of goods into and out of the Waigaoqiao Zone and that the trading arrangement of FSH does not contravene any relevant PRC law.

With a view to reflect the current arrangement, FSH and Shanghai Xin Development entered into a supplemental agreement in May 2002 confirming not to charge the relevant annual handling charge contained in the previous agreements. In that supplemental agreement, FSH would continue to lease office premises from Shanghai Xin Development with a view to confirm the FSH intention to continue to base its business operation in the Waigaoqiao Zone.

On 21 March 2003, FSH entered into a new agreement of the same terms and conditions as set forth above with Shanghai Xin Development for extension of the above arrangement for a period of one year to 31 December 2004.

As at the Latest Practicable Date, the Group leased from Shanghai Xin Development two offices in Xin Mao Building within the Waigaoqiao Zone with an aggregate gross floor area of approximately 661 sq. ft. at an annual rent of RMB54,000. A lease of such offices will expire on 31 August 2004 and the other one has expired on 9 December 2003. The Group is in the process of renewing the lease with Shanghai Xin Development.

The arrangement between FSH and Shanghai Xin Development was entered into after arm's length negotiations and on normal commercial terms. The legal advisers to the Group as to the PRC law confirm to the Directors that all of the above arrangements do not contravene any relevant PRC law and regulation, and are effective and binding amongst the parties.

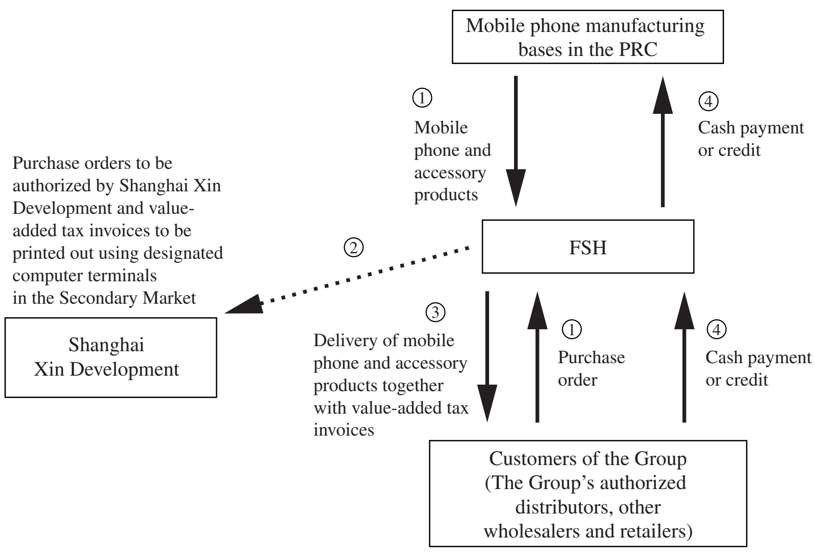
Other information

As an enterprise established in the Waigaoqiao Zone, FSH is required to pay value added tax at the rate of 17% of its turnover and enterprise income tax of 15% of taxable profits to the local tax authorities within the Waigaoqiao Zone. For the financial year ended 31 December 2002, FSH issued invoices that were subject to value added tax amounted to approximately RMB584 million and paid enterprise income tax amounted to approximately RMB22 million.

DEVELOPMENT OF DISTRIBUTION AND SERVICE NETWORK IN THE PRC

Distribution flow chart

The diagram below illustrates the Group's mobile phone trading activities in the PRC:–



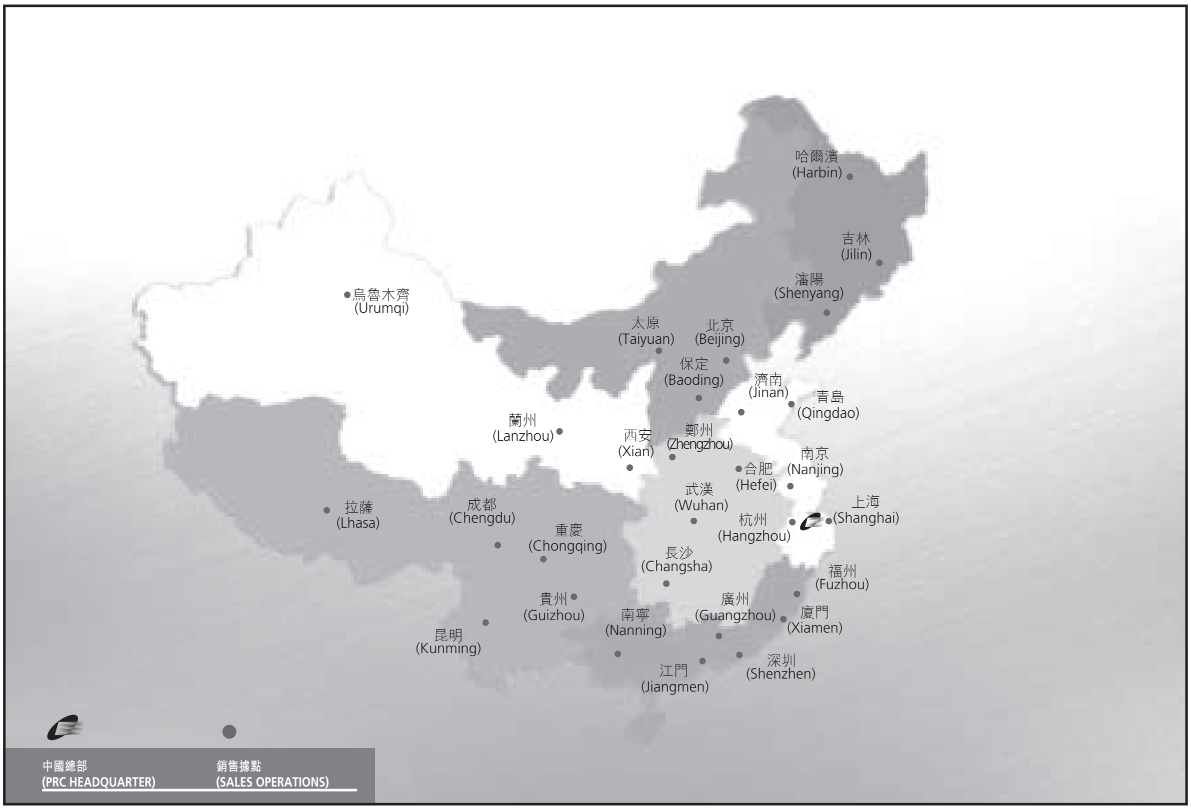
Distribution and service network in the PRC

The Group purchases mobile phones and related accessories from Nokia and other mobile phone manufacturers in the PRC and then distributes such products in the PRC through authorised distributors. A distribution and services network in the PRC comprising 140 authorised distributors covering 44 PRC cities and municipalities was established by the Group as at the Latest Practicable Date. All these authorised distributors are Independent Third Parties. These authorised distributors are customers of the Group, as all sales to them are made on a non-consignment basis. The appointment of authorised distributors by the Group is based on the trading relationships with the Group, their own business reputation in the industry and the payment track record. Authorized distributors then distribute mobile phones and related accessories to retailers and/or end users.

The Group is responsible for supplying mobile phone and related accessory products to its authorised distributors and provision of staff and product training. All authorised distributors operate independently and are required to pay their own operating expenses and overheads, which include staff salaries, rent, electricity and insurance. These authorised distributors are not exclusively appointed by the Group, and they also act as wholesalers and/or retailers of mobile phone models supplied by other parties. Approximately 10% of the authorised distributors of the Group are appointed in writing with the remaining having no written agreements entered into with the Group for the appointment purpose. It is the Group's policy that distribution agreements will only be entered into with those authorised distributors who are able to commit minimum purchase amounts from the Group within a prescribed period of time, usually between 6 to 12 months, or with those in which the Directors believe that they are strategically located to provide intensive on-going operational supports, such as staff and product training as well as advice on promotional activities. The Group also classifies its authorised distributors in terms of marketing support, staff and technical trainings and the time of delivery of new mobile phone products. Distribution agreements, if any, with authorised distributors are usually for a term from two to five years and are renewable by agreement of both parties.

The Directors believe that the arrangement with authorised distributors allows the Group to develop a marketing and after-sales services network in the PRC without substantial investment. The Group encourages the use of "長遠" trade name in the outlets of its authorised distributors, but it is at the discretion of the relevant authorised distributors. Currently, approximately half of the authorised distributors of the Group are using the "長遠" trade name in their outlets.

The map below illustrates the southern, eastern, western and northern regions of the PRC showing the distribution and service network of the Group:–



In order to ensure consistent quality of service, corporate image and other key operational aspects for the authorised distributors of the Group, the Group provides advices and guidance to the authorised distributors on the establishment, on-going management and operation of their retail shops. The Group also provides on-going operational support to the authorised distributors, such as staff training, product training and advices on promotional activities.

With a view to obtain the latest market information, the Group also requests the authorised distributors to report to the headquarters of the Group in Shanghai on a weekly basis their sales figures of different products and the number of mobile phone sets repaired. The information gathered is then relayed to the Group's management and business development teams, thereby allowing them to respond to the customer demand for different models of mobile phone, determine the quantity of purchase and the appropriate inventory level.

Following the receipt of purchase orders from its customers (which include the authorised distributors of the Group and other wholesalers or retailers), the Group will arrange delivery of mobile phone and related accessory products from its warehouses, upon which the Group recognises as its sales and these transactions are conducted on non-consignment basis. The Directors are of the view that these arrangements are efficient and cost-effective and are able to capture the rapid growing and changing PRC market.

Authorised service centres

The Directors recognise that the provision of comprehensive after-sales services to customers in the PRC is crucial to enhance the Group's business reputation and competitiveness in the mobile phone market.

Through the distribution and service network in the PRC, the Group also provides technical training and support to some of the authorised distributors of the Group so that they can provide to end-users after-sales services, such as repairs and maintenance, inspection of mobile phones and replacement of components and accessories. As at the Latest Practicable Date, there are 28 service centres operated by the authorised distributors of the Group with most of them located in Guangzhou, Jiangmen, Shenzhen, Fuzhou, Shanghai, Hangzhou, Beijing, Baoding, Shenyang, Jilin, Harbin, Kunming and Lhasa. All of these service centres have been certified by Nokia as having met the required technical standards to service its mobile phone related products.

Mobile phone manufacturers provide a one-year warranty on all mobile phone products from the date of purchase by the Group, which in turn extends such warranty to its customers on purchase of mobile phones.

CUSTOMERS AND MARKETING

Customers

Most of the Group's customers of mobile phone products are in the PRC. The Group currently has a customer base of over 1,000 customers including the authorised distributors of the Group, wholesalers and retailers in the PRC.

During the Track Record Period, sales to the Group's largest customer amounted to approximately HK$261 million, HK$436 million, HK$236 million and HK$94 million, respectively, representing approximately 16.9%, 12.6%, 8.0% and 15.4% of the Group's total turnover respectively. Guangzhou Fortune, an authorised distributor of the Group, was the Group's largest customer for the three financial years ended 31 March 2003 and is currently owned as to 99% by Mr. Lau Ye Buo and as to 1% by an Independent Third Party. Mr. Lau Ye Buo is a cousin of Mr. Steve Lau and is a connected person (as defined in the GEM Listing Rules) of the Company. As such, the Group's sales to Guangzhou Fortune during the three financial years ended 31 March 2003 were connected transactions under the GEM Listing Rules. Mr. Lau Ye Buo has no direct or indirect shareholding interests in any member of the Group. The sales to Guangzhou Fortune were terminated on 25 February 2003 by mutual agreement.

During the Track Record Period, the Group's five largest customers, accounted for approximately 45.1%, 27.1%, 27.5% and 36.2% of the Group's total turnover, respectively. None of the Directors, the controlling and substantial shareholders of the Company or their respective associates has any interest in any of the Group's five largest customers.

The Group's PDAs and pocket PCs are sold primarily to independent computer stores and retail chain stores in Hong Kong. Sales of WLAN equipment, such as "Orinoco", are primarily made to internet service providers in Hong Kong.

Following completion of the acquisition of 51% interest in Synergy in July 2001, the Group's sales of WLAN and PDA equipment amounted to approximately HK$28.6 million and HK$37.6 million, respectively, for the eight months ended 31 March 2002. All of the above sales and income were derived in Hong Kong and denominated in Hong Kong dollars.

For the financial year ended 31 March 2003, sales of WLAN equipment and PDAs (including pocket PCs) amounted to approximately HK$38.0 million and HK$71.6 million, respectively, representing approximately 1.3% and 2.4% of the Group's turnover during the year. All the above sales and income were derived in Hong Kong and denominated in Hong Kong dollars.

The table below shows the geographical breakdown of the Group's sales during each of the Track Record Period:–

	Financial year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	1,026,081	3,317,473	2,820,081	573,343
Hong Kong	518,775	143,709	124,866	36,340
	1,544,856	3,461,182	2,944,947	609,683

Starting from the financial year ended 31 March 2002, the Group's sales in Hong Kong decreased substantially, as compared with the same during the year ended 31 March 2001. This was primarily due to the Group's change of focus of its mobile phone distribution business from Hong Kong to the PRC, partly in response to the commencement of Nokia to deliver mobile phones to the Group in the PRC.

Payment terms

The Group's mobile phone sales in the PRC are denominated in RMB. It is the Group's policy to adopt a tight credit policy and the chief executive officer of the Group may grant credit to selected customers depending on their payment track record, financial background, transaction volume and business relationship with the Group. For established and credit-worthy customers in PRC, credit terms up to 30 days may be granted with the approval of the chief executive officer of the Group. During the Track Record Period, cash sales of mobile phones and related accessories accounted for approximately 88%, 77%, 80% and 65% of the Group's total mobile phone sales, respectively, whereas credit sales accounted for approximately 12%, 23%, 20% and 35% for the respective periods. The increase in credit sales over the Track Record Period was mainly attributable to the general sales increase of the Group and its marketing strategy to offer incentives and promotional campaigns to the distributors of the Group.

PDA and pocket PC sales to chain stores and independent resellers in Hong Kong are made under credit for a term of between 45 and 60 days, whereas sales of WLAN equipment to internet service providers and property developers in Hong Kong are made with 30 to 90 days' credit.

It is the Group's policy to review debtors' aging each month and make specific provision for identified bad and doubtful debt when necessary. For those receivables with respect to mobile phone distribution that are over 90 days, a 50% provision will be made, whereas for those over 180 days, 100% provision will be made. During each of the Track Record Period, the Group (excluding Synergy) had made bad debt provision of approximately nil, HK$0.9 million, HK$6.0 million and nil, respectively. The increased amount for the year ended 31 March 2003 contained mainly specific provision for receivables overdue for more than 90 days. During the period from 1 August 2001 (immediately following the Group's acquisition of 51% interest in Synergy) to 31 March 2002, for the financial year ended 31 March 2003 and for the five months ended 31 August 2003, Synergy had made bad debt provisions of approximately HK$0.03 million, HK$0.03 million and nil respectively.

Marketing

The Group focuses its business on managing and expanding its distribution operations. Senior management of the Group devotes a substantial amount of time in building up business relationship with suppliers, distributors and customers in the PRC and, in the case of Synergy, in Hong Kong. As at the Latest Practicable Date, the Group had a sales and marketing team of about 341 staff in the PRC, of whom 12 were contracted full-time staff employed by the Group and 329 were marketing representatives engaged by the Group in the PRC to assist the Group to collect marketing information, explore business opportunities with new customers and maintain and develop relationships with existing customers. The PRC sales and marketing team is structured geographically into four sub-divisions, each being responsible for a specific region of the PRC, namely the southern, northern, western and eastern regions of the PRC.

The Group also places strong emphasis on maintaining good business relationships with major network operators and government authorities in the PRC with an objective to understand the latest mobile network developments in the PRC and to position itself accordingly. In addition, the Group arranges and cooperates with mobile phone suppliers on their promotional activities, including road-shows, seminars, radio broadcasts, sign boards and newspaper and magazine advertisements. The Group, however, is not responsible for any general marketing and advertising activities of mobile phone suppliers in promoting their new products, brand names or corporate images in the PRC.

PURCHASE

During each of the Track Record Period, the Group's top five largest suppliers accounted for approximately 99.5%, 98.7%, 96.7% and 95.3% of the Group's total purchases, respectively. During the same periods, the Group's largest supplier was Nokia, with which the Group has over eight years of business relationship. Purchases from Nokia accounted for approximately 96.7%, 97.5%, 93.9% and 73.0% of the Group's total purchases during each of the Track Record Period. Compared with previous financial years, the Group's percentage purchases from Nokia declined to 73% for the five months ended 31 August 2003 due to increased sales of other mobile phone brands. None of the Directors, the controlling and substantial shareholders of the Company or their respective associates has any interest in any of the Group's five largest suppliers.

DISTRIBUTION ARRANGEMENT WITH NOKIA

The Group has entered into a distribution agreement with Nokia that governs the supply of mobile phones from Nokia to the Group in the PRC. The distribution agreement sets out the credit period given to the Group for the supply of mobile phones and certain terms of rebates from Nokia. The current distribution agreement will expire on 31 December 2003. The Group is currently negotiating with Nokia with regard to the renewal of its distribution agreement. Based on previous experience, it is expected that such distribution agreement will be entered into within three months after its expiry and the Directors do not currently envisage any difficulty in renewing the distribution agreement with Nokia upon its expiry. Prior to such renewal, business will continue between the Group and Nokia in accordance with terms set out in the previous agreement. The Group obtained distribution rights of Nokia's new handset models in August 2003 and is currently negotiating with Nokia for another new model expecting to debut in December 2003.

All the Group's purchases from Nokia were made and delivered in the PRC. Purchases from Nokia, which are settled in RMB, are either in cash or on open account with credit term up to one month. During each of the Track Record Period, approximately 64%, 60%, 36% and 100% of the Group's purchase, respectively, from Nokia were settled in cash and approximately 9%, 40%, 64% and nil, respectively, were settled by one-month credit. For the financial year ended 31 March 2001, the remaining 27% of the Group's purchases from Nokia were conducted under letters of credit basis. Purchases made by the Group for the five months to 31 August 2003 were all in cash to take advantage to more favorable terms offered by Nokia during that period.

Mobile phone purchases and inventory control

Prior to the commencement of each calendar year, the Group's management will prepare a master purchase plan, which will be subject to monthly review by the management of the Group. Compilation of such plan is based on the Group's past sales records of different models of mobile phones and the related accessories and other products, assessment of likely market demands, the overall market sentiment and the latest product trend in the wireless telecommunications industry.

As a practice of the Group, in the last quarter of each calendar year, the Group will hold meetings with its suppliers to discuss the Group's master purchase plan together with the suppliers' yearly sales budgets. The suppliers' product roll-out plan for the next year will also be discussed. Although preliminary and indicative sales targets are determined between the Group and its suppliers at this stage, the Group will not undertake any minimum purchase commitment in respect of the amount of purchases with its suppliers.

For each quarter of a year, major suppliers of the Group will normally confirm with the Group of their supply capacity according to the Group's purchase plan. After receiving such confirmation, the Group will place purchase orders with them on a monthly basis. Suppliers then deliver the goods to FSH which in turn arranges subsequent delivery to the warehouses of the Group or to the designated locations of the Group's customers in the PRC.

The Group has adopted a policy of not keeping more than two months' inventory of the expected sales at any time and generally keeps about one to two months' inventory level. Management of the Group reviews the inventory level each month and makes specific provision for identified obsolete stock accordingly. The Group made a provision of about HK$1.0 million for the year ended 31 March 2001 and did not make any provision of obsolete stock during the two years ended 31 March 2003 and the five months ended 31 August 2003 as most of the inventory comprised current mobile phone models.

During each of the Track Record Period, purchases from Nokia accounted for approximately 97.3%, 99.2%, 97.2% and 80.5% of the Group's total mobile phone purchases, respectively, whereas purchases from other mobile phone manufacturers accounted for the remaining 2.7%, 0.8%, 2.8% and 19.5%, respectively. During the five months to 31 August 2003, the Group increased its purchases from other mobile phone suppliers, mainly Siemens following the secure of distribution rights of "Siemens M55" in July 2003.

Rebates

It is an industry practice for suppliers to promote mobile phone sales by granting rebates to its distributors. At present, Nokia, being the Group's major supplier, operates a rebate system and grants rebates to the Group in respect of its purchases. It is the Group's policy to set-off such rebates earned against its cost of sales.

Rebate plans are usually discussed and agreed upon between Nokia and the Group in the last quarter of each calendar year, based on the rolling sales and purchase forecasts prepared by Nokia and the Group, respectively. The amount of rebates is based on the rebate scheme set up by Nokia which may vary from year to year.

Rebates can be categorised as volume rebate, price rebate and special rebate. Volume rebates are calculated monthly based on the number of mobile phone sets sold. Presently, under the subsisting distribution agreement between the Group and Nokia, volume rebates are based on 3.5% of the total amount of purchases from Nokia within the month, subject to the Group achieving its set monthly volume target. Price rebates are compensations when discounts are implemented by suppliers on products which the Group purchased earlier at higher prices. Special rebates are granted at the discretion of suppliers as part of their incentive plan to distributors. Given the frequency of the launch of new models and keen competition within the industry, the selling prices of mobile phones generally decline over their product life cycles. In view of this, the Group also negotiates with suppliers for special rebates. The Group received a larger amount of special rebates from Nokia during the year ended 31 March 2001, as compared with that of the year ended 31 March 2002, mainly due to the fact that the Group achieved a better-than-expected sales of Nokia's products in the year. However, special rebates are granted at the discretion of Nokia on a case-by-case basis and there is no assurance that the Group will receive ongoing special rebates. The Group did not receive any special rebate from Nokia for the financial year ended 31 March 2003 and five months to 31 August 2003. During the financial year ended 31 March 2003, price rebates increased substantially compared to the previous year, which was attributable to the reduction of selling price of Nokia 8250 by approximately 24%.

In the past, promotion rebates were also granted to enhance product promotion and to create incentive for distributors to attend seminars and product training where such rebates were net off against the cost of gifts and promotion items as distribution cost. However, since April 2002, promotion rebates have been included as part of volume rebates and, as such, the rate of volume rebates from Nokia has increased from 3.0% to 3.5%. Under the existing agreement with Nokia, the above volume rebates apply to all mobile phone models that the Group obtains distribution rights from Nokia. The cost of gifts and promotion items were then charged as part of cost of good sold for the financial year ended 31 March 2003.

The table below sets out the different rebates granted by Nokia during each of the Track Record Period. Rebates are generally settled by way of netting off against future purchase payables or as discounts granted by Nokia on purchases: –

	Financial year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Volume rebate	34,526	95,308	111,617	16,803
Price rebate	16,820	24,542	188,259	33,176
Special rebate	97,763	40,323	–	–
Promotion rebate	8,152	20,010	–	–
	157,261	180,183	299,876	49,979

PDA AND WLAN PURCHASE AND INVENTORY CONTROL

The Group's purchases are based on quarterly sales forecasts in respect of major items, such as Palm PDAs, Pocket PCs and WLAN items.

Synergy has adopted a policy to keep not more than seven weeks of inventory for distribution purpose. Its management reviews the inventory level on a monthly basis and makes specific provisions for slow moving and obsolete stock. In addition, provision will be made to stock that is currently selling below cost, after taking into account rebates or returns to the suppliers. As at 31 March 2003 and 31 August 2003, Synergy made a total provision of about HK$1.5 million and HK$1.8 million respectively in respect of slow moving and obsolete stock.

PDA and WLAN equipment purchases, which are made either in US dollars or Hong Kong dollars, are usually made on open account basis with credit term up to 45 days. For the period from 1 August 2001 (after the Group's acquisition of 51% interest in Synergy) to 31 March 2002, US$ purchases of PDAs and WLAN equipment by Synergy accounted for 94.1% of Synergy total purchases with HK$ purchases accounted for 5.9%. During the financial year ended 31 March 2003, the percentage split between US$/HK$ with regard to PDAs and WLAN equipment purchases by Synergy were 92.8% and 7.2% respectively. For the five months ended 31 August 2003, the respective percentage were 82.7% and 17.3%.

For the period from 1 August 2001 to 31 March 2002, open account purchases by Synergy represented approximately 67.8% of its total purchases, whereas letters of credit and cash purchases represented the balance. For the financial year ended 31 March 2003 and the five months ended 31 August 2003, open account purchases by Synergy represented approximately 90.4% and 82.6% respectively of its total purchases with the balance under letters of credit and cash.

Rebates

Similar to mobile phones, volume and price rebates are given by suppliers of PDAs and WLAN equipment as part of the incentive plan to distributors. Rebates, which are net off against costs of sales, are generally settled by way of netting off against future purchase payables or as discounts granted by suppliers on purchases.

For the eight months ended 31 March 2002, rebates from Palm, a PDA supplier, amounted to approximately HK$3.92 million. The amount of rebates for the year ended 31 March 2003 was HK$6.1 million and HK$0.83 million for the five months ended 31 August 2003.

INSURANCE

For the Group's distribution business, the majority of the mobile phones and PDA products distributed by the Group are tested and packed by their respective suppliers before they are delivered to the Group for distribution. These products are usually covered by warranties provide by the respective suppliers and defective products would be returned to such suppliers for replacement at the services centre unless the defect is due to misuse, negligence, accident, repair or alteration of which the losses due to the above will be borne by the Group's customers. The Group has taken out fire insurance at designated warehouses both in the PRC and in Hong Kong to cover any of such losses.

COMPETITION

The telecommunications industry in general operates in a highly competitive environment. The industry is characterized by rapid technological development and the introduction of new models. Companies operating in such industry may frequently be required to review the price of their products and may reduce the profit margin in order to be competitive in the market. Furthermore, the product life cycle is highly affected by competitors' new product development. Therefore, the Group's business may be affected by keen competition among the Group's vendors.

The Group's trading arrangement with Nokia is primarily on an non-exclusive basis and therefore the Group may have to compete with other authorised distributors who distribute the same model on a more favourable price and better after-sales service. Apart from competition among authorised distributors, there may be also competition from parallel import traders who, without any distribution rights, source the products overseas and ship the goods into the PRC, legally or illegally.

The Directors believe that the Group's long term working relationship with Nokia, coupled with an extensive distribution network covering more than 40 cities and municipalities, is important to maintain a competitive edge in this industry.

INVESTMENT IN PACIFICNET

In October and November 1999, the Group subscribed for a total of 21% interest in PacificNet.com LLC for a total consideration of US$400,001 (approximately HK$3.11 million) based on its par value. PacificNet.com LLC was then a private company specialised in e-commerce solutions which included order processing, warehousing, delivery, credit card validation, etc. The percentage of shareholding of the Group in PacificNet.com LLC was subsequently diluted to approximately 11.67% in November 1999 as a result of an issue of additional equity interest of PacificNet.com LLC to an independent investor. In March 2000, the Group acquired from Mr. Richard Hui, a then non-executive Director, an additional 3% equity interest in PacificNet.com LLC at a consideration of HK$8.8 million. The consideration was arrived at after arm's length negotiations between the parties. On 17 February 2000, the Company entered into a share exchange agreement with Creative Master Inc., a company listed on the NASDAQ National Market, pursuant to which Creative Master Inc. would issue 2.4 million new shares to the Company, representing approximately 9% of the issued share capital of Creative Master Inc., in exchange for the Company's entire interest in PacificNet.com LLC. PacificNet.com LLC was then become a wholly-owned subsidiary of Creative Master Inc., which was subsequently changed its name to PacificNet Inc. In February 2002, PacificNet issued new shares to an Independent Third Party to raise US$4 million, resulting in a further dilution of the Company's shareholding in PacificNet to 3.5%. It is the Group's intention to hold its interest in PacificNet as an investment in securities and not for long-term investment purpose. As at 31 August 2003, the Group's interest in PacificNet has further reduced to approximately 2.1%.

As at 31 December 2002, the audited shareholders' funds of PacificNet amounted to US$3.25 million (HK$25.35 million). Based on the last traded price of PacificNet shares as at the Latest Practicable Date, PacificNet's market capitalisation was approximately US$35.1 million (HK$273.8 million). The Company's current carrying value of its investment in PacificNet Inc. amounted to approximately HK$3.5 million.

CONTINUING CONNECTED TRANSACTIONS

Premise leasing arrangement with Sinoleen Enterprises Limited

As at the Latest Practicable Date, the office premises of Synergy in Hong Kong were leased from Sinoleen Enterprises Limited, a company controlled by Mr. Fong Kin Kiu, Ken, who is a director and a shareholder of Well Force which is in turn a 49% shareholder of Synergy. Details of the lease are as follow:–

Property:	Unit 2308 on 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung
Owner:	Sinoleen Enterprises Limited
Lessee:	Synergy Computers & Communications Limited, a wholly owned subsidiary of Synergy
Term:	Two years from 1 May 2002 to 30 April 2004
Rent:	HK$35,750 per month, exclusive of rates and management fees.

Midland Surveyors Limited, the independent property valuer, has confirmed that the terms of the above lease arrangement are on normal commercial terms and are fair and reasonable.

The above leasing arrangement is a continuing connected transaction for the Company. Under Rule 14.24(5) of the Listing Rules, a connected transaction on normal commercial terms where the total consideration or value is less than the higher of HK$1 million or 0.03% of the net tangible assets of a listed issuer will normally be exempted from reporting or shareholders' approval requirements. Since the above mentioned lease arrangement is of a continuing and recurrent nature and that the total consideration under such transaction does not exceed the higher of HK$1 million or 0.03% of the net tangible assets of the Group, the lease arrangement is an exempted continuing connected transaction under Rule 14.24(5) of the Listing Rules. The Sponsors and the Directors, including the independent non-executive Directors, are of the view that the above continuing connected transaction is fair and reasonable as far as the Shareholders are concerned.

Provision of corporate guarantees for the banking facilities granted to Synergy

As at the Latest Practicable Date, the Company provided corporate guarantees to three banks in respect of 51% of the aggregate banking facilities of approximately HK$23.4 million granted to Synergy. Well Force has separately agreed to provide corporate guarantees in respect of 49% of such aggregate banking facilities. The above corporate guarantees are provided by the Company and Well Force, in proportion to their respective interests in Synergy severally. The banking facilities are used by Synergy and its wholly-owned subsidiaries in their ordinary course of business.

The Directors, including the independent non-executive Directors, consider that the above corporate guarantees are essential to the business of Synergy and are beneficial to the business of the Group as a whole. The Directors, including the independent non-executive Directors, are also of the view that the above corporate guarantees are provided on normal commercial terms and are fair and reasonable as far as the Shareholders are concerned. For these reasons and the fact that the amount of the corporate guarantees provided by the Company are in proportion to its equity interest in Synergy, such corporate guarantees fall within the scope of Rule 14.25(2)(b) of the Listing Rules and will only be subject to the disclosure requirements with the required particulars in the Company's annual reports following its listing on the Main Board.

According to statistics from MII, Nokia is the leading foreign mobile phone brands in the PRC with a market share of 18% in 2002. According to the 2002 annual report of Nokia, sales of Nokia mobile phones in the PRC amounted to EUR2,802 million (HK$25,723 million). The Group's sales of Nokia mobile phones for the financial year ended 31 March 2003 were HK$2,778 million, representing approximately 11% of Nokia's total mobile phone sales in the PRC in 2002. Based on the above figures, the Directors believe that the Group is one of the leading mobile phone distributors in the PRC. During the last decade, the number of mobile phone users in the PRC increased substantially and reached approximately 257 million users as at the end of October 2003. The PRC is currently the largest mobile phone market in the world. According to MII, the number of mobile phone users in the PRC is expected to reach approximately 405 million by the end of year 2007. With an established distribution and service network in the PRC serving approximately 1,000 customers, the Directors believe that the Group will be able to leverage on this network to expand its sales and to further consolidate its leading market position in the PRC.

The Group will also work closely with its business partners to increase the market share and the business volume. To this end, the Group plans to increase its distribution coverage to PRC cities other than the existing major PRC cities by further expanding the distribution and service network and recruiting additional sales and marketing staff. The Group will also continue to enhance the logistics support network with regional warehouses in major PRC provinces, with the objective of delivering products within 24 hours to most PRC cities.

In addition, the Group will seek to expand its supplier base and broaden its product portfolio. The Directors believe that current technology developments in the wireless telecommunications have led to multiple functionality of mobile phones, migrating from voice transmission to delivery of multi-media contents, such as images, entertainment and business applications. As such, the Directors expect that additional mobile communication products equipped with different features and applications will increase their market acceptance. The Directors are currently in discussion with Nokia and other suppliers to distribute such new mobile phone products in the PRC on either national or regional basis. With an expanded and efficient distribution and service network and its business relationship with its suppliers, the Directors believe that the Group is in a good position to secure the distribution rights for new mobile phone models produced by other manufacturers.

The Directors are optimistic of the Group's mobile phone distribution business in the future. This is based on the following reasons:-

(1) Similar to other markets, a large mobile phone replacement market is being generated in the PRC due to the increasing demand for new mobile phone sets with advanced functions, such as colour displays, built-in camera and other SMS and MMS features. This is expected to increase the mobile phone sales in the PRC, which is enjoying a relatively high economic growth.

(2) The Group currently focuses its distribution business for foreign mobile phone manufacturers, such as Nokia and Siemens, which are primarily in the forefront of mobile phone technologies as compared with the domestic brands in China.

(3) The Group has secured the distribution right in the PRC from Nokia and Siemens new mobile phone models in the second half of 2003. In addition, the Group is in discussion for the distribution of other mobile phone models.

As a result of the continuous technological developments, the convergence of voice, data and multimedia have also led the Group to diversify its product lines to include other mobile communication related products, such as PDAs and WLAN equipment. The acquisition of Synergy by the Group in July 2001, which enabled it to diversify its business into the distribution of other handheld mobile devices, such as PDAs and into the provision of wireless internet browsing solutions to institutions and corporations, was part of the Group's strategy to follow the latest technological developments. The Group will continue to leverage on the expertise and the synergistic benefits derived from Synergy to expand into other personal mobile products in the PRC market.

DIRECTORS

Executive Directors

Mr. LAU Siu Ying, Steve, aged 40, is the founder, Chairman and Chief Executive Officer of the Group. Mr. Lau has extensive working experience in the telecommunications industry for over 15 years and has established solid business contacts in both Hong Kong and the PRC. Mr. Lau is responsible for directing the Group's overall business policy and strategies as well as for overseeing the Group's business development in Hong Kong and the PRC. Prior to setting up his own business, Mr. Lau worked for Hutchison Whampoa Group for approximately five years, in charge of the business development of the telecommunications in the PRC. Mr. Lau is also the Board Councillor of China Mobile Communications Association (CMCA) in Beijing. Mr. Lau holds a bachelor degree in Business Administration from the Chinese University of Hong Kong and a master of Science degree in Information Technology from the National University of Ireland, Dublin.

Mr. LUO Xi Zhi, aged 46, joined the Group in October 1995. Mr. Luo is also financial controller of the Group's PRC operation. Mr. Luo holds a certificate in Accounting from the Finance Academy of Jiangxi Province. Mr. Luo has approximately 20 years of financial and accounting experience in the PRC. Prior to joining the Group in 1995, Mr. Luo was the chief accountant for Zhaoqing Sz Di Telecom Co., Ltd. (肇慶斯迪通訊有限公司).

Mr. TIN Ding Hong, William, aged 41, joined the Group in July 2001. Mr. Tin is also Chief Financial Officer of the Group and the Company Secretary of the Company. Mr. Tin was graduated at the Hong Kong Polytechnic University and holds a bachelor degree of Arts in Accountancy. Mr. Tin is a fellow member of the Hong Kong Society of Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Certified General Accountants Association of Canada. Mr. Tin is also a director of Canadian Certified General Accountants Association of Hong Kong Limited. Prior to joining the Group, Mr. Tin served as senior financial executives of various listed companies in Hong Kong. Mr. Tin has extensive financial, taxation and accounting experience in both Hong Kong and overseas.

Non-executive Directors

Mr. FUNG Oi Ip, Alfonso, aged 46, owns and operates a leading law costs draftsman firm in Hong Kong which was established in 1986. Mr. Fung developed computer programming, developed and published specialist law costing software in 1986, which was subsequently licensed to the Hong Kong Government for use in the Legal Aid Department. Mr. Fung was appointed as a non-executive Director in October 1999.

Mr. LO Wing Yat, Kelvin, aged 44, is a Director and an Executive Vice President of CITIC Ka Wah Bank. Mr. Lo also holds directorships and senior executive positions in various subsidiaries of CITIC Ka Wah Bank. Mr. Lo graduated from the University of Hong Kong with a bachelor degree in laws. Mr. Lo was admitted as a solicitor of the High Court of Hong Kong in 1984 and a solicitor of the Supreme Court in England and Wales in 1989. Prior to joining CITIC Ka Wah Bank, Mr. Lo served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and then became a partner of Messrs. Kao, Lee & Yip and Messrs. Linklaters & Paines. Mr. Lo was appointed as a non-executive Director in October 1999.

Independent non-executive Directors

Mr. CHANG Wing Seng, Victor, aged 65, is currently the Managing Director of APCG Business Pte. Limited in Singapore. Prior to this, Mr. Chang was the Managing Director of Singapore Technologies Telecommunications (Beijing) Pte Ltd. based in Beijing for two years. Mr. Chang had held various senior management positions in his 26 years with the Singapore Technologies Group. Mr. Chang is a graduate in Accounting of the Royal Melbourne Institute of Technology and has completed the Program for Management Development at the Harvard University Graduate School of Business Administration. Mr. Chang is currently a certified public accountant in both Singapore and Australia. Mr. Chang is also a member of the Institute of Chartered Accountants in Australia, the Australian Society of Accountants, the Institute of Chartered Public Accountants of Singapore and the Singapore Society of Accountants. Mr. Chang was registered as a Tax Agent by the Tax Agents' Board for the State of Victoria in Australia in 1960 and was registered as a Company Auditor in the Register of Company Auditors in Australia in 1965. Mr. Chang was appointed as an independent non-executive Director in October 1999.

Mr. LIU Kwok Fai, Alvan, aged 41, is the senior partner of Messrs. Alvan Liu & Partner. Mr. Liu was appointed as the legal adviser of a number of organizations and associations in Hong Kong, including the Hong Kong Small and Medium Business Association, Wong Tai Sin District Affairs Advisors Committee and The Junior Police Officers' Association of the Hong Kong Police Force. Mr. Liu has been appointed member of a number of Hong Kong governmental committees including the Criminal and Law Enforcement Injuries Compensation Boards and Wong Tai Sin District Fight Crime Committee. Mr. Liu is a non-executive director of Victory Group Limited and an independent non-executive director of Goldwiz Holdings Limited and Hop Fung Group Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. Mr. Liu holds a bachelor degree in arts majoring in Political Science and Economics from the University of Manitoba in Canada. Mr. Liu thereafter continued to pursue his legal qualification and completed the Law Society's Final Examination at Bristol Polytechnic in the United Kingdom in 1989. Mr. Liu was appointed as an independent non-executive Director in October 1999.

SENIOR MANAGEMENT

Mr. FONG Kin Kiu, Ken, Chief Technology Officer, aged 39, is CEO and co-founder of Synergy. Mr. Fong has over 12 years of experience in information technology industry. Mr. Fong holds a bachelor degree in Social Science from the University of Hong Kong and two master degrees, one in Strategy Marketing and the other in Information Management from the University of Hull and the National University of Ireland, respectively, and is currently a doctoral candidate in Business Administration in the University of South Australia. Mr. Fong is a Chartered Information System Practitioner of the British Computer Society and Chartered Marketer of the Chartered Institute of Marketing. Mr. Fong is also a full member of the Hong Kong Computer Society, the Hong Kong Management Association and the Executive Committee Member of the Hong Kong Wireless Technology Industry Association. Mr. Fong has been a visiting lecturer in the Institute of Textiles and Clothing of the Hong Kong Polytechnic University since 2000.

Mr. LI Sing Leung, aged 37, is the Group's deputy financial controller in charge of the Group's internal audit and financial reporting system in the PRC. Mr. Li graduated with a Bachelor of Commerce from the University of New South Wales, Australia. Mr. Li is an associate member of the Hong Kong Society of Accountants and Australian Society of Certified Practising Accountants. Prior to joining the Group in March 2003, Mr. Li has financial and audit experience in both PRC and overseas.

Ms. LI Yin Mui, Josephine, aged 39, is the Group's finance and administration manager and is responsible for accounting operations, general administration and daily operation of the Company's head office in Hong Kong. Ms. Li has over 18 years of experience in accounting and is a member of the Hong Kong Association of Accounting Technicians. Prior to joining the Group in year 2000, Ms. Li has extensive accounting experience in Hong Kong.

Mr. LO Kwok Leung, Jeff, aged 35, is regional manager in charge of sales and marketing activities in the northern region of the PRC. Mr. Lo joined the Group in July 2000. Mr. Lo received his education in Taiwan's Fu-Jen Catholic University.

Mr. LAU King, aged 27, is regional manager in charge of sales and marketing activities in the southern region of the PRC. Mr. Lau joined the Group in May 1998. Mr. Lau received his secondary education in Hong Kong.

Mr. LAU Chin Ying, aged 34, is regional manager in charge of sales and marketing activities in the western region in the PRC. Mr. Lau joined the Group in year 2001 and is the second youngest brother of Mr. Steve Lau and beneficial owner of Fortune 97 Associates Limited, which is one of the Shareholders.

STAFF

As at the Latest Practicable Date, the Group had total of 418 personnel, of whom 43 were based in Hong Kong and 375 were based in the PRC. The breakdown of such personnel by function is as follow:–

	Hong Kong	**PRC**	**Total**
Sales and marketing	16	341 *(note)*	357
Logistic and technical support	3	6	9
Management, finance and administration	18	27	45
Information and technology	6	1	7
	43	375	418

Note: Sales and marketing team included 12 contracted full-time staff employed by the Group in Shanghai and 329 non-contracted marketing representatives based at different locations in the PRC.

The remuneration payable to the contracted staff includes a basic salary and a discretionary bonus. The Group provides on-job training to all staff from time to time and may subsidise certain technical staff to attend training/seminars held by external institutions from time to time. With regard to non-contracted marketing representatives, the Group pays a basic monthly allowance plus cash bonus, according to the determined sales targets.

During each of the Track Record Period, the Group did not experience any disruption to its operations due to labour disputes. The Directors consider that the Group maintains a good relationship with its contracted staff both in Hong Kong and the PRC as well as its marketing representatives in the PRC.

As at the Latest Practicable Date, no options were granted under the Existing Share Option Scheme, and the Existing Share Option Scheme will be terminated and replaced by, subject to the approval of the Shareholders at the Special General Meeting, the Proposed Share Option Scheme.

The Group has discharged its responsibility for the social welfare scheme of its staff in the PRC by contributing to the social welfare plans managed by the relevant authorities of the provinces or municipalities in the PRC in which the social welfare plans operate. The relevant amount of the social welfare payment paid is in accordance with the relevant regulations in the PRC.

Apart from the social welfare plans which the Group participates, the Group also maintains employee compensation insurance for the benefits of all of its employees in Hong Kong and in the PRC.

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service contract with the Company. Further particulars of the service contracts are set out in paragraphs 8(b) in Appendix IV to this document.

During the Track Record Period, the executive Directors received salaries, allowances and bonuses totalled approximately HK$1.8 million, HK$1.9 million, HK$1.6 million and HK$0.9 million for the five months ended 31 August 2003, respectively. Independent non-executive Directors had received total fees of HK$0.25 million for the financial year ended 31 March 2001, HK$0.20 million for each of the two years ended 31 March 2002 and 2003 and HK$0.08 million for the five months ended 31 August 2003.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises two independent non-executive Directors, namely Mr. Chang Wing Seng, Victor and Mr. Liu Kwok Fai, Alvan.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

So far as the Directors are aware, immediately following completion of the Introduction, the only persons who are the controlling shareholders (as defined in the Listing Rules) and the substantial shareholders (as defined in the Listing Rules) of the Company will be as follows:–

Name	Number of Shares	Approximate percentage of shareholding immediately after completion of the Introduction
		(%)
Future 2000 Limited *(Note 1)*	211,500,013	70
Mr. Steve Lau *(Note 1)*	211,500,013	70
Madam Xiao Lei, Theresa *(Note 1)*	211,500,013	70
Mr. Lee Wai, Timothy *(Note 2)*	211,500,013	70

Notes:–

1. Future 2000 Limited is a company incorporated in the BVI and having its registered office situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. Future 2000 Limited is wholly-owned by Mr. Lee Wai, Timothy as trustee of the Lau's Family Trust (being a discretionary trust) of which Mr. Steve Lau, his spouse, Madam Xiao Lei, Theresa and their two children, Mr. Lau Ka Yun, Billy and Ms. Lau Michelle Zi Yin, both of whom are aged under 18, are the current eligible beneficiaries but who do not have a fixed interest in the assets of the Lau's Family Trust.

2. Under the SFO, Mr. Lee Wai, Timothy, as trustee of The Lau's Family Trust, is deemed to have interests in the Shares which Future 2000 Limited has interest as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

UNDERTAKINGS

Each of Future 2000 Limited, Mr. Steve Lau and Madam Xiao Lei, Theresa has undertaken with the Company, the Stock Exchange and each of the Sponsors that it/he/she shall not:–

(i) in the period of six months from the date on which dealings in the Shares on the Main Board first commence, dispose of, and/or shall procure that the registered holder of the relevant Shares shall not dispose of, any of the relevant Shares in respect of which it/he/she is the beneficial owner; and

(ii) in the period of six months commencing from the date on which the period referred to in paragraph (i) above expires, dispose of and/or permit the registered holder of the relevant Shares to dispose of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal, Future 2000 Limited will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of Future 2000 Limited, Mr. Steve Lau and Madam Xiao Lei, Theresa has also undertaken with the Company, the Stock Exchange and each of the Sponsors that, within the period of 12 months from the date on which dealings in the Shares on the Main Board first commence, it/he/she shall:–

(i) immediately inform the Company of any pledge/charge of any of the Shares beneficially owned by it/him/her together with the number of Shares so pledged/charged when it/he/she make such pledges/charges; and

(ii) immediately inform the Company when it/he/she receive indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge/charge mentioned above by the controlling shareholders, and will disclose such matters by way of a press notice in newspaper as soon as possible in accordance with the requirements of the Listing Rules.

SHARE CAPITAL

Authorised:		*HK$*
1,000,000,000	Shares	100,000,000
Issued share capital:		
302,100,000	Shares in issue as at the Latest Practicable Date	30,210,000

SHARE OPTION SCHEMES

The Group has adopted the Existing Share Option Scheme whereby full-time employees of the Group (including Executive Directors) may be granted options to subscribe for Shares. The principal terms of the Existing Share Option Scheme are summarised under "Share Option Schemes" in Appendix IV to this document. As at the date of this document, no options have been granted under the Existing Share Option Scheme, and the Existing Share Option Scheme will be terminated and replaced by, subject to the approval of the Shareholders at the Special General Meeting, the Proposed Share Option Scheme. The principal terms of the Proposed Share Option Scheme are summarised under "Share Option Schemes" in Appendix IV to this document.

GENERAL MANDATE TO ISSUE NEW SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:–

(i) 20% of the aggregate nominal amount of Shares in issue and to be issued (as set forth in the above table on share capital); and

(ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed "General mandate to repurchase Shares" below.

The above general mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or Shares to be issued upon the exercise of options granted under the Existing Share Option Scheme or, if applicable, the Proposed Share Option Scheme.

This general mandate will expire:–

(i) at the end of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by any applicable laws or the Existing Bye-laws (or Bye-laws) to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of the Shares in issue and to be issued (as set forth in the above table on share capital).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules.

The mandate will expire:–

(i) at the end of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by any applicable laws or the Existing Bye-laws (or Bye-laws) to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

TRADING RECORD OF THE GROUP

The following is a summary of the audited consolidated results of the Group for each of the Track Record Period which is prepared on the basis of presentation described under "Basis of presentation" in the accountants' report, the text of which is set out in Appendix I to this document. This summary should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this document.

	Year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover *(Note 1)*	1,544,856	3,461,182	2,944,947	609,683
Cost of sales *(Note 2)*	(1,474,031)	(3,316,149)	(2,795,875)	(589,361)
Gross profit	70,825	145,033	149,072	20,322
Other operating income *(Note 3)*	6,911	11,377	6,656	2,218
Distribution costs	(21,439)	(41,211)	(21,890)	(6,488)
Administrative expenses	(21,249)	(27,401)	(26,518)	(8,358)
Other operating expenses	(1,485)	(6,724)	(9,667)	(1,040)
Profit from operations	33,563	81,074	97,653	6,654
Finance costs	(4,721)	(10,893)	(20,698)	(6,782)
Deficit on revaluation of an investment property *(Note 4)*	(2,500)	(1,000)	(1,500)	–
Unrealised gain on investment securities *(Note 5)*	39,458	–	–	–
Unrealised holding (loss)/gain on other investments *(Note 5)*	(41,448)	(8,292)	1,988	2,996
Impairment loss on other investment	–	–	(390)	–
Impairment loss on goodwill arising on acquisition of an associate	–	(704)	–	–
Gain on disposal of subsidiaries	–	1,187	–	–
Share of results of associates	(261)	(211)	(38)	–
Profit before taxation	24,091	61,161	77,015	2,868
Taxation	(6,109)	(9,222)	(16,018)	(186)
Profit before minority interests	17,982	51,939	60,997	2,682
Minority interests	–	(1,624)	(80)	527
Profit for the year/period	17,982	50,315	60,917	3,209
Dividends paid/payable	15,000	3,021	15,105	15,105
Earnings per Share *(Note 6)*	6.0 cents	16.7 cents	20.2 cents	1.1 cents

Notes:

1. Turnover represented sales at invoiced value to customers, net of returns, discounts allowed and value-added tax ("VAT"), where applicable.

2. Cost of sales represented purchases at invoiced value, net of returns, discounts and purchase rebates receivable, where applicable. The purchase rebates are granted by suppliers in accordance with the policies of the rebate schemes, details of which are set out under "Purchases" in the section headed "Business" in this document. The aggregate amount of such purchase rebates received during each of the Track Record Period amounted to approximately HK$157.3 million, HK$184.1 million, HK$313.6 million and HK$52.9 million, respectively.

3. Other operating income comprised mainly interest income from cash deposits and property rental income

4. The deficit arising from revaluation of investment property of the Group was determined by reference to the estimated open market value of the investment property as valued by an independent professional valuer.

5. Unrealised gain on investment securities arose primarily due to the transfer of PacificNet from investment securities to other investments with reference to its cost of investment. Unrealized holding (loss)/gain on other investments arose principally due to marking the Group's investment in PacificNet to market as at 30 March 2001, 28 March 2002, 31 March 2003 and 29 August 2003.

6. The calculation of earnings per Share is based on the Group's profit attributable to Shareholders for the relevant period and the weighted average number of 300,000,000 Shares, 301,410,000 Shares, 302,100,000 Shares and 302,100,000 Shares in issue during each of the Track Record Period, respectively.

Management discussion and analysis of trading record

For the year ended 31 March 2001

Turnover increased by 12% to HK$1,545 million for the year. In addition to sales revenues from the PRC mobile phone distribution operation, turnover also consisted of revenues from new business operations launched during the year. The Hong Kong retail operation under the "Telecom-port" brand name and the prepaid IDD operation, launched in July 2000 and December 2000 respectively, generated revenue of HK$10.36 million (2000: nil) and HK$2.59 million (2000: nil) respectively.

Sales in the final quarter of this financial year surged to HK$631 million, accounted for approximately 41% of the Group's full year sales, following the securing of the distribution right for Nokia 8250 in January 2001. The Group recorded a drop in gross profit ratio from 5.8% to 4.6%, due mainly to increasing competition during the year from manufacturers and other distributors during the year.

During the year, the Group recorded a substantial increase in distribution costs, administrative expenses and finance costs compared to the year before. Distribution costs increased to HK$21.4 million as substantive efforts were made in expanding the Group's distribution network in the PRC, in anticipation of the gradual ceasing of supply of Nokia mobile phones for Hong Kong delivery by the Group. Compared to the year ended 31 March 2000, the number of authorised distributors increased from 80 to 120 for the year ended 31 March 2001. To complement its expanding distribution network in the PRC, the Group also increased its promotional and marketing spending in the PRC.

The increase in administrative expenses was mainly due to the increase of eight staff and rental costs relating to the expansion of the PRC operation, as well as the increase in professional and statutory expenditures relating directly or indirectly to the Group's listing on GEM. The increase in finance costs was due to the requisition of the US$12 million (HK$93.6 million) 2-year bank borrowing that served as the additional working capital required for the expansion of the Group's mobile phone distribution business in the PRC. Such working capital was used for the ordering of additional inventory required to generate additional sales. During the year, the Group began to finance its PRC operation by RMB borrowings secured by HK$ cash deposits to minimise exchange risks as well as to enhance the feasibility of cash withdrawal for the PRC operation. Interest expenses incurred for the RMB borrowings are mostly offset by the interest income generated from HK$ deposits pledged to banks as securities.

During the year, the Group disposed its entire 11.67% interest in PacificNet.com LLC to Creative Master Inc. (which subsequently changed its name to PacificNet Inc.), a company then listed on the NASDAQ National Market, in exchange for 9% equity interest in this NASDAQ listed company. Following the above share swap and as a result of the Group's change of intention to hold this investment for long term capital gain, the Group's investment in PacificNet.com was transferred to other investments as at the balance sheet date. Following such transfer, the Group recorded a net unrealised loss of approximately HK$2 million in respect of this investment, after marking such investment to market value as at balance sheet date.

For the year ended 31 March 2002

The Group recorded a turnover of approximately HK$3,461 million during the year, representing an increase of 124% compared to the year before. The substantial increase of the Group's turnover during the year was mainly due to increased sales of Nokia 8250 model mobile phones. During the year, the Group sold over 2 million mobile phone sets with its customer base further increased to over 1,000 customers. Gross profit margin was down slightly compared to the previous year, from 4.6% to 4.2%, due principally to margin erosion arising from targeting higher sales. In addition, the Group terminated its business in the sales of prepaid IDD calling cards during the year due to increasing competition and low profitability.

Profit from operations, after deducting distribution costs, administrative and other expenses, was approximately HK$81.1 million, 142% higher than HK$33.6 million in the year before. During the year, distribution expenses, as a percentage of sales, decreased slightly, from 1.4% the year before to 1.2%. Administration expenses, as a percentage of sales, also decreased from 1.4% to 0.8% in the year under review. Such decreases were primarily a reflection of the benefits arising from the Group's investments in distribution and in administration in the PRC during the previous financial year. Other operating expenses of HK$6.7 million incurred mainly comprised amortisation of goodwill following the acquisition of Synergy in July 2001 and write-off of fixed assets following the termination of long distance IP telephony business during the year. During the year, the Group recorded a loss of approximately HK$0.7 million by writing off goodwill of an associate which engaged in software development due to cessation of business and a gain of approximately HK$1.2 million in respect of the disposal of certain inactive subsidiaries, the main of one of which was a subsidiary holding a shop unit in a commercial building in Hong Kong and with net liabilities of HK$0.8 million. The Group disposed this property subsidiary to Mr. Fong Kin Kiu and Mr. Yu Sau Ning, Homer, both of whom are directors of Synergy, for an aggregate consideration of HK$0.4 million. The Directors are of the view that the disposal of the above subsidiaries, which were not considered core in relation to the Group's existing businesses, was beneficial to the Group and was fair and reasonable.

During the year, finance costs increased by 131% to HK$10.9 million. The increase was primarily due to the draw down of the US$12 million (HK$93.6 million) bank facility granted to the Group in the previous financial year, to cater for increasing business volume in the PRC. In addition, during the year, an unrealized loss of approximately HK$8.3 million was recorded, reflecting the write down the Group's investment in PacificNet Inc. to its market value as at balance sheet date.

As a result of increased sales and better operational profits, profit attributable to shareholders increased from HK$18.0 million last year to HK$50.3 million this year.

To cope with the expanded business volume, the Group has established new relationships with reputable financial institutions in both Hong Kong and the PRC. Total bank borrowings of the Group as at 31 March 2002 amounted to approximately HK$242 million, of which approximately HK$198.3 million was denominated in RMB and the balance was denominated in US$ or HK$. The banking facilities arranged by the Group reflected its strategy to fund the Group's operations in local trading currencies. The Group's total bank borrowing was secured by bank deposits of approximately HK$126 million. As a result of the increase in bank borrowings compared to the previous year, the Group's finance expenses during the year increased to approximately HK$10.9 million from approximately HK$4.7 million in the previous year.

For the year ended 31 March 2003

For the year ended 31 March 2003, the Group's turnover was approximately HK$2,945 million, representing a decrease of 15% compared with the previous year despite the number of mobile phones sold increased by 7% to approximately 2,141,200 handsets. The decrease in turnover was mainly due to a reduction of retail price of Nokia 8250 by approximately 24% from RMB1,950 in March 2002 to RMB1,480 in March 2003. Nevertheless, the Group's overall gross profit margin increased to 5.1%, from 4.2% a year earlier, due to the sales of new mobile phone models with higher margins, such as "Nokia 8910i" that commenced delivery during the year, as well as higher amount of rebates received from Nokia. The above margin improvement led to a 3% increase in gross profit to HK$149.1 million from last year.

Other operating income, which was primarily bank interest income, declined by 41%, compared to the previous year, due to a decrease in bank deposit rates.

Distribution costs were 47% lower as the Group had charged cost of gifts and promotion items to cost of sales during the year. This was due to the fact that the Group stopped receiving promotion rebates from Nokia beginning in April 2002 and such rebates have been included as part of the volume rebates received from Nokia after April 2002.

Administration expenses were 3% lower primarily due to a decrease in rental expenses of office premises in Hong Kong (HK$1.1 million) and a lower depreciation charge following the close down of the Group's mobile phone retail outlets in Hong Kong during the year ended 31 March 2002 (HK$1.1 million). Such decrease in administration expenses was partly offset by higher salary expenses incurred in Hong Kong as a result of full consolidation of Synergy's results into the Group's accounts in this period as compared to only eight months for the previous year.

Other operating expenses were 44% higher and this was mainly due to a provision of HK$5.9 million for doubtful debts and HK$0.3 million higher bank charges as a result of higher sales. During the year, finance costs increased by 90% to HK$20.7 million as a result of higher bank borrowings to provide additional working capital to support increased sales.

The Group's investment property was revalued at 31 March 2003 by Midland Surveyors Limited, an independent valuer, on an open market basis, and such revaluation resulted in a revaluation deficit of HK$1.5 million, which was charged to the profit and loss accounts for this year. The Group's unrealized gain on investment in PacificNet during the year amounted to HK$2.0 million, as compared to an unrealised loss of HK$8.3 million for the year before. Also, during the year, the Group made full provision amounted to HK$0.39 million in respect of its 0.224% investment in Talentsoft Inc., a company incorporated in the U.S. engaged in the development and sales of e-commerce software for business applications.

The Group's profit before taxation increased by 26% to HK$77.0 million whereas profit after taxation and minority interests increased by 21% to HK$61.0 million.

The Group secured a 2-year HK$160 million banking facility from a consortium of banks led by Bank of China (Hong Kong) Limited and CITIC Ka Wah Bank Limited in September 2002. Of the HK$160 million facility, the Group used HK$62 million to repay existing bank borrowings at the time with the remaining HK$98 million as additional working capital to finance the Group's growing mobile phone trading business in the PRC. As at 31 March 2003, the Group's total bank borrowings amounted to approximately HK$478 million, of which HK$342 million were repayable within one year and HK$136 million were repayable after one year. Of the Group's total bank borrowings, approximately HK$308 million were denominated in Renminbi with the balance denominated in HK$. As at 31 March 2003, total bank deposits and cash balances amounted to approximately HK$326 million.

For the five months ended 31 August 2003

For the five months ended 31 August 2003, the Group's turnover was HK$610 million, representing a decline of approximately 55% over the corresponding five months period in 2002. The decline was primarily due to lesser handsets sold as a result of SARS in major cities in the PRC and reduction of approximately 22% in the retail price of "Nokia 8250" from RMB1,480 in April 2003 to RMB1,160 in August 2003. During the period, the Group obtained various distribution rights of mobile phones include the smartphone "Qtek 7070" which commenced delivery in May 2003, "Nokia 2100" and "OKWAP 510" in June 2003, "Siemens M55" in July 2003, "Nokia 3300" and "Nokia 3100" in August 2003. Due to the adverse impact of SARS, the number of mobile phone sold decreased by 39% to approximately 519,000 handsets as compared to 852,000 handsets for the same period in 2002. During the period, the Group's cost of sales were also affected by lower rebates received from Nokia in respect of certain mature mobile phone models such as "Nokia 8250" caused by a reduction of the price of the model due to SARS. Consequently, gross profit margin lowered to 3.3%, from 4.6% in the corresponding period in 2002. Such margin decrease led to a 67% drop in gross profit to HK$20.3 million, compared to the five months' period in the previous year. Despite the fact that the Group's new products contributed higher profit margin than more mature models, the adverse lingering impact of SARS on the overall consumer market did not dissipate until August 2003. With the launch of new handset models and satisfactory sales near the National Day long holidays in the PRC, the Group recorded significant sales improvement during the month of September 2003. Turnover for the month of September 2003 was HK$317 million, with the number of mobile phone sold at 296,000 handsets. During the five month period to 31 August 2003, other operating income included a gain on other investment of HK$0.7 million upon the Group's disposal of its interest in PacificNet, resulting in its shareholding lowered to 2.1% as at 31 August 2003.

Distribution costs were 44% lower during the period as a result of the drop in turnover. Administrative expenses decreased by 15% which was primarily due to the decrease of rental expenses. Other operating expenses decreased by 78%, from HK$4.8 million in the previous corresponding period to HK$1.0 million. This was mainly due to a decrease of HK$0.7 million bank charges as a result of lower sales and the absence of provision of HK$3.0 million for doubtful debts made in the previous corresponding period.

During the period, finance costs maintained at approximately HK$6.8 million as a result of the draw down of HK$160 million new banking facility arranged in 2002 and repayment of short term bank borrowings in July 2003.

The Group's profit before taxation decreased by 90% to HK$2.9 million whereas profit after taxation and minority interests decreased by 87% to HK$3.2 million.

As at 31 August 2003, the Group's total bank borrowings amounted to approximately HK$396 million, of which HK$268 million were repayable within one year and HK$128 million were repayable after one year. Of the Group's total bank borrowings, approximately HK$228 million were denominated in Renminbi with the balance denominated in Hong Kong dollars. As at 31 August 2003, total bank deposits and cash balances amounted to approximately HK$374 million.

Liquidity and gearing ratios

	Year ended 31 March			Five months ended 31 August
	2001	**2002**	**2003**	**2003**
Current ratio *(note 1)*	2.0x	1.6x	2.2x	2.3x
Gearing ratio *(note 2)*	35.4%	35.3%	57.6%	52.2%
Adjusted gearing ratio *(note 3)*	20.2%	17.0%	33.6%	25.9%

Notes:

1. Total current assets over total current liabilities
2. Total bank borrowings over total assets
3. Total bank borrowings, net of pledged cash deposits with banks, over total assets

Current ratio as at 31 March 2002 declined to 1.6 times, from 2.0 times as at 31 March 2001, was due to the classification of outstanding syndicated loan of HK$60.08 million, which had a maturity date on 28 December 2002, from long term liabilities at 31 March 2001 to current liabilities at 31 March 2002. The syndicated loan was subsequently repaid on 24 September 2002 and was refinanced by new syndicated loan of HK$160 million, of which the full amount was drawn before 31 December 2002.

Current ratio increased to 2.2 times as at 31 March 2003 was mainly attributable to (i) the increase in the Group's bank and cash balances, trade and other receivables, and inventories; and (ii) the substantial decrease of trade and other payables. As at 31 August 2003, current ratio maintained at 2.3 times as a result of the Group reduced purchases of mobile phone following the SARS outbreak in the first quarter of 2003 which in turn lowered the inventory level. The above purchase reduction also led to reduced short term bank borrowings by HK$74 million during the period.

The Group's gearing ratio and adjusted gearing ratio increased to 57.6% and 33.6% respectively as at 31 March 2003, from 35.3% and 17.0% respectively on 31 March 2002, as a result of the draw down of the HK$160 million banking facility arranged in September 2002, of which HK$62 million was utilized for the repayment of existing banking borrowings, with the remaining HK$98 million as additional working capital to finance the Group's growing mobile phone trading business in the PRC.

Debtors' turnover

Debtors' turnover during the year ended 31 March 2002 was down to 10 days, from 17 days the year earlier, with 90% of the Group's trade receivables aged less than 30 days. This decrease was attributable to the increasing demand for the Nokia phone models that the Group distributed in the PRC, enabling the Group to shorten the credit period it grants to such distributors. Debtors' turnover for the year ended 31 March 2003 and the five months ended 31 August 2003 registered higher at 13 days and 22 days respectively, compared to the past financial year. This was due to the substantial decrease in the Group's turnover as a result of SARS and Group's marketing strategy along side with other incentives and promotional campaign offered to its distributor customers during the period.

Creditors' turnover

Creditors' turnover for the year ended 31 March 2002 declined to 17 days from 26 days the year before, and further to 2 days and 5 days for the year ended 31 March 2003 and the five months ended 31 August 2003 respectively, as the Group increased cash purchases from suppliers to enjoy 1% cash discount following the availability of banking facilities to the Group.

Inventory turnover

Notwithstanding a 124% increase in the Group's turnover in the year ended 31 March 2002, the Group's inventory as at 31 March 2002 increased only by 34%, from HK$181.4 million the year before to HK$243.7 million. This results in the substantial decrease of the inventory turnover for the year ended 31 March 2002 to 27 days, from 45 days of the previous year. The Group's inventory as at 31 March 2003 was HK$334.7 million, representing approximately 44 days of inventory turnover. This increase was mainly due to the increase in number of models of mobile phone distributed by the Group. The amount of inventory as at 31 August 2003 was HK$223 million, representing an increase in stock turnover to approximately 58 days as a result of the drop in sales during the period caused by the SAR outbreak.

During the Track Record Period, the Group's policy is to purchase only popular models of mobile phones for distribution and as such all inventories were current models of mobile phones. Consequently, no provision for inventory obsolescence was considered necessary during the Track Record Period.

TAXATION

The Group's activities are subject to Hong Kong and the PRC taxation. Hong Kong profits tax is calculated at 16% on the estimated assessable profits of the Group's companies operating in Hong Kong during the three financial years ended 31 March 2003 and at 17.5% for the five months ended 31 August 2003. As FSH is a wholly foreign-owned enterprise established in the Waigaoqiao Zone, profits generated from FSH is subject to the PRC enterprise income tax charges at a rate of 15% during each of the Track Record Period.

Pursuant to the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, both FSH and Shanghai Yuen Jia, are subject to PRC enterprise income tax rate of 33%. However, both FSH and Shanghai Yuen Jia are entitled to a preferential PRC enterprise income tax rate of 15% granted to enterprises established in the Waigaoqiao Zone.

In November 2001, FSH had increased its share capital from US$200,000 to US$1,600,000 through capitalisation of accumulated profit of RMB11,592,000. In August 2002, FSH had increased its share capital from US$1,600,000 to US$6,000,000 through the capitalization of accumulated profits of RMB36,432,000. Pursuant to the tax notice issued by PRC tax authority, FSH was entitled to a tax refund in relation to the capitalization of profits. The Group received tax refund in total of RMB2,688,000 during the financial year ended 31 March 2003 and was accounted as other operating income.

The effective tax rates for the three years ended 31 March 2003 and the five months ended 31 August 2003 were 25%, 15%, 21% and 6%, respectively. The Group's effective tax rates were relatively higher for the financial years ended 31 March 2001 and 2003 due to higher operating losses incurred by the Group in Hong Kong as a result of bank costs in the securing of banking facilities and professional fees incurred during the above periods whilst such losses were unable to be offset against taxable profits in the PRC. For the five months ended 31 August 2003, the effective tax rate was significantly lower at 6% was primarily due to the taxable profit of the Group was lower than its actual profit during the period.

INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2003, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this document, the Group had outstanding bank loans of approximately HK$403 million and trust receipt loans of approximately HK$9 million which are repayable within one year and obligation under finance lease of approximately HK$0.5 million. The bank borrowings comprised of secured bank loans and trust receipt loans of approximately HK$195 million and unsecured bank loans and trust receipt loans of approximately HK$217 million.

Securities and guarantees

As at 31 October 2003, the Group's banking facilities were secured by the Group's property with a net book value of approximately HK$6 million and bank deposits of the Group amounting to approximately HK$204 million. As at the Latest Practicable Date, the Company provided corporate guarantees to three banks in respect of 51% of the aggregate banking facilities of approximately HK$23.4 million granted to Synergy. Well Force has separately agreed to provide corporate guarantees in respect of 49% of such aggregate banking facilities.

Contingent liabilities

As at 31 October 2003, the Group had no material contingent liabilities.

Disclaimer

As at 31 October 2003, save as aforesaid and apart from intra-group liabilities, the Group did not have: –

(i) any debt securities issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed or unguaranteed, secured (whether the security is provided by the Company or by third parties) or unsecured;

(ii) any other borrowings or indebtedness including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits commitments, whether guaranteed or unguaranteed, and whether secured or unsecured;

(iii) any mortgage or charge; or

(iv) any material contingent liabilities or guarantees.

The Directors have confirmed that there has not been any material change in the indebtedness, commitments or contingent liabilities of the companies comprising the Group since 31 October 2003.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 October 2003, the Group had net current assets of approximately HK$312 million. The current assets comprised bank balances and cash of approximately HK$328 million, inventories of approximately HK$259 million, trade and other receivables of approximately HK$163 million, other investment of approximately HK$3 million and tax recoverable of approximately HK$1 million. The current liabilities comprised trade and other payables of approximately HK$24 million, tax liabilities of approximately HK$6 million, and of bank and other loans of approximately HK$412 million.

Borrowings and banking facilities

The Group generally finances its operations with internally generated cash flow and by banking facilities.

As at 31 October 2003, the Group had available aggregate banking facilities of approximately HK$580 million, out of which approximately HK$412 million had been utilised and are repayable within one year.

As at 31 October 2003, some of the Group's banking facilities were secured by the Group's property and bank deposit.

Capital commitment

As at 31 October 2003, the Group did not have any capital expenditure commitment in respect of acquisition of property, plant or machinery contracted but not provided for in the financial information.

Working capital

The Directors are of the opinion that, after taking into account the existing internal financial resources and banking facilities currently available to the Group, the Group has sufficient working capital for its present requirements.

PROPERTY INTERESTS

Property owned in Hong Kong

The Group owns a residential property at Apartment D on 18th Floor of Tower I, Park Towers, 1 King's Road, Hong Kong. The property has a gross floor area of approximately 1,055 sq.ft. and is currently rented to an Independent Third Party for a monthly rent of HK$21,000, inclusive of government rent, rates, property tax and management fee. Lease of the property will expire on 31 August 2005.

Properties leased in Hong Kong

The Group's head office in Hong Kong is located at 15th Floor of Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, New Territories where the Group leases three industrial units with total saleable area of 3,009 sq. ft. for a monthly rent of HK$28,749 per month, exclusive of government rent, rates, management fee and air-conditioning charges. Synergy currently leases an office unit on 23rd Floor in Riley House, 88 Lei Muk Road, Kwai Chung, New Territories with a total saleable area of approximately 3,975 sq. ft. for a period of two years for a monthly rent of HK$35,750, exclusive of rates and management fees.

Properties leased in the PRC

The Group leased one residential unit with gross floor area of approximately 2,969 sq.ft. at Li Jia Road, Dynasty Garden Beijing, Yi Shun District, Beijing for a monthly rent of RMB28,980 (HK$27,300), inclusive of first US$200 of utilities and exclusive of management fee and other outgoings. The unit is currently used by the Group as staff quarter.

The Group leases three office units with total gross floor area of approximately 5,823 sq.ft. on 8th Floor, East Tower, Shanghai Hi-Tech King World, 666 Beijing East Road, Huang Pu District, Shanghai for a total monthly rent of approximately RMB46,405 (HK$43,800), exclusive of management fees and utilities.

It also leases from Shanghai Xin Development two office units located in different floors at Xin Mao Building, 2 Tai Zhong Nan Road, Waigaoqiao Free Trade Zone, Shanghai with total gross floor area of approximately 660 sq. ft. for a total annual rent of RMB54,000 (HK$51,000). A lease of such office units will expire on 31 August 2004 and the other one has expired on 9 December 2003. The Group is in the process of renewing the lease with Shanghai Xin Development. The Directors currently do not expect any difficulty in renewing such leases with Shanghai Xin Development.

Property valuation

Midland Surveyors Limited, an independent property valuer, has valued the Group's property interests as at 31 October 2003 at HK$5.7 million in aggregate. Full details of the Group's property interests are set out in Appendix II to this document.

DIVIDENDS

Dividends of HK$15 million were paid to Shareholders during the financial year ended 31 March 2001, HK$3.02 million during the financial year ended 31 March 2002 and HK$15.11 million during the financial year ended 31 March 2003. The above dividends were paid from the Group's internal resources.

The Directors expect that, in future, interim and final dividends, if any, will continue to be paid in or around January and September of each year respectively. The declaration of payment and the amount of future dividends will be subject to the discretion of the Directors and will be depend on among others, the Group's earnings, financial condition, cash requirements and availability, and other relevant factors.

DISTRIBUTABLE RESERVES

Under the Companies Act, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay dividends, or make a distribution out of contributed surplus, if: –

1. the Company is, or would after payment be, unable to pay its liabilities as they become due; and

2. the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 August 2003 (being the date to which the latest audited consolidated financial statements of the Group were made up), the Company's audited reserves available for distribution to Shareholders amounted to approximately HK$125.7 million.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31 August 2003 as shown in the accountants' report, the text of which is set forth in Appendix I to this document, adjusted as follows: –

	HK$'000
Audited consolidated net assets of the Group as at 31 August 2003	292,671
Less: Goodwill arising from the acquisition of 51% interest of Synergy in July 2001	1,629
Audited consolidated net tangible assets of the Group as at 31 August 2003	291,042
Unaudited consolidated profit after taxation and minority interests for the two months ended 31 October 2003	19,708
Adjusted net tangible assets	310,750
Adjusted net tangible asset value per Share *(Note)*	HK$1.03

Note: The adjusted net tangible asset value per Share is arrived at based on 302,100,000 Shares currently in issue.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 August 2003 (being the date to which the latest audited consolidated financial statements of the Group were made up).

UNAUDITED RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

The following table summaries the unaudited consolidated results of the Group for the six months ended 30 September 2003, which is extracted from the Company's 2003/2004 second quarterly report available on the GEM website at "www.hkgem.com" on the "Information on Listed Companies" page: –

	HK$'000
Turnover	926,534
Cost of sales	(885,761)
Gross profit	40,773
Other operating income	2,811
Distribution costs	(6,639)
Administrative expenses	(10,014)
Other operating expenses	(4,188)
Profit from operations	22,743
Finance costs	(8,434)
Profit on revaluation of an investment property	200
Unrealised holding gain on other investments	2,638
Share of results of associates	–
Profit before taxation	17,147
Taxation	(2,265)
Profit before minority interests	14,882
Minority interests	682
Net profit for the period	15,564
Earnings per share – basic	5.2 cents

The Group's sales for the six months ended 30 September 2003 suffered a 45% and 55% decline in terms of sales and after-tax profits respectively, as compared with the corresponding period in the previous year, which was primarily due to the adverse effect of SARS outbreak in the first half of 2003. Sales and after-tax profit figures for the six months to 30 September 2003 were HK$926.5 million and HK$15.5 million respectively. With the launch of new handset models and satisfactory sales near the National Day long holidays around 1 October 2003 in the PRC, the Group recorded significant sales improvement during the month of September 2003. Turnover for the month of September 2003 was HK$317 million, with the number of mobile phone sold at 296,000 units.

The following is the text of a report, prepared for the purpose of incorporating in this document, from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong:–

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

22 December 2003

The Directors
Fortune Telecom Holdings Limited
South China Capital Limited
Watterson Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Fortune Telecom Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st March, 2003 and the five months period ended 31st August, 2003 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 22 December 2003 (the "Prospectus").

The Company was incorporated and registered as an exempted company with limited liability in the Bermuda under the Companies Act 1981 of Bermuda (as amended) on 22nd October, 1999. Through a group reorganisation, the Company has since 10th December, 1999 become the holding company of the other companies comprising the Group. The Company is an investment holding company and the principal activities of its subsidiaries are set out below. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16th February, 2000. The Company has proposed to withdraw its listing status on GEM so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

As at the date of this report, the particulars of the Company's subsidiaries, all of which are indirectly held by the Company except for Express Fortune Holdings Limited which is directly held by the Company, are as follows: –

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Asia Air Access Limited	Hong Kong 8th May, 2002	Ordinary HK$10,000	51%	Inactive
Express Fortune Holdings Limited	British Virgin Islands ("BVI") 8th June, 1993	Ordinary US$100	100%	Investment holding
Express Fortune Limited	Hong Kong 18th February, 1992	Ordinary HK$10 Non-voting deferred HK$5,000,000	100%	Trading of mobile phones
Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") 長遠(上海)國際貿易有限公司	People's Republic of China (the "PRC") 3rd September, 1998	Registered capital US$6,000,000	100%	Trading of mobile phones
Fortune E–Commerce Limited	BVI 29th September, 1999	Ordinary US$100	100%	Investment holding
Fortune Multimedia (International) Limited	Hong Kong 8th November, 2000	Ordinary HK$100	100%	Inactive
Fortune Team (Hong Kong) Limited	Hong Kong 21st July, 2000	Ordinary HK$100	100%	Inactive
Fortune Telecom (China) Limited	Hong Kong 20th February, 1998	Ordinary HK$2	100%	Investment holding
Fortune Telecom Limited	Hong Kong 19th January, 1998	Ordinary HK$2	100%	Investment holding
Synergy Computers & Communications Limited	Hong Kong 30th October, 1990	Ordinary HK$29,500	51%	Trading of computer hardware

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Synergy Information System Limited	Hong Kong 16th April, 1997	Ordinary HK$2,500	51%	Trading of computer hardware and software development
Synergy Pacific (Holding) Limited	Hong Kong 6th December, 1994	Ordinary HK$24,115	51%	Investment holding
Synergy Technologies (Asia) Limited	Hong Kong 20th December, 2000	Ordinary HK$10,000	51%	Trading of computer hardware
Synergy Technologies Beijing (Solutions) Limited	Hong Kong 12th November, 1999	Ordinary HK$10,000	51%	Inactive
Synergy Technologies China (Distribution) Limited	Hong Kong 14th May, 2001	Ordinary HK$2	51%	Inactive
Linkage Mobile Limited (formerly Telecom-port International Holdings Limited)	Hong Kong 28th June, 1999	Ordinary HK$10,000	100%	Inactive
Top Emperor Investments Limited	Hong Kong 8th June, 1995	Ordinary HK$10,000	100%	Property holding
Transaccess Technology Limited	BVI 18th July, 2000	Ordinary US$100	100%	Investment holding
W-Data Technologies Ltd.	BVI 26th April, 2002	Ordinary US$1	51%	Inactive
上海遠嘉國際貿易有限公司 ("Shanghai Yuen Jia")	The PRC 15th April, 2002	Registered capital US$200,000	100%	Trading of mobile phones

We act as auditors of all the companies now comprising the Group except for the followings: –

(i) the statutory financial statements of Asia Air Access Limited, Synergy Computers & Communications Limited, Synergy Information System Limited, Synergy Pacific (Holding) Limited, Synergy Technologies (Asia) Limited, Synergy Technologies Beijing (Solutions) Limited and Synergy Technologies China (Distribution) Limited were audited by Albert Wong & Co., Certified Public Accountants in Hong Kong, for the years ended 31st March, 2002 and 2003; and

(ii) the statutory financial statements of Fortune Shanghai for the years ended 31st December 2000, 2001 and 2002, and Shanghai Yuen Jia for the period from 15th April 2002 (date of incorporation) to 31st December, 2002, were prepared in accordance with the relevant accounting principles and financial regulations governing in the PRC and were audited by Shanghai Zhongzhou Certified Public Accountants, registered in the PRC. However, for the purpose of this report, we have carried out independent audit procedures in accordance with Statement of Auditing Standards issued by the Hong Kong Society of Accountants on the management accounts of Fortune Shanghai and Shanghai Yuen Jia for the Relevant Periods which were prepared in accordance with accounting principles generally accepted in Hong Kong.

No audited financial statements have been prepared for those companies incorporated in the British Virgin Islands since their respective dates of incorporation/establishment as there are no statutory audit requirements. For the purpose of this report, however, we have carried out independent audit procedures in accordance with Statement of Auditing Standards issued by the Hong Kong Society of Accountants on the management accounts of those companies for the Relevant Periods, or since their respective dates of incorporation/establishment or acquisition where this is a shorter period, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

For the purpose of this report, we have examined the consolidated audited financial statements of the Group (the "Underlying Financial Statements") for the Relevant Periods in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, for the purpose of this report, the financial information give a true and fair view of the state of the Company and of the Group's affairs as at 31st March, 2001, 2002 and 2003 and 31st August, 2003 and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION OF THE GROUP

Consolidated income statement

	Notes	Year ended 31st March, 2001 HK$'000	Year ended 31st March, 2002 HK$'000	Year ended 31st March, 2003 HK$'000	Five months ended 31st August, 2003 HK$'000
Turnover		1,544,856	3,461,182	2,944,947	609,683
Cost of sales	3	(1,474,031)	(3,316,149)	(2,795,875)	(589,361)
Gross profit		70,825	145,033	149,072	20,322
Other operating income		6,911	11,377	6,656	2,218
Distribution costs		(21,439)	(41,211)	(21,890)	(6,488)
Administrative expenses		(21,249)	(27,401)	(26,518)	(8,358)
Other operating expenses		(1,485)	(6,724)	(9,667)	(1,040)
Profit from operations	4	33,563	81,074	97,653	6,654
Finance costs	6	(4,721)	(10,893)	(20,698)	(6,782)
Deficit on revaluation of an investment property		(2,500)	(1,000)	(1,500)	–
Unrealised gain on investment securities	14	39,458	–	–	–
Unrealised holding (loss) gain on other investments	14	(41,448)	(8,292)	1,988	2,996
Impairment loss on other investment	14	–	–	(390)	–
Impairment loss on goodwill arising on acquisition of an associate		–	(704)	–	–
Gain on disposal of subsidiaries		–	1,187	–	–
Share of results of associates		(261)	(211)	(38)	–
Profit before taxation		24,091	61,161	77,015	2,868
Taxation	7	(6,109)	(9,222)	(16,018)	(186)
Profit before minority interests		17,982	51,939	60,997	2,682
Minority interests		–	(1,624)	(80)	527
Profit for the year/period		17,982	50,315	60,917	3,209
Dividends paid/payable	8	15,000	3,021	15,105	15,105
Earnings per share – basic	9	6.0 cents	16.7 cents	20.2 cents	1.1 cents

Consolidated balance sheet

		At 31st March,			At 31st August,
		2001	**2002**	**2003**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-Current Assets					
Investment property	10	8,000	7,000	5,500	5,500
Property, plant and equipment	11	4,210	2,384	2,026	2,056
Goodwill	12	–	2,535	1,895	1,629
Interest in associates	13	1,129	475	–	–
		13,339	12,394	9,421	9,185
Current Assets					
Inventories	15	181,372	243,724	334,662	223,107
Trade and other receivables	16	130,194	122,387	155,752	145,732
Amounts due from related parties	17	5	–	–	–
Investments in securities	14	10,420	2,132	3,730	6,024
Tax recoverable		656	674	765	765
Pledged bank deposits		79,118	125,759	199,339	199,225
Other bank deposits		47,742	4,204	25,293	23,042
Bank balances and cash		57,794	173,929	101,459	151,522
		507,301	672,809	821,000	749,417
Current Liabilities					
Trade and other payables	18	120,259	167,539	32,024	45,490
Tax liabilities		6,235	7,393	6,323	863
Bank and other borrowings	20	124,371	242,003	342,101	267,677
Obligations under finance leases	21	170	240	200	200
Dividends payable		–	–	–	15,105
		251,035	417,175	380,648	329,335
Net Current Assets		256,266	255,634	440,352	420,082
		269,605	268,028	449,773	429,267
Capital and Reserves					
Share capital	19	30,000	30,210	30,210	30,210
Reserves		179,428	228,492	274,357	262,461
		209,428	258,702	304,567	292,671
Minority interests		–	8,676	8,756	8,229
Non-Current Liabilities					
Bank and other borrowings	20	60,080	–	136,000	128,000
Obligations under finance leases	21	40	650	450	367
Deferred tax liabilities	22	57	–	–	–
		60,177	650	136,450	128,367
		269,605	268,028	449,773	429,267

Consolidated statement of changes in equity

	Share capital HK$'000 (Note 19)	Share premium HK$'000	Special reserve HK$'000	Goodwill HK$'000	Translation reserve HK$'000	PRC statutory funds HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st April, 2000	30,000	102,225	2,481	(1,125)	4	–	73,442	207,027
Exchange differences arising on translation of the financial statements of operations in the PRC and gain not recognised in the income statement	–	–	–	–	275	–	–	275
Goodwill arising on acquisition of an associate	–	–	–	(704)	–	–	–	(704)
Goodwill arising on acquisition of a subsidiary	–	–	–	(152)	–	–	–	(152)
Profit for the year	–	–	–	–	–	–	17,982	17,982
Dividends paid *(note 8)*	–	–	–	–	–	–	(15,000)	(15,000)
At 31st March, 2001	30,000	102,225	2,481	(1,981)	279	–	76,424	209,428
Exchange differences arising on translation of the financial statements of operations in the PRC and gain not recognised in the income statement	–	–	–	–	16	–	–	16
Issue of shares for acquisition of subsidiaries	210	–	–	–	–	–	–	210
Premium arising on issue of shares	–	1,050	–	–	–	–	–	1,050
Impairment loss in respect of goodwill arising on acquisition of an associate	–	–	–	704	–	–	–	704
Profit for the year	–	–	–	–	–	–	50,315	50,315
Transfer to PRC statutory funds	–	–	–	–	–	1,280	(1,280)	–
Dividends paid *(note 8)*	–	–	–	–	–	–	(3,021)	(3,021)
At 31st March, 2002	30,210	103,275	2,481	(1,277)	295	1,280	122,438	258,702
Exchange differences arising on translation of the financial statements of operations in the PRC and gain not recognised in the income statement	–	–	–	–	53	–	–	53
Profit for the year	–	–	–	–	–	–	60,917	60,917
Transfer to PRC statutory funds	–	–	–	–	–	7,211	(7,211)	–
Dividends paid *(note 8)*	–	–	–	–	–	–	(15,105)	(15,105)
At 31st March, 2003	30,210	103,275	2,481	(1,277)	348	8,491	161,039	304,567
Profit for the period	–	–	–	–	–	–	3,209	3,209
Dividends payable *(note 8)*	–	–	–	–	–	–	(15,105)	(15,105)
At 31st August, 2003	30,210	103,275	2,481	(1,277)	348	8,491	149,143	292,671

The special reserve represents the difference between the nominal value of the shares of the subsidiary acquired and the nominal value of the Company's shares issued for their acquisition at the time of the group reorganisation in 1999.

PRC statutory funds are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiary.

Consolidated cash flow statement

	Year ended 31st March, 2001 HK$'000	Year ended 31st March, 2002 HK$'000	Year ended 31st March, 2003 HK$'000	Five months ended 31st August, 2003 HK$'000
OPERATING ACTIVITIES				
Profit before taxation	24,091	61,161	77,015	2,868
Adjustments for:				
Allowance for doubtful debts	–	913	5,525	–
Unrealised gain on investment securities	(39,458)	–	–	–
Unrealised holding loss (gain) on other investments	41,448	8,292	(1,988)	(2,996)
Impairment loss on other investments	–	–	390	–
Share of results of associates	261	211	38	–
Interest income	(6,480)	(4,992)	(3,600)	(1,354)
Interest expenses	4,441	8,973	20,698	6,782
Rental income	(343)	(360)	(360)	(60)
Loss (gain) on disposal of property, plant and equipment	–	2,022	(28)	–
Gain on disposal of subsidiaries	–	(1,187)	–	–
Gain on disposal of other investment	–	–	–	(719)
Impairment loss on goodwill arising on acquisition of an associate	–	704	–	–
Impairment loss on amount due from an associate	–	–	437	–
Amortisation of borrowing costs	280	1,920	–	–
Amortisation of goodwill	–	661	640	266
Depreciation and amortisation on property, plant and equipment	1,415	2,358	1,223	388
Deficit arising on revaluation of an investment property	2,500	1,000	1,500	–
Operating cash flows before movements in working capital	28,155	81,676	101,490	5,175
(Increase) decrease in inventories	(120,042)	(29,257)	(90,938)	111,555
(Increase) decrease in trade and other receivables	(43,366)	22,158	(39,441)	9,911
(Increase) decrease in amounts due from related parties	(5)	5	–	–
Increase (decrease) in trade and other payables	81,904	16,752	(134,990)	12,006
Cash (used for) generated from operations	(53,354)	91,334	(163,879)	138,647
Interest paid	(4,392)	(8,906)	(21,185)	(5,311)
PRC income tax paid	(6,903)	(8,624)	(17,025)	(5,646)
Hong Kong Profits Tax paid	(781)	(734)	(154)	–
Hong Kong Profits Tax refunded	–	1,306	–	–
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(65,430)	74,376	(202,243)	127,690

	Notes	Year ended 31st March, 2001 HK$'000	2002 HK$'000	2003 HK$'000	Five months ended 31st August, 2003 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES					
(Increase) decrease in pledged bank deposits		(25,895)	(46,641)	(73,580)	114
Purchase of property, plant and equipment		(3,938)	(1,482)	(1,124)	(418)
Interest received		6,480	4,992	4,151	1,463
Rental income received		343	360	360	60
Proceeds on disposal of property, plant and equipment		3	400	287	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	23	(1,057)	(4,566)	–	–
Acquisition of other investments		–	(2)	–	–
(Advance to) repayment from an associate		(880)	443	–	–
Proceeds on disposal of an investment property		–	445	–	–
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	24	–	328	–	–
Purchase of other investments		(4,910)	–	–	–
Acquisition of interest in an associate		(815)	–	–	–
Proceeds on disposal of other investments		–	–	–	1,421
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(30,669)	(45,723)	(69,906)	2,640
FINANCING ACTIVITIES					
Bank and other borrowings raised		151,514	201,404	1,284,926	273,362
Bank and other borrowings repaid		(48,265)	(156,778)	(1,046,266)	(355,786)
Dividends paid		(15,000)	(3,021)	(15,105)	–
Repayment of obligations under finance leases		(174)	(172)	(240)	(83)
Interest on obligations under finance leases		(49)	(67)	(38)	(11)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		88,026	41,366	223,277	(82,518)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(8,073)	70,019	(48,872)	47,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		113,562	105,536	175,571	126,752
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		47	16	53	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		105,536	175,571	126,752	174,564

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank deposits	47,742	4,204	25,293	23,042
Bank balances and cash	57,794	173,929	101,459	151,522
Bank overdrafts	–	(2,562)	–	–
	105,536	175,571	126,752	174,564

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment property and other investments, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Revenue recognition

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

Rental income from investment property under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Rebates

Rebates from suppliers are recognized when conditions relating to earning the rebates are satisfied and when the amount of the rebates can be determined. Purchase rebates are set off against the related cost of inventories if the related inventories have not been sold or set off against cost of sales if the related inventories have been sold. Promotion rebates are deducted against distribution costs.

Interest in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Investment property

Investment property is completed property which is held for its investment potential, any rental income being negotiated at arm's length.

Investment property is stated at open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment property is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided in respect of investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

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

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

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

Leasehold improvements	20% or over the term of the relevant lease, whichever is shorter
Furniture, fixtures and equipment	25%
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Investment in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost represents the invoiced cost of inventories, less rebates. Costs are assigned to individual items on a first-in-first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill

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

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

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Impairment

At each balance sheet date, the 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. Impairment losses are 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 so 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.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liabilities to the lessor or hirer, net of interest charges, are included in the balance sheet as a finance lease obligations. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the term of the relevant lease.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 tax profit nor the accounting profit.

The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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 realised. Deferred tax is charged or credited in 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.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs comprise borrowing expenses and other incidental costs incurred in connection with the borrowing of funds and is amortised on a straight line basis over the term of respective borrowings.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars 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 overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at an average exchange rate for the year.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

3. COST OF SALES

	Year ended 31st March,			Five months ended 31st August,
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of sales comprises:				
Purchases at gross value	(1,623,140)	(3,500,257)	(3,109,468)	(642,284)
Rebates	149,109	184,108	313,593	52,923
	(1,474,031)	(3,316,149)	(2,795,875)	(589,361)

The gross profit before rebates for each of the three years ended 31st March, 2003 and the five months ended 31st August, 2003 were a loss of approximately HK$78,284,000, a loss of approximately HK$39,075,000, a loss of approximately HK$164,521,000 and a loss of approximately HK$32,601,000, respectively.

4. PROFIT FROM OPERATIONS

	Year ended 31st March,			Five months ended 31st August,
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit from operations has been arrived at after charging:				
Allowances for doubtful debts	–	913	5,525	–
Amortisation of goodwill (included in other operating expenses)	–	661	640	266
Auditors' remuneration				
– current year	720	733	1,215	235
– underprovision in prior year	108	–	–	–
Depreciation and amortisation on				
– owned assets	1,237	1,874	911	258
– assets held under finance leases	178	484	312	130
Loss on disposal of property, plant and equipment	–	2,022	–	–
Allowance on amount due from an associate	–	–	437	–
Staff costs:				
– directors' emoluments	2,080	2,100	1,838	1,015
– other staff costs	10,226	14,746	15,059	7,561
– other staff's retirement benefits scheme contribution	293	411	476	150
	12,599	17,257	17,373	8,726
and after crediting:				
Bank interest income	6,480	4,992	3,600	1,354
Gain on disposal of property, plant and equipment	–	–	28	–
Gain on disposal of other investment	–	–	–	719

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Independent non-executive directors Fees	100	100	100	42
Non-executive directors Fees	150	100	100	42
Executive directors Fees	–	–	–	–
Other emoluments				
Salaries and allowances	1,826	1,885	1,623	921
Retirement benefits scheme contribution	4	15	15	10
	2,080	2,100	1,838	1,015

The emoluments of the directors were within the following bands:

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	Number of directors	Number of directors	Number of directors	Number of directors
Up to HK\$1,000,000	8	7	7	7
HK\$1,000,001 to HK\$1,500,000	1	1	1	–

During the year ended 31st March, 2001, there were nine directors who received emoluments of approximately HK\$1,235,000, HK\$304,000, HK\$264,000, HK\$50,000, HK\$50,000, HK\$50,000, HK\$50,000, HK\$50,000 and HK\$27,000 respectively.

During the year ended 31st March, 2002, there were six directors who received emoluments of approximately HK\$1,238,000, HK\$662,000, HK\$50,000, HK\$50,000, HK\$50,000 and HK\$50,000 respectively. The other directors did not receive any emoluments during the Relevant Periods.

During the year ended 31st March, 2003, there were eight directors who received emoluments of approximately HK\$1,324,000, HK\$170,000, HK\$110,000, HK\$50,000, HK\$50,000, HK\$50,000, HK\$50,000 and HK\$34,000 respectively.

During the five months period ended 31st August, 2003, there were seven directors who received emoluments of approximately HK\$640,000, HK\$265,000, HK\$26,000, HK\$21,000, HK\$21,000, HK\$21,000 and HK\$21,000 respectively.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

(b) Employees' emoluments

The distribution of the five highest paid individuals during the Relevant Periods are as follows:

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
Number of directors *(note)*	1	2	2	2
Number of employees (the "Employees")	4	3	3	3
	5	5	5	5

Note: For the year ended 31st March, 2003, the five highest paid individuals of the Group included two directors with one of the director being appointed during the year ended 31st March, 2003, details of whose emolument of the director before appointment are included as employees emoluments set out as below.

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

(b) Employees' emoluments - continued

Details of the emoluments paid by the Group to those Employees are as follows:

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and allowances	1,789	1,841	3,223	995
Retirement benefits scheme contribution	8	30	46	14
	1,797	1,871	3,269	1,009

The emoluments of the remaining highest paid individuals were within the following bands:

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	Number of employees	Number of employees	Number of employees	Number of employees
Nil to HK$1,000,000	4	3	3	3
HK$1,000,001 to HK$1,500,000	–	–	1	–

6. FINANCE COSTS

	Years ended 31st March, 2001	Years ended 31st March, 2002	Years ended 31st March, 2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on:				
Bank borrowings wholly repayable within five years	4,392	8,906	20,660	6,771
Obligations under finance leases	49	67	38	11
	4,441	8,973	20,698	6,782
Amortisation of borrowing costs	280	1,920	–	–
	4,721	10,893	20,698	6,782

7. TAXATION

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The charge comprises:				
Hong Kong Profits Tax				
Current year/period	510	147	64	–
Overprovision in prior years	–	(1,707)	–	–
	510	(1,560)	64	–
PRC income tax	5,599	10,839	15,954	356
Overprovision in prior year	–	–	–	(170)
Deferred tax *(note 22)*	–	(57)	–	–
	6,109	9,222	16,018	186

Hong Kong Profits Tax were calculated at 16% for each of the three years ended 31st March, 2001, 2002 and 2003 and at 17.5% for the five months period ended 31st August, 2003 of the estimated assessable profit for the Relevant Periods.

7. TAXATION – continued

PRC income tax represents taxation charges on the assessable profits of the Company's subsidiaries, FSH and Shanghai Yuen Jia, established in the Shanghai Waigaoqiao Free Trade Zone, the PRC. FSH and Shanghai Yuen Jia are entitled to a preferential PRC income tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

The change for each of the three years ended 31st March, 2001, 2002 and 2003 and for the five months period ended 31st August, 2003 can be reconciled to the profit per income statement as follows:

	Year ended 31st March,						Five months ended 31st August,	
	2001		**2002**		**2003**		**2003**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before taxation	24,091		61,161		77,015		2,868	
Domestic tax rate	16%		16%		16%		17.5%	
Tax at the domestic rate	3,855	16	9,786	16	12,323	16	502	17.5
Tax effect of expenses that are non-deductible in determining taxable profit	3,944	16	6,237	10	5,377	7	1,087	37.9
Tax effect of income that are non-taxable in determining taxable profit	(1,289)	(5)	(5,814)	(9)	(726)	(1)	(1,272)	(44.4)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(401)	(2)	(987)	(2)	(956)	(1)	(131)	(5.0)
Tax expense and effective tax rate for the year/period	6,109	25	9,222	15	16,018	21	186	6.0

Details of deferred taxation are set out in note 22.

8. DIVIDENDS PAID/PAYABLE

	Year ended 31st March,			Five months ended 31st August,
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2000 final dividend of HK 5 cents per share, 2001 final dividend of HK 1 cent per share, 2002 final dividend of HK 5 cents per share and 2003 final dividend of HK 5 cents per share	15,000	3,021	15,105	15,105

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for each of the three years ended 31st March, 2001, 2002 and 2003 and the five months period ended 31st August, 2003 are based on the following data.

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Earnings:				
Profit for the year/period and earnings for the purpose of basic earnings per share	17,982	50,315	60,917	3,209

	Year ended 31st March, 2001	Year ended 31st March, 2002	Year ended 31st March, 2003	Five months ended 31st August, 2003
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	300,000,000	301,410,000	302,100,000	302,100,000

10. INVESTMENT PROPERTY

	HK$'000
AT VALUATION	
At 1st April, 2000	10,500
Deficit on revaluation	(2,500)
At 31st March, 2001	8,000
Acquisition of subsidiaries	445
Disposals	(445)
Deficit on revaluation	(1,000)
At 31st March, 2002	7,000
Deficit on revaluation	(1,500)
At 31st March, 2003 and at 31st August, 2003	5,500

The investments property is held under a long lease in Hong Kong.

At 31st March, 2001 and 2002 the investment property was revalued by K.T. Liu Surveyors Limited and at 31st March, 2003 and 31st August, 2003 by Midland Surveyors Limited, both of which are independent property valuers, on an open market existing use basis. The valuations resulted in revaluation deficits of HK$2,500,000, HK$1,000,000, HK$1,500,000 and nil, respectively, for each of the Relevant Periods and have been charged to the respective income statements.

At the respective balance sheet dates, the investment property was pledged to a bank to secure general banking facilities granted to a subsidiary and was rented out under an operating lease.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1st April, 2000	662	1,274	673	2,609
Acquisition of a subsidiary	123	233	–	356
Additions	657	3,081	200	3,938
Disposals	–	(4)	–	(4)
At 31st March, 2001	1,442	4,584	873	6,899
Acquisition of subsidiaries	163	459	–	622
Additions	42	1,041	1,249	2,332
Disposals	(107)	(3,538)	–	(3,645)
At 31st March, 2002	1,540	2,546	2,122	6,208
Additions	72	544	508	1,124
Disposals	(523)	(513)	(874)	(1,910)
At 31st March, 2003	1,089	2,577	1,756	5,422
Additions	–	418	–	418
At 31st August, 2003	1,089	2,995	1,756	5,840
DEPRECIATION AND AMORTISATION				
At 31st March, 2000	340	599	336	1,275
Provided for the year	367	850	198	1,415
Elimination on disposals	–	(1)	–	(1)
At 31st March, 2001	707	1,448	534	2,689
Provided for the year	546	1,295	517	2,358
Elimination on disposals	(45)	(1,178)	–	(1,223)
At 31st March, 2002	1,208	1,565	1,051	3,824
Provided for the year	211	552	460	1,223
Eliminated on disposals	(459)	(431)	(761)	(1,651)
At 31st March, 2003	960	1,686	750	3,396
Provided for the period	20	185	183	388
At 31st August, 2003	980	1,871	933	3,784
NET BOOK VALUES				
At 31st March, 2001	735	3,136	339	4,210
At 31st March, 2002	332	981	1,071	2,384
At 31st March, 2003	129	891	1,006	2,026
At 31st August, 2003	109	1,124	823	2,056

At the respective balance sheet dates, the net book value of property, plant and equipment included an amount of HK$179,000, HK$936,000, HK$624,000 and HK$541,000 respectively, in respect of assets held under finance leases.

12. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries during the year ended 31st March, 2002 and at 31st March, 2002 and 31st March, 2003 and 31st August, 2003	3,196
AMORTISATION AND IMPAIRMENT	
Charge for the year ended 31st March, 2002 and at 31st March, 2002	661
Charge for the year	640
At 31st March, 2003	1,301
Charge for the period from 1st April, 2003 to 31st August, 2003	266
At 31st August, 2003	1,567
NET BOOK VALUE	
At 31st March, 2002	2,535
At 31st March, 2003	1,895
At 31st August, 2003	1,629

The amortisation period adopted for goodwill is five years.

13. INTERESTS IN ASSOCIATES

	Three years ended 31st March,			At 31st August,
	2001	2002	2003	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Share of net assets	249	38	–	–
Amount due from an associate less allowance	880	437	–	–
	1,129	475	–	–

At 31st March, 2001 and 2002, the amount due from an associate was unsecured, carried interest at 10% per annum and had no fixed repayment terms. In the opinion of the directors, the amount would not be repayable within one year of the respective balance sheet dates and was therefore shown in the balance sheet as non-current. The associate was disposed of during the year ended 31st March, 2003.

14. INVESTMENTS IN SECURITIES

	At 31st March, 2001	2002	2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other investments				
Overseas equity securities:				
Listed *(note i)*	10,032	1,740	3,728	6,022
Unlisted *(note ii)*	388	392	2	2
	10,420	2,132	3,730	6,024
Market value of listed securities, all classified as current	10,032	1,740	3,728	6,022

Notes:

(i) At 31st March, 2000, the Group held a 11.76% membership interests in PacificNet.com Inc. (formerly known as Pacificnet.com LLC) ("PacificNet.com") and recorded as investment securities. PacificNet.com is incorporated in the United States and engages in the provision of internet and e-business solution.

During the year ended 31st March, 2000, the Group entered into an acquisition agreement with Mr. Hui Wan Sang, Richard, a former non-executive director of the Company, to acquire from him 270,000 shares of PacificNet.com for an aggregate consideration of HK$8,800,000, of which HK$4,400,000 had been paid to him as a refundable down payment as at 31st March, 2000. The acquisition was approved by the shareholders on 7th April, 2000 and completed during the year ended 31st March, 2001.

Since the Group previously relied on the expertise of PacificNet.com in the early development stage of e-business, the investment in PacificNet.com was classified as investment securities held for strategic purpose and was stated at cost as at 31st March, 2000.

During the year ended 31st March, 2001, the Group reduced the significance of PacificNet.com to its business by building up its own e-commerce team and due to the listing of the shares of PacificNet.com on the Nasdaq, the Group became increasingly concerned about the future returns from the investment. As a result of the Group's change of intention to hold the investment for long term capital return, the investment in PacificNet.com was transferred to other investments and carried at fair value. The unrealised holding loss of such investment recognised in the income statements were HK$41,448,000 and HK$8,292,000 respectively for the years ended 31st March, 2001 and 2002. The unrealised holding gain of such investment recognised in the income statements was HK$1,988,000 and HK$2,996,000 respectively for the year ended 31st March, 2003 and five months ended 31st August, 2003.

The fair value of the investment in PacificNet.com at the date of transfer was determined with reference to the subscription price of 1,000,000 shares in PacificNet.com subscribed by an independent investor in May 2000. The unrealised gain at transfer of PacificNet.com from investment securities to other investments recognised in the income statement was HK$39,458,000 for the year ended 31st March, 2001.

(ii) The overseas unlisted other investments represents a less than 1% interest in Talentsoft, Inc., a company incorporated in the United States. During the year ended 31st March, 2003, the directors are of the opinion that the inflow of economic benefit from this investment cannot be predicted with certainty. An impairment loss of HK$390,000 has been recognised and charged to the income statements.

15. INVENTORIES

Included in inventories as at 31st March, 2001, 2002 and 2003 and 31st August, 2003 are goods held for resale of HK$61,308,000, HK$6,673,000, HK$20,000 and HK$20,000 respectively, carried at net realisable values at the respective balance sheet dates.

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period ranged from 30 days to 90 days to its trade customers. The aged analyses of trade receivables are as follows:

		At 31st March,		**At 31st August,**
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables:				
Up to 30 days	68,940	82,464	101,596	84,402
31 to 90 days	–	7,142	1,966	2,494
More than 90 days	171	2,100	584	245
	69,111	91,706	104,146	87,141
Add: Value-added-tax receivables	20,569	11,326	5,646	4,512
Rebates receivables	29,397	11,192	24,864	22,784
Deposits and prepayments	11,117	8,163	21,096	31,295
	130,194	122,387	155,752	145,732

At 31st March, 2001 and 31st March, 2002, the trade and other receivables included an amount of HK$26,774,000 and HK$19,578,000 respectively, in respect of trade receivables of Guangzhou Fortune Telecom Development Co., Ltd ("Guangzhou Fortune") with aged up to 30 days. The amount was fully settled during the year ended 31st March, 2003.

Guangzhou Fortune is controlled by Mr. Lau Ye Buo, a relative of Mr. Lau Siu Ying, a director of the Group but not a connected person (as defined in the Listing Rules) of the Group. Mr. Lau Ye Buo has no direct or indirect interest in the Group.

17. AMOUNTS DUE FROM RELATED PARTIES

Details of the amounts due from related parties are as follows:

		At 31st March,		**At 31st August,**
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Hui Wan Sang, Richard *(note i)*	5	–	–	–

Maximum outstanding balances for the year/period:

		At 31st March,		**At 31st August,**
	2001	**2002**	**2003**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Hui Wang Sang, Richard	4,400	5	–	–

Details of transactions with related companies are set out in note 28.

Notes:

(i) The balance was unsecured, non-interest bearing and fully settled during the year ended 31st March, 2002.

18. TRADE AND OTHER PAYABLES

The aged analyses of trade payables are as follows:

	At 31st March, 2001	At 31st March, 2002	At 31st March, 2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables:				
Up to 30 days	106,663	152,285	15,799	11,571
31 to 90 days	–	479	2,107	1,303
More than 90 days	137	3,706	61	4,755
	106,800	156,470	17,967	17,629
Add: Accrued charges and other payables	13,459	11,069	14,057	27,861
	120,259	167,539	32,024	45,490

19. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st April, 2000, 31st March, 2001, 31st March, 2002, 31st March, 2003 and 31st August, 2003	1,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2000 and at 31st March, 2001	300,000,000	30,000
Issue of shares for acquisition of subsidiaries	2,100,000	210
At 31st March, 2002, 31st March, 2003 and 31st August, 2003	302,100,000	30,210

All shares issued by the Company during the Relevant Periods rank pari passu with then existing shares in all respects.

20. BANK AND OTHER BORROWINGS

	2001	At 31st March, 2002	2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank and other borrowings comprise:				
Trust receipt loans	76,364	–	10,554	7,375
Bank loans	106,905	239,441	467,547	388,302
Other loans	3,102	–	–	–
Bank overdrafts	–	2,562	–	–
	186,371	242,003	478,101	395,677
Borrowing costs:				
At beginning of the year	–	1,920	–	–
Incurred during the year	2,200	–	–	–
Amortised during the year	(280)	(1,920)	–	–
At end of the year	1,920	–	–	–
Carrying value	184,451	242,003	478,101	395,677
Analysed as				
– secured	61,189	109,434	117,158	170,582
– unsecured	123,262	132,569	360,943	225,095
	184,451	242,003	478,101	395,677
The bank and other borrowings are repayable as follows:				
Within one year or on demand	124,371	242,003	342,101	267,677
More than one year, but not exceeding two years	60,080	–	136,000	128,000
	184,451	242,003	478,101	395,677
Less: Amount due within one year and shown under current liabilities	(124,371)	(242,003)	(342,101)	(267,677)
Amount due after one year	60,080	–	136,000	128,000

The Group's banking facilities are secured by the following:

(a) investment property of the Group; and

(b) fixed deposits of HK$79,118,000, HK$125,759,000, HK$199,339,000 and HK$199,225,000 of the Group as at the respective balance sheet dates.

21. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Minimum lease payment				Present value of minimum lease payment			
	At 31st March,			At 31st August,	At 31st March,			At 31st August,
	2001	2002	2003	2003	2001	2002	2003	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	217	278	226	226	170	240	200	200
In the second year	52	226	227	227	40	175	200	200
In the third to fifth year inclusive	–	510	283	189	–	475	250	167
Less: future finance charges	(59)	(124)	(86)	(75)	N/A	N/A	N/A	N/A
	210	890	650	567	210	890	650	567
Less: Amount due within one year and shown under current liabilities					(170)	(240)	(200)	(200)
Amount due after one year					40	650	450	367

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 4.5 years. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

22. DEFERRED TAX LIABILITIES

	At 31st March,			At 31st August,
	2001	2002	2003	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	57	57	–	–
Credit for the year/period *(note 7)*	–	(57)	–	–
At end of the year/period	57	–	–	–

The Group had no significant unprovided deferred tax liabilities for the Relevant Periods or at the respective balance sheet dates.

23. ACQUISITION OF SUBSIDIARIES

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:				
Investment property	–	445	–	–
Property, plant and equipment	356	622	–	–
Interest in associates	–	2	–	–
Inventories	281	33,095	–	–
Trade and other receivables	380	15,277	–	–
Tax recoverable	–	87	–	–
Bank balances and cash	223	4,407	–	–
Trade and other payables	(112)	(31,400)	–	–
Bank and other borrowings	–	(8,444)	–	–
Bank overdrafts	–	(873)	–	–
Obligations under a finance lease	–	(2)	–	–
Minority interests	–	(7,052)	–	–
	1,128	6,164	–	–
Goodwill arising on acquisition of subsidiaries	152	3,196	–	–
	1,280	9,360	–	–
Satisfied by:				
Cash	1,280	8,100	–	–
Shares issued	–	1,260	–	–
	1,280	9,360	–	–

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

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash consideration paid	(1,280)	(8,100)	–	–
Bank balances and cash acquired	223	4,407	–	–
Bank overdrafts	–	(873)	–	–
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(1,057)	(4,566)	–	–

The subsidiary acquired during the year ended 31st March, 2001 did not have any significant impact on the Group's cash flows or operating results for that year.

The subsidiaries acquired during the year ended 31st March, 2002 contributed HK$59,725,000 and HK$5,072,000 to the Group's turnover and profit before taxation. The subsidiaries acquired generated HK$11,436,000 to the Group's net operating cash flows, generated HK$791,000 for investing activities and used HK$6,309,000 for financing activities.

24. DISPOSAL OF SUBSIDIARIES

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets disposed of:				
Trade and other receivables	–	13	–	–
Bank balances and cash	–	59	–	–
Trade and other payables	–	(872)	–	–
	–	(800)	–	–
Gain on disposal of subsidiaries	–	1,187	–	–
	–	387	–	–
Satisfied by:				
Cash consideration received	–	387	–	–

Analysis of the net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash consideration received	–	387	–	–
Cash and bank balances disposed of	–	(59)	–	–
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	–	328	–	–

25. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payment paid under operating lease during the year	2,981	6,926	3,577	3,009

At the respective balance sheet dates, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	At 31st March, 2001	2002	2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating leases which expire:				
Within one year	4,498	2,628	1,596	1,194
In the second to fifth year inclusive	2,260	232	174	23
	6,758	2,860	1,770	1,217

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated, and rentals are fixed, for an average term of two to five years.

25. OPERATING LEASE ARRANGEMENTS - continued

The Group as lessor

	Year ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property rental income	343	360	360	60

The property is expected to generate rental yields of 3% on an on-going basis. The property held have committed tenants for the next year.

At the respective balance sheet dates, the Group had contracted with tenants for the following future minimum lease payments:

	At 31st March, 2001	2002	2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	396	360	240	252
In the second to fifth year inclusive	50	240	–	252
	446	600	240	504

26. CAPITAL COMMITMENTS

	At 31st March, 2001	2002	2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Commitments for capital expenditure in respect of purchase of property, plant and equipment contracted for but not provided in the financial statements	252	216	–	–

27. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefits scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the controls of trustees.

The retirement benefits cost charged to consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the respective balance sheet dates, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable in the future years.

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund scheme ("MPF Scheme"). The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payable in future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

27. RETIREMENT BENEFITS SCHEME – continued

Fortune Shanghai and Shanghai Yuen Jia are participants in state-managed retirement plan in the PRC pursuant to which Fortune Shanghai and Shanghai Yuen Jia pay a fixed percentage of their qualifying staff's wages as contribution to the plan. For each of the three years ended 2001, 2002 and 2003 and five months period ended 31st August, 2003, contributions payable by the subsidiaries pursuant to this arrangement were in aggregate approximately HK$21,000, HK$27,000, HK$133,000 and HK$78,000 respectively. There were no forfeited contributions available to reduce the subsidiary's future contributions during the Relevant Periods.

28. RELATED PARTY TRANSACTIONS

(a) During the Relevant Periods, the Group entered into the following transactions with related parties:

Name of party	Nature of transactions	Years ended 31st March, 2001	2002	2003	Five months ended 31st August, 2003
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Harvest Union *(note i)*	Rental expenses paid by the Group	780	780	–	–
Mr. Fong Kin Kiu *(note ii)*	Sale of a subsidiary by the Group	–	387	–	–
Amonic Solutions Limited *(note iii)*	Web-site maintenance service fee paid by the Group	–	480	–	–

The balances with related parties are set out in note 17.

Notes:

(i) Rental expenses were charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate the open market rental.

(ii) Mr. Fong Kin Kiu is a director of a non-wholly owned subsidiary of the Company. The disposal of a subsidiary during the year ended 31st March, 2002 resulted in a gain on disposal for the Group amounted to HK$1,299,000.

(iii) The company was an associate of the Group. The provision of the service during the year ended 31st March, 2002 was charged at market prices.

In the opinion of directors, the above transactions were conducted in the ordinary course of business of the Group at normal commercial terms and will not be continued after the listing on the Mainboard.

29. SEGMENT INFORMATION

The Group's operations are located in Hong Kong and the PRC. No activity analysis is provided as substantially all the Group's combined turnover and contribution to profit from operations were derived from the distribution and trading of mobile phones.

Segment information about geographical market for the Relevant Periods is presented below:

Income statement for the year ended 31st March, 2001

	PRC	**Hong Kong**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	1,026,081	518,775	1,544,856
RESULTS			
Segment results	33,322	241	33,563
Finance costs			(4,721)
Deficit on revaluation of an investment property	–	(2,500)	(2,500)
Unrealised gain on investment securities	–	39,458	39,458
Unrealised holding loss on other investments	–	(41,448)	(41,448)
Share of results of associates	–	(261)	(261)
Profit before taxation			24,091
Taxation			(6,109)
Profit for the year			17,982

Balance sheet as at 31st March, 2001

	PRC	**Hong Kong**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	254,900	264,611	519,511
Interest in associates	–	1,129	1,129
Total assets			520,640
LIABILITIES			
Segment liabilities and total liabilities	140,702	170,510	311,212
OTHER INFORMATION			
Capital additions	217	4,077	4,294
Depreciation and amortisation	62	1,353	1,415

29. SEGMENT INFORMATION – continued

Income statement for the year ended 31st March, 2002

	PRC *HK$'000*	**Hong Kong** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER			
External sales	3,317,473	143,709	3,461,182
RESULTS			
Segment result	106,442	(25,368)	81,074
Finance costs			(10,893)
Deficit on revaluation of an investment property	–	(1,000)	(1,000)
Unrealised holding loss on other investments	–	(8,292)	(8,292)
Impairment loss on goodwill, arising on acquisition of an associate	–	(704)	(704)
Gain on disposals of subsidiaries	–	1,187	1,187
Share of results of associates	–	(211)	(211)
Profit before taxation			61,161
Taxation			(9,222)
Profit before minority interests			51,939
Minority interests	–	(1,624)	(1,624)
Profit for the year			50,315

Balance sheet as at 31st March, 2002

	PRC *HK$'000*	**Hong Kong** *HK$'000*	**Consolidated** *HK$'000*
ASSETS			
Segment assets	474,207	210,521	684,728
Interest in associates	–	475	475
Total assets			685,203
LIABILITIES			
Segment liabilities and consolidated total liabilities	343,607	74,218	417,825
OTHER INFORMATION			
Capital additions	84	2,870	2,954
Amortisation of goodwill	–	661	661
Depreciation and amortisation	78	2,941	3,019
Impairment loss recognised in income statement	–	704	704

29. SEGMENT INFORMATION – continued

Income statement for the year ended 31st March, 2003

	PRC	Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	2,820,081	124,866	2,944,947
RESULTS			
Segment result	112,000	(14,347)	97,653
Finance costs			(20,698)
Deficit on revaluation of an investment property	–	(1,500)	(1,500)
Unrealised holding gain on other investments	–	1,988	1,988
Impairment loss on other investments	–	(390)	(390)
Share of results of associates	–	(38)	(38)
Profit before taxation			77,015
Taxation			(16,018)
Profit before minority interests			60,997
Minority interests	–	(80)	(80)
Profit for the year			60,917

Balance sheet as at 31st March, 2003

	PRC	Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets and consolidated total assets	554,065	276,356	830,421
LIABILITIES			
Segment liabilities and consolidated total liabilities	329,200	187,898	517,098
OTHER INFORMATION			
Capital additions	200	924	1,124
Amortisation of goodwill	–	640	640
Depreciation and amortisation	86	1,137	1,223
Impairment loss recognised in income statement	–	390	390
Allowance on amount due from an associate	–	437	437

29. SEGMENT INFORMATION – continued

Income statement for the year ended 31st August, 2003

	PRC *HK$'000*	**Hong Kong** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER			
External sales	573,343	36,340	609,683
RESULTS			
Segment result	10,077	(3,423)	6,654
Finance costs			(6,782)
Unrealised holding gain on other investments	–	2,996	2,996
Profit before taxation			2,868
Taxation			(186)
Profit before minority interests			2,682
Minority interests	–	527	527
Profit for the period			3,209

Balance sheet as at 31st August, 2003

	PRC *HK$'000*	**Hong Kong** *HK$'000*	**Consolidated** *HK$'000*
ASSETS			
Segment assets and consolidated total assets	454,237	304,365	758,602
LIABILITIES			
Segment liabilities and consolidated total liabilities	244,075	213,627	457,702
OTHER INFORMATION			
Capital additions	391	27	418
Amortisation of goodwill	–	266	266
Depreciation and amortisation	41	347	388

B. FINANCIAL INFORMATION OF THE COMPANY

The balance sheets of the Company at 31st March, 2001, 2002 and 2003 and 31st August, 2003 are as follows:

		At 31st March,			At 31st August,
		2001	2002	2003	2003
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-Current Assets					
Investment in a subsidiary		41,148	41,148	41,148	41,148
Amounts due from subsidiaries		220,834	210,197	297,973	295,988
		261,982	251,345	339,121	337,136
Current Assets					
Prepayment and other receivables		2	51	50	30
Dividend receivable		–	–	–	56,600
Pledged bank deposits		–	30,360	42,821	43,012
Bank balance		145	173	–	–
		147	30,584	42,871	99,642
Current Liabilities					
Accrued charges and other payables		2,972	2,203	1,794	2,496
Loan from a subsidiary	1	–	54,600	–	–
Bank borrowings	2	–	39,000	24,000	32,000
Dividends payable		–	–	–	15,105
		2,972	95,803	25,794	49,601
Net Current (Liabilities) Assets		(2,825)	(65,219)	17,077	50,041
		259,157	186,126	356,198	387,177
Capital and Reserves					
Share capital		30,000	30,210	30,210	30,210
Reserves	3	138,077	155,916	189,988	228,967
		168,077	186,126	220,198	259,177
Non-Current Liabilities					
Loan from a subsidiary	1	31,000	–	–	–
Bank borrowings	2	60,080	–	136,000	128,000
		91,080	–	136,000	128,000
		259,157	186,126	356,198	387,177

B. FINANCIAL INFORMATION OF THE COMPANY – CONTINUED

Notes:

1. Loan from a subsidiary

The amount was unsecured, carried interest at LIBOR plus 2.25 per cent per annum and was fully repaid during the year ended 31st March, 2003.

2. Bank borrowings

	At 31st March, 2001	At 31st March, 2002	At 31st March, 2003	At 31st August, 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans-unsecured	62,000	39,000	160,000	160,000
Borrowing costs:				
At beginning of the year	–	1,920	–	–
Incurred during the year	2,200	–	–	–
Amortised during the year	(280)	(1,920)	–	–
At end of the year	1,920	–	–	–
Carrying value	60,080	39,000	160,000	160,000
The bank borrowings are repayable as follows:				
Within one year or on demand	–	39,000	24,000	32,000
More than one year, but not exceeding two years	60,080	–	136,000	128,000
	60,080	39,000	160,000	160,000
Less: Amount due within one year and shown under current liabilities	–	(39,000)	(24,000)	(32,000)
Amount due after one year	60,080	–	136,000	128,000

3. Reserves

	Share premium	Contributed surplus	(Deficit) accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2000	102,225	40,948	(699)	142,474
Profit for the year	–	–	10,603	10,603
Dividends paid	–	–	(15,000)	(15,000)
At 31st March, 2001	102,225	40,948	(5,096)	138,077
Premium arising on issue of shares	1,050	–	–	1,050
Profit for the year	–	–	19,810	19,810
Dividends paid	–	–	(3,021)	(3,021)
At 31st March, 2002	103,275	40,948	11,693	155,916
Profit for the year	–	–	49,177	49,177
Dividends paid	–	–	(15,105)	(15,105)
At 31st March, 2003	103,275	40,948	45,765	189,988
Profit for the period	–	–	54,084	54,084
Dividends payable	–	–	(15,105)	(15,105)
At 31st August, 2003	103,275	40,948	84,744	228,967

C. DISTRIBUTABLE RESERVE

The contributed surplus of the Company represents the difference between the consolidated shareholder's funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation less the amount applied to pay up the 1,000,000 nil paid shares at the time of the group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31st August, 2003, the Company's reserves available for distribution to shareholders consisted of the contributed surplus and the accumulated profits in an aggregate of HK$125,692,000.

D. ULTIMATE HOLDING COMPANY

The directors consider that the Company's ultimate holding company is Future 2000 Limited, a company incorporated in the British Virgin Islands.

E. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable to the Company's directors by the Company or any of its subsidiaries in respect of the Relevant Periods.

Under the arrangement presently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31st March, 2004, are estimated to be approximately HK$2,436,000.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st August, 2003.

Yours faithfully,

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate received from Midland Surveyors Limited, an independent valuer, in connection with its valuation as at 31 October 2003 of the property interests of the Group in Hong Kong and the PRC:–

Midland Surveyors Limited
美聯測量師有限公司

Room 2505-8, 25/F
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : 2844 8288
Fax : 2530 1357

22 December 2003

The Directors
Fortune Telecom Holdings Limited
Rm 1505-7, 15th Floor, Tower A,
Regent Centre,
63 Wo Yi Hop Road,
Kwai Chung,
New Territories

Dear Sirs,

We refer to your instruction to value the property interests (as shown on the attached summary of values and valuation certificate as Property Nos. 1-9) held or rented by Fortune Telecom Holdings Limited (the "Company") and its subsidiaries (together the "Group") in Hong Kong and the People's Republic of China (the "PRC"). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 31 October 2003 (the "Valuation Date").

BASIS OF VALUATION

Our valuation of these property interests is our opinion of the open market value of each of the property concerned which we would define as intended to mean "the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming that:

(a) there is a willing seller;

(b) prior to the date of valuation, there has been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the property interest, for the agreement of price and terms and for the completion of the sale;

(c) the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) both parties to the transaction had acted knowledgeably, prudently and without compulsion."

OPINION OF VALUE

We have valued Property No. 1 on an open market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market can be extrapolated to similar properties, subject to allowances for variable factors.

In respect of Property No. 1 which is held by the Group for investment purpose in Hong Kong, we are of the opinion that its open market value subject to existing tenancy is HK$5,700,000.00 (Hong Kong Dollars Five Million Seven Hundred Thousand only) as at the Valuation Date.

In respect of Property Nos. 2-9, which are rented and occupied by the Group in Hong Kong and the PRC under tenancy agreements, we are of the opinion that they have no commercial value due to their short term nature and the prohibition against their assignment and /or sub-letting, and hence, their lack of substantial profit rent.

TITLE INVESTIGATION

For Property Nos. 1-9, we have been provided with a copy each of the tenancy agreement for each of the property interests. For Property Nos. 1-3, we have conducted searches at the Land Registry in Hong Kong. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the above copies handed to us.

Due to the nature of the land registration system in the PRC, we have not examined the original documents to verify the existing titles of Property Nos. 4 to 9 or any material encumbrances that might be attached to them. We have relied on the advice given by the Group and the PRC legal opinion given by the Group's PRC legal adviser, Commerce & Finance Law Offices, on the PRC laws regarding the titles of these property interests.

VALUATION ASSUMPTIONS AND CONSIDERATION

Our valuation has been made on the assumption that the property interests are sold in the open market in their existing state without the effect of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the values of the property interests.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

We have inspected the exterior of Property Nos. 1-3. As no structural survey has been taken in Property Nos. 1-9, we are, therefore, not able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the building services in these properties.

We have not carried out on-site measurements to verify the correctness of the floor areas in respect of these properties but have assumed that the floor areas shown on the documents and handed to us are correct. Based on our experience in the valuation of similar properties, we consider the assumptions so made reasonable. All documents and contracts are used for reference only and all dimensions, measurements and areas are approximations.

Having examined all relevant documents, we have relied to a considerable extent on the information provided by the Group and Commerce & Finance Law Offices, the Group's legal adviser in the PRC, for Property Nos. 4-9, and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, licenses, site and floor areas and in the identification of those properties in which the Group has valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is also assumed that the properties are free form encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

COMPLIANCE WITH LISTING RULES

Our valuation is carried out in compliance in all respects with the provisions of the Third Schedule of the Companies Ordinance (Chapter 32, Laws of Hong Kong) and Chapter 5 of the Listing Rules.

REMARKS

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars.

Unless otherwise defined, terms used in this letter, our Summary of Values and Valuation Certificate have the meanings as ascribed thereto in the document of the Company.

Our valuation is summarised below in the summary of values and the valuation certificate in respect of the property interests are attached.

Yours faithfully,
For and on behalf of
Midland Surveyors Limited
Ronald Y. F. Cheung
BSc (Hons) MRICS MHKIS RPS (GP)
Director

Note: Ronald Y.F. Cheung is a Chartered Surveyor who has extensive experience in the valuation of properties in Hong Kong, the PRC and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interest held by the Group in Hong Kong

	Property	Interest attributable to the Group	Open market value in existing state as at 31 October 2003 *HK$*
1.	Apartment D on 18/F of Tower 1, Park Towers, No. 1 King's Road, Hong Kong	100%	5,700,000.00
		Sub-total	5,700,000.00

Group II – Property interests rented and occupied by the Group in Hong Kong

	Property	Interest attributable to the Group	Open market value in existing state as at 31 October 2003 *HK$*
2.	Units 1505, 1506, 1507 & Private Water-Closets WC 1502, 1505, 1503, respectively on 15th Floor of Tower A, Regent Centre, No. 63 Wo Yi Hop Road, Kwai Chung, New Territories	100%	No commercial value
3.	Unit 2308 on 23/F, Riley House, No. 88 Lei Muk Road, Kwai Chung, New Territories	51%	No commercial value
		Sub-total	No commercial value

Group III – Property interests rented and occupied by the Group in the PRC

	Property	Interest attributable to the Group	Open market value in existing state as at 31 October 2003 *HK$*
4.	Type D, 24 Li Jia Road Beijing Dynasty Garden Shun Yi District Beijing PRC	100%	No commercial value
5.	Room C on 8th Floor East Tower Shanghai Hi-Tech King World No. 666 Beijing East Road Huang Pu District Shanghai PRC	100%	No commercial value
6.	Room E on 8th Floor East Tower Shanghai Hi-Tech King World No. 666 Beijing East Road Huang Pu District Shanghai PRC	100%	No commercial value
7.	Room F on 8th Floor East Tower Shanghai Hi-Tech King World No. 666 Beijing East Road Huang Pu District Shanghai PRC	100%	No commercial value
8.	Room 328 on 3rd Floor Xin Mao Building No. 2 Tai Zhong Nan Road Waigaoqiao Free Trade Zone Shanghai PRC	100%	No commercial value
9.	Room 139 on 1st Floor Xin Mao Building No. 2 Tai Zhong Nan Road Waigaoqiao Free Trade Zone Shanghai PRC	100%	No commercial value
		Sub-total	No commercial value
		Grand total	5,700,000.00

VALUATION CERTIFICATE

Group I – Property interest held by the Group in Hong Kong

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
1.	Apartment D on 18/F of Tower 1, Park Towers, No. 1 King's Road, Hong Kong	Property No. 1 comprises a residential unit on the 18th floor of a 50-storey apartment building known as Tower 1, Park Tower, above a 8-storey podium consisting of shops and a bus terminus on the ground floor and carparking spaces on other floors, on top of the MTR (Tin Hau) Station (the "Development"). The Development was completed in 1989. According to the information provided by the Rating and Valuation Department, the saleable area and bay window area of Property No. 1 are 92.7 sq.m. (i.e. approx. 998 sq.ft.) and 5.3 sq.m. (i.e. approx. 57 sq.ft.) respectively.	The property is leased to and occupied by an independent third party for residential use as at the Valuation Date.	5,700,000.00

Notes:

1. According to the Urban Land Registry records, the registered owner of Property No. 1 as at the Valuation Date is Top Emperor Investments Limited, which is a wholly-owned subsidiary of the Company according to the Group.

2. According to information from the Company, Property No. 1 is subject to a tenancy agreement dated 15 August 2003, salient particulars of which are set out as follows:

   (i) Landlord: Top Emperor Investments Limited

   (ii) Tenant: Chan Ho Fai Edmund

   (iii) Term: 2 years from 1 September 2003 to 31 August 2005. After 12 months of occupation, the tenant has an option to cancel the tenancy and receive a refund of the rental deposit by giving a 2-month prior written notice.

   (iv) Rent: HK$21,000.00 per month inclusive of all rates, property tax, government rent and management fee but exclusive of water, electricity, gas, telephone and other charges.

   (v) User: Residential purpose only.

3. According to the Group, the tenant, Chan Ho Fai Edmund, is an independent third party.

4. Property No. 1 comprises All Those 110 equal undivided 57000th parts or shares of and in All That piece or parcel of land registered in the Urban Land Registry as Inland Lot No. 8560, which is held under Conditions of Grant No. 11831 for a term of 75 years renewable for 75 years from 19 June 1985, at a rent of HK$1,000.00 per annum.

5. Property No. 1 is subject to a Mortgage to secure general banking facilities in favour of the Ka Wah Bank Limited (Remarks: the consideration is all moneys) dated 27 December 1996 and registered in the Urban Land Registry by Memorial No. 6929756.

6. For the purpose of this valuation, as instructed by the Company, the open market value of Property No.1 is assessed on the basis that it is subject to the existing tenancy as at the Valuation Date.

Group II – Property interests rented and occupied by the Group in Hong Kong

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
2.	Units 1505,1506, 1507 & Private Water-Closets WC 1502, 1505, 1503, respectively on 15th Floor of Tower A, Regent Centre, No. 63 Wo Yi Hop Road, Kwai Chung, New Territories	Property No. 2 comprises 3 office units and 3 private water closets on the 15th floor of a high-rise industrial building which is one of the twin towers erected above a 2-storey carparking podium and a lower ground floor known as Tower A, Regent Centre in Kwai Chung which was completed in 1996. Property No. 2 has a combined saleable area of approx. 3,009 sq.ft. (i.e. approx. 279.5 sq.m.).	Property No. 2 is occupied by the Group for industrial use as at the Valuation Date.	No commercial value

Notes:

1. According to the Tsuen Wan Land Registry records, the registered owner of Property No. 2 as at the Valuation Date is Chericourt Company Limited, an independent third party according to the Group.

2. Property No. 2 is subject to a tenancy agreement dated 18 June 2002, the particulars of which are set out as follows:

(i)	Landlord:	Chericourt Company Limited
(ii)	Tenant:	Express Fortune Limited
(iii)	Term:	2 years from 1 August 2002 to 31 July 2004 (both days inclusive).
(iv)	Rent:	HK$28,749.00 per calendar month exclusive of government rent, rates, management fees and air-conditioning charges.
(v)	Restriction on Alienation:	The tenant shall not assign, underlet or part with the possession of the premises by subletting, lending, sharing or other means.
(vi)	User:	In compliance with the Government Grant, the Deed of Mutual Covenant and the Occupation Permit. According to the occupation permit, the user for 15th floor is workshop and ancillary accommodation for non-domestic use.

3. According to the Group, Express Fortune Limited is a wholly-owned subsidiary of the Company.

4. Property No. 2 comprises All Those 267 equal undivided 71750th parts or shares of and in All That piece or parcel of land registered in the Tsuen Wan Land Registry as the Remaining Portion of Lot No. 299 in D.D. 444, which is held under New Grant No. 4260 for a lease term of 99 years from 1 July 1898. By virtue of the New Territories Leases (Extension) (Cap. 150) Ordinance, the term of the above New Grant is deemed to be extended to 30 June 2047 without payment of premium but at a new annual rent equivalent to 3% of the rateable value for the time being of the lot from the date of extension.

5. In view that Property No. 2 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
3.	Unit 2308 on 23/F, Riley House, No.88 Lei Muk Road, Kwai Chung, New Territories	Property No. 3 comprises an industrial unit on the 23rd Floor of an industrial building known as Riley House in Kwai Chung, which was completed in 1992. Property No. 3 has a salelable area of approx. 3,975 sq.ft. (i.e. approx. 369 sq.m.).	Property No. 3 is occupied by the Group for warehouse and ancillary office use as at the Valuation Date.	No commercial value

Notes:

1. According to the Tsuen Wan Land Registry records, the registered owner of Property No.3 as at the Valuation Date is Sinoleen Enterprises Limited, a party related to the Company according to the Group.

2. Property No. 3 is subject to a tenancy agreement dated 1 December 2001, relevant particulars of which are set out as follows:

(i)	Landlord:	Sinoleen Enterprises Limited
(ii)	Tenant:	Synergy Computers & Communications Limited
(iii)	Term:	2 years from 1 May 2002 to 30 April 2004.
(iv)	Rent:	HK$35,750.00 per month exclusive of rates, management fees and other outgoings.
(v)	Restriction on Alienation:	The tenant shall not assign, underlet, part with the possession of, or transfer the premises or any part thereof or any interest therein.
(vi)	User:	Workshop and ancillary office for non-domestic purpose

3. According to the Group, Synergy Computers & Communications Limited is a 51% owned subsidiary of the Company.

4. Property No. 3 comprises All Those 3432 equal undivided 944862nd parts or shares of and in All That piece or parcel of land registered in the Tsuen Wan Land Registry as Lot No. 937 in D.D.450, which is held under New Grant No. 4185 for a lease term of 99 years from1 July 1898. By virtue of the New Territories Leases (Extension) (Cap. 150) Ordinance, the term of the above New Grant is deemed to be extended to 30 June 2047 without payment of premium but at a new annual rent equivalent to 3% of the rateable value for the time being of the lot from the date of extension.

5. In view that Property No. 3 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

Group III – Property interests rented and occupied by the Group in the PRC

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
4.	Type D, 24 Li Jia Road, Beijing Dynasty Garden, Shun Yi District, Beijing, PRC	Property No. 4 is situated within a residential estate known as Beijing Dynasty Garden. Property No. 4 has a gross floor area of approx. 2,969.46 sq.ft. (i.e. approx. 275.87 sq.m.).	Property No. 4 is currently occupied by the Group as Director's quarters as at the Valuation Date.	No commercial value

Notes:

1. The registered owner of Property No. 4 is Beijing Tianzhu Garden Villa Company Limited, an independent third party according to the Group.

2. Property No. 4 is subject to a tenancy agreement, relevant particulars of which are set out as follows:

(i)	Landlord:	Beijing Tianzhu Garden Villa Company Limited
(ii)	Tenant:	Fortune (Shanghai) International Trading Co., Ltd. ("FSH")
(i)	Term:	2 years from 20 November 2002 to 19 November 2004. The tenant has an option to cancel the tenancy by giving a 2-month prior written notice after 10 months of commencement of tenancy.
(ii)	Rent:	RMB28,980.00 per month inclusive of the first US$200 of water, electricity and gas charges but exclusive of telephone charges.
(iii)	User :	Residential purpose

3. According to the Group, FSH is a wholly-owned subsidiary of the Company.

4. In view that Property No. 4 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

5. According to the Group's PRC legal adviser, the contents of the above tenancy agreement comply with requirements of PRC law and are legal, enforceable and binding upon both parties.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
5.	Room C on 8th Floor, East Tower, Shanghai Hi-Tech King World, No. 666 Beijing East Road, Huang Pu District, Shanghai, PRC	Property No. 5 comprises an office unit on the 8th floor of the East Tower of a 26-storey commercial building erected over a 7 level shopping arcade and 2-basement carpark known as Shanghai Hi-Tech King World which was completed in about 1998. Property No. 5 has a gross floor area of approx. 186.24 sq.m. (i.e. approx. 2,004.69 sq.ft.)	Property No. 5 is occupied by the Group for office use as at the Valuation Date.	No commercial value

Notes:

1. Property No. 5 is subject to a tenancy agreement No. JCZS-0072, a transfer agreement and a renewal agreement dated 10 September 2002, the particulars of which are set out as follows:

(i)	Landlord:	Shanghai Xin Huang Pu Zhi Yie Holdings Company Limited ("Xin Huang Pu")
(ii)	Tenant:	FSH
(iii)	Term:	1 year from 1 October 2002 to 30 September 2003 with an option to renew by agreement with the landlord two months prior to the expiry of the lease.
(iv)	Rent:	RMB16,416.00 per month exclusive of management fees, water, electricity, gas, telephone and other charges.
(v)	Restriction to sublet:	The tenant shall not sublet without the landlord's written approval.
(vi)	User:	Office purpose

2. The term of the tenancy agreements of Property No. 5 and Property No. 7 both expires on 30 September 2003. Property No. 5 and Property No. 7 are subject to a renewal agreement dated 23 September 2003, the particulars of which are set out as follows:

(i)	Landlord:	Xin Huang Pu
(ii)	Tenant:	FSH
(iii)	Term:	From 1 October 2003 to 30 September 2004
(iv)	Rent:	RMB24,617.00 per month, the breakdown for Property No. 5 as advised by the Company is RMB15,947.23.
(v)	Remarks:	All other terms of the previous tenancy agreements for Property No. 5 and Property No. 7 shall apply.

3. The owner of Property No. 5 is Xin Huang Pu, an independent third party according to the Group.

4. According to the Group, FSH is a wholly-owned subsidiary of the Company.

5. In view that Property No. 5 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

6. Opinions of the Groups' PRC Legal adviser are summarised as follows:

   (i) The Tenancy Agreement No. JCZS-0072 signed between Shanghai Heng Li Property Limited and Shanghai Xiang Rui Technology Limited is legally valid and enforceable and binding upon both parties.

   (ii) The Renewal Agreement dated 10 September 2002 between Xin Huang Pu, formally known as Shanghai Heng Li Property Limited, and FSH is legally valid and enforceable and binding upon both parties.

   (iii) The above mentioned agreements are not registered in the Property Management Department. Although the legality of these agreements is not affected, FSH's rights as tenant in these agreements are not protected by law.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 HK$
6.	Room E on 8th Floor, East Tower, Shanghai Hi-Tech King World, No. 666 Beijing East Road, Huang Pu District, Shanghai, PRC	Property No. 6 comprises an office unit on the 8th floor of East Tower of a 26-storey commercial building erected over a 7 level shopping arcade and 2-basement carpark known as East Tower, Shanghai Hi-Tech King World which was completed in about 1998. Property No. 6 has a gross floor area of approx. 253.44 sq.m. (i.e. approx. 2,728 sq.ft.).	Property No. 6 is currently occupied by the Group for office use as at the Valuation Date.	No commercial value

Notes:

1. Property No. 6 is subject to a tenancy agreement signed between Xin Huang Pu and FSH, the salient particulars of which are set out as follows:

   (i) Landlord: Xin Huang Pu

   (ii) Tenant: FSH

   (iii) Term: 2 years from 1 April 2003 to 31 March 2005.

   (iv) Rent: RMB21,063.00 per month exclusive of property management fees, electricity, communication, facilities and other charges.

   (v) Restriction to sublet: The tenant shall not sublet without the landlord's written approval.

   (vi) User : Office purpose

2. The owner of Property No. 6 is Xin Huang Pu, an independent third party according to the Group.

3. According to the Group, FSH is a wholly-owned subsidiary of the Company.

4. In view that Property No. 6 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

5. Opinions of the Groups' PRC Legal adviser are summarised as follows:

   (i) The Tenancy Agreement signed between Xin Huang Pu and FSH is legally valid and enforceable and binding upon both parties.

   (ii) The above mentioned agreement is not registered in the Property Management Department. Although the legality of this agreement is not affected, FSH's rights as tenant in this agreement are not protected by law.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
7.	Room F on 8th Floor, East Tower, Shanghai Hi-Tech King World, No. 666 Beijing East Road, Huang Pu District, Shanghai, PRC	Property No. 7 comprises an office unit on the 8th floor of East Tower of a 26-storey commercial building erected over a 7 level shopping arcade and 2-basement carpark known as East Tower, Shanghai Hi-Tech King World which was completed in about 1998. Property No. 7 has a gross floor area of approx. 101.25 sq.m. (i.e. approx. 1,090 sq.ft.).	Property No. 7 is currently occupied by the Group for office use as at the Valuation Date.	No commercial value

Notes:

1. Property No. 7 is subject to a tenancy agreement executed on 30 July 2002, the salient particulars of which are set out as follows:

   (i) Landlord: Xin Huang Pu

   (ii) Tenant: FSH

   (iii) Term: From 1 June 2002 to 30 September 2003.

   (iv) Rent: RMB8,926.00 per month exclusive of management fees, electricity and telephone charges.

   (v) Restriction to sublet: The tenant shall not sublet without the landlord's written approval.

   (vi) User : Office purpose

2. The term of the tenancy agreements of Property No. 5 and Property No. 7 both expires on 30 September 2003. Property No. 5 and Property No. 7 are subject to a renewal agreement dated 23 September 2003, the particulars of which are set out as follows:

   (i) Landlord: Xin Huang Pu

   (ii) Tenant: FSH

   (iii) Term: From 1 October 2003 to 30 September 2004

   (iv) Rent: RMB24,617.00 per month, the breakdown for Property No. 7 as advised by the Company is RMB8,669.77.

   (v) Remarks: All other terms of the previous tenancy agreements for Property No. 5 and Property No. 7 shall apply.

3. The owner of Property No.7 is Xin Huang Pu, an independent third party according to the Group.

4. According to the Group, FSH is a wholly-owned subsidiary of the Company.

5. In view that Property No. 7 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

6. Opinions of the Groups' PRC Legal adviser are summarised as follows:

   (i) The Tenancy Agreement signed between Xin Huang Pu and FSH is legally valid and enforceable and binding upon both parties.

   (ii) The above mentioned agreement is not registered in the Property Management Department. Although the legality of this agreement is not affected, FSH's rights as tenant in this agreement are not protected by law.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
8.	Room 328 on 3rd Floor Xin Mao Building No. 2 Tai Zhong Nan Road, Waigaoqiao Free Trade Zone, Shanghai, PRC	Property No. 8 comprises an office unit on 3rd floor of a 3-storey commercial building with shop units and exhibition hall on Ground Floor, which was completed in 1990's. Property No. 8 has a gross floor area of approx. 30.03 sq.m. (i.e. approx. 323 sq.ft.).	Property No. 8 is occupied by the Group for office use as at the Valuation Date.	No commercial value

Notes:

1. Property No. 8 is subject to a tenancy agreement executed on 23 July 2003 and 24 July 2003, salient particulars of which are set out as follows:

   (i) Landlord: Shanghai City Waigaoqiao Free Trade Zone Xin Development Company Limited ("Xin Development")

   (ii) Tenant: FSH

   (iii) Term: 1 year from 1 September 2003 to 31 August 2004 with an option to renew by agreement with the landlord 60 days prior to the expiry of the lease.

   (iv) Rent: RMB28,000.00 per year inclusive of management fees.

   (v) User: Office purpose

2. The owner of Property No. 8 is Xin Development, an independent third party according to the Group.

3. According to the Group, FSH is a wholly-owned subsidiary of the Company.

4. In view that Property No. 8 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

5. Opinions of the Groups' PRC Legal adviser are summarised as follows:

   (i) The Tenancy Agreement No. 013951 signed between Xin Development and FSH is legally valid and enforceable.

   (ii) The above mentioned agreement is registered in the Shanghai Waigaoqiao Free Trade Zone Management Committee on 14 August 2002. The registered number is C4557.

	Property	Description	Particulars of occupancy	Open market value in existing state as at 31 October 2003 *HK$*
9.	Room 139 on 1st Floor, Xin Mao Building, No. 2 Tai Zhong Nan Road, Waigaoqiao Free Trade Zone, Shanghai, PRC	Property No. 9 comprises an office unit on 1st floor of a 3-storey commercial building with shop units and exhibition hall on Ground Floor, which was completed in 1990's. Property No. 9 has a gross floor area of approx. 31.37 sq.m. (i.e. approx. 338 sq.ft.).	Property No. 9 is occupied by the Group for office use as at the Valuation Date.	No commercial value

Notes:

1. The owner of the property is Xin Development, an independent third party according to the Group.

2. Property No. 9 is subject to a tenancy agreement No. 014736 executed on 14 and 25 November 2002, salient particulars of which are set out as follows:

   (i) Landlord: Xin Development

   (ii) Tenant: 上海遠嘉國際貿易有限公司 ("Shanghai Yuen Jia")

   (iii) Term: 1 year from 10 December 2002 to 9 December 2003.

   (iv) Rent: RMB26,000.00 per year exclusive of management fees.

   (v) User: Office purpose

3. According to the Group, Shanghai Yuen Jia is a wholly-owned subsidiary of the Company.

4. In view that Property No. 9 is rented and occupied by the Group under tenancy agreement, we are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

5. Opinions of the Groups' PRC Legal adviser are summarised as follows:

   (i) The Tenancy Agreement No. 014736 signed between Xin Development and Shanghai Yuen Jia is legally valid and enforceable.

   (ii) The above mentioned agreement is registered in the Shanghai Waigaoqiao Free Trade Zone Management Committee on 29 November 2002. The registered number is C5310.

The following is a summary of certain provisions of the memorandum of association of the Company (the "Memorandum of Association") and the Bye-laws and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

A copy of the Bye-laws is available for public inspection at the address and in the manner as specified under Appendix V to this document. The following is a summary of certain provisions of the Bye-laws:–

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any

Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of $10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditors' report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/ or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for public inspection as referred to in Appendix V to this document. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he or she is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 22 October 1999. The Company has established a place of business in Hong Kong at Room 1505-7, 15th Floor, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong and has been registered as an oversea company under Part XI of the Companies Ordinance on 17 December 1999. The Company has appointed Mr. Steve Lau of Flat A, 19th Floor, Tower 1, Park Tower, 1 King's Road, Hong Kong and Mr. Tin Ding Hong, William of 4C, Tower One, 18 Bridges Street, Mid-Levels, Hong Kong as the authorised representatives of the Company for the acceptance of service of process in Hong Kong. As the Company was incorporated in Bermuda, it operates subject to Bermuda company law. Its constitution comprises a memorandum of association and Bye-laws. A summary of the certain relevant parts of its constitution and the relevant aspects of Bermuda company law are set forth in Appendix III to this document.

On 10 January 2001, the Company changed its name in English from "Fortune Tele.com Holdings Limited" to "Fortune Telecom Holdings Limited".

2. Changes in share capital of the Company

(a) At the date of incorporation of the Company, its authorised share capital was HK$100,000 divided into 1,000,000 Shares, all of which were allotted and issued nil paid to Future 2000 Limited on 26 October 1999.

(b) On 10 December 1999, the Company increased its authorised share capital from HK$100,000 to HK$100,000,000 by the creation of additional 999,000,000 Shares, such new Shares rank *pari passu* in all respects with the existing Shares; and (i) allot and issue, credited as fully paid, 888,889 Shares to Future 2000 Limited and 111,111 Shares to Fortune 97 Associates Limited; and (ii) pay up in full at par the 1,000,000 nil-paid Shares on 26 October 1999 as consideration for the acquisition by the Company of the entire issued share capital of Express Fortune Holdings Limited.

(c) On 14 February 2000, the Company allotted and issued an aggregate of 241,000,000 Shares at HK$0.10 per Share by capitalising the sum of HK$24,100,000 standing to the credit of the share premium account as a result of the issue of the Shares to holders of the Shares on the register of members at the close of business on 10 December 1999 pro-rata to their shareholdings in the Company. The Company allotted and issued a total of 57,000,000 Shares through an initial public offering by way of placing.

(d) On 30 July 2001, the Company allotted and issued 2,100,000 Shares to Well Force in partial consideration for the acquisition of 7,300 shares of Synergy pursuant to an acquisition agreement dated 24 May 2001 representing 51% of the issued share capital of Synergy.

(e) As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company was HK$30,210,000 divided into 302,100,000 Shares, fully paid or credited as fully paid, with 697,900,000 Shares remain unissued. Other than pursuant to the exercise of any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder, or under the Proposed Share Option Scheme if the same is adopted by the Shareholders at the Special General Meeting, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

(f) Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

3. Changes in share capital of the Company's subsidiaries

(a) The subsidiaries of the Company are listed in the accountants' report, the text of which is set forth in Appendix I to this document.

(b) In November 2001, FSH increased its share capital from US$200,000 to US$1,600,000 through capitalisation of the accumulated profit of RMB11,592,000. In August 2002, FSH increased its share capital from US$1,600,000 to US$6,000,000 through capitalisation of accumulated profit of RMB36,432,000.

(b) Save as disclosed in this document, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this document.

4. Resolutions of the Shareholders passed on 10 December 1999 and 8 January 2001

(a) Pursuant to written resolutions passed by all the Shareholders on 10 December 1999, among other things, the Company approved and adopted its then Existing Bye-laws.

(b) Pursuant to a special resolution passed by the Shareholders on 8 January 2001, it was resolved that the Company changed its name in English from "Fortune Tele.com Holdings Limited" to "Fortune Telecom Holdings Limited" with effect from 10 January 2001.

5. Information on the Company's principal subsidiaries in the PRC

The Company has interests in the following PRC enterprises, particulars of which are set forth below:–

(a)	Name:	長遠(上海)國際貿易有限公司 (Fortune (Shanghai) International Trading Co., Ltd.)*
	Nature of organization:	Wholly foreign-owned enterprise established in the Waigaoqiao Zone
	Term of operation:	20 years from 3 September 1998

* *For identification purpose only*

	Registered capital:	US$6,000,000 all of which has been contributed by Fortune Telecom (China) Limited
	Directors:	Mr. Steve Lau, Madam Xiao Lei, Theresa and Mr. Luo Xi Zhi
	Scope of business:	International trade, re-export, trading within the Waigaoqiao Zone and trading agency within the Waigaoqiao Zone
(b)	Name:	上海遠嘉國際貿易有限公司 (Shanghai Yuen Jia International Trade Co., Ltd.)*
	Nature of organization:	Wholly foreign-owned enterprise established in the Waigaoqiao Zone
	Term of operation:	15 years from 15 April 2002
	Registered Capital:	US$200,000 all of which has been contributed by Fortune Telecom (China) Limited
	Director:	Madam Xiao Lei, Theresa
	Scope of business:	International trade, re-export, trading within the Waigaoqiao Zone and trading agency within the Waigaoqiao Zone; sub-contracting business within the Waigaoqiao Zone and trade consulting

* *For identification purpose only*

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contract

During a period of two years immediately preceding the date of this document, the Company entered into a loan facility agreement on 18 September 2002 with Bank of China (Hong Kong) Limited and CITIC Ka Wah Bank Limited pursuant to which a HK$160,000,000 transferable loan facility was arranged by the two named banks with a syndicate of banks and financial institutions. This contract was entered into outside the ordinary course of business of the Group that is or may be material.

2. Intellectual property

As at the Latest Practicable Date, the Group had obtained registration of the following trade marks and service marks:–

Trademark	Registered holder	Territory of registration	Registration number	Class	Registration date
長遠電信 FORTUNE TELECOM / 长远电信 FORTUNE TELECOM	Express Fortune Limited	Hong Kong	04751 (A-B) of 2001	9	27 October 1999
長遠電信 FORTUNE TELECOM / 长远电信 FORTUNE TELECOM	Express Fortune Limited	Hong Kong	04752 (A-B) of 2001	38	27 October 1999
長遠 FORTUNE	FSH	PRC	1399391	9	21 May 2000
长远	FSH	PRC	1427712	35	28 May 2000
長遠 FORTUNE	FSH	PRC	1403873	38	28 May 2000

FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT AND THE SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Directors' and chief executives' interests and short positions in the Shares, underlying Shares or debentures

As at the Latest Practicable Date, the interests (or "long positions") and short positions in the Shares of each of the Directors and the chief executive of the Company, the underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken 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 to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" in the Listing Rules, were as follows:–

	Interests in Shares		
Name	Number of Shares in which interested	Total number of Shares	Percentage of issued Shares (%)
Mr. Steve Lau	211,500,013*	211,500,013*	70

* Mr. Steve Lau is interested in 211,500,013 Shares through being the settlor and one of the eligible beneficiaries of The Lau's Family Trust (being a discretionary trust), the trustee of which, Mr. Lee Wai, Timothy, holds the entire issued share capital of Future 2000 Limited which in turn holds 211,500,013 Shares. Mr. Steve Lau is also deemed to be interested in the interest of his spouse and two children who are also eligible beneficiaries of The Lau's Family Trust but who do not have a fixed interest in the assets of the Lau's Family Trust.

(b) Particulars of Directors' service contracts and letters of appointment

In respect of Mr. Steve Lau

Mr. Steve Lau entered into a service contract with the Company on 3 December 1999 for a term from 1 November 1999 until it is terminated by either party giving to the other not less than three calendar months' notice in writing. Mr. Steve Lau is entitled to a basic annual salary subject to an increment to be determined by the Company from time to time, and a bonus in an amount as the Board may determine in respect of each completed year of service. Mr. Steve Lau also enjoys the benefits of housing accommodation and the use of a company car. The annual salary of Mr. Steve Lau for the financial year ended 31 March 2003 was HK$1,200,000 and benefits in kind in the form of house accommodation was approximately HK$110,000.

In respect of Mr. Luo Xi Zhi

Mr. Luo Xi Zhi entered into a service contract with the Company on 12 September 2002 for an initial term of three years commenced from the same date. Upon expiry of the initial term of three years, unless the service contract is terminated by either party pursuant to the terms thereof, it will continue to be effective. Mr. Luo Xi Zhi is entitled to a salary payable by the Company on a monthly basis, subject to annual review by the Board after each completed year of service at an increment to be approved by a majority in number of the members of the Board, provided that such increment shall not exceed 10% of the then current annual remuneration. In addition, Mr. Luo Xi Zhi is entitled to a management bonus as the Board may determine which, in respect of any financial year of the Company, shall not be more than 10% of the audited consolidated net profit before taxation, minority interests, extraordinary and exceptional items of the Group. The annual salary of Mr. Luo Xi Zhi for the financial year ended 31 March 2003 was RMB54,000.

In respect of Mr. Tin Ding Hong, William

Mr. Tin Ding Hong, William entered into a service contract with the Company on 7 February 2003 for an initial term of three years and shall continue after the expiry of the initial term unless and until terminated by either party. Mr. Tin Ding Hong, William is entitled to a fixed salary payable by the Company on a monthly basis. His salary is subject to annual review by the Board at the time when annual review for the salaries of other senior executives is made by the Board and shall be subject to approval by a majority in number of the members of the Board, provided that such increase shall not exceed 10% of the then current annual remuneration. In addition, Mr. Tin Ding Hong, William is entitled to two months' salary bonus each payable in April and December of each year and a discretionary bonus as the Board may at its absolute discretion determine having regard to his performance and the operating results of the Group which, in respect of any financial year of the Company, shall not be more than 10% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group. The annual salary of Mr. Tin Ding Hong, William for the financial year ended 31 March 2003 was HK$728,000.

Under the Bye-laws, an executive Director may not vote on any board resolution regarding a review of his salary or the amount of any bonus payable to him.

In respect of Messrs. Fung Oi Ip, Alfonso; Lo Wing Yat, Kelvin; Chang Wing Seng, Victor and Liu Kwok Fai, Alvan.

Pursuant to four letters of appointment, all dated 16 December 2003, the terms of the appointment of Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat, Kelvin as non-executive Directors and Mr. Chang Wing Seng, Victor and Mr. Liu Kwok Fai, Alvan as independent non-executive Directors are confirmed for a term of one year commencing from 1 April 2003 for an annual fee of HK$50,000, subject to their right to terminate the appointment at any time by giving the Company at least one month's notice in writing.

Each of the above Director's service contracts and letters of appointment will be made available for inspection as set forth under Appendix V to this document.

(c) Directors' remuneration

During each of the three financial years ended 31 March 2003 and the five months ended 31 August 2003, the aggregate remuneration paid and benefits in kind granted to the Directors were approximately HK$2,080,000, HK$2,100,000, HK$1,838,000 and HK$1,015,000. Particulars of the emoluments paid to the five persons who received the highest emoluments from the Group for each of the three financial years ended 31 March 2003 and the five months ended 31 August 2003 are set forth in note 5 of the section headed "Notes to the financial information" in the accountants' report, the text of which is set forth in Appendix I to this document.

The aggregate of emoluments of the executive Directors were approximately HK$1,826,000 for the financial year ended 31 March 2001, approximately HK$1,885,000 for the financial year ended 31 March 2002, approximately HK$1,623,000 for the financial year ended 31 March 2003 and approximately HK$921,000 for the five months ended 31 August 2003.

Under the present arrangements, the aggregate remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the financial year ending 31 March 2004 are estimated to be approximately HK$2,436,000 excluding management bonuses, if any, payable to the Directors.

None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended 31 March 2003 and the five months ended 31 August 2003 whether (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years ended 31 March 2003 and the five months ended 31 August 2003.

(d) Fees or commission received

No commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries within the two years preceding the date of this document.

(e) Related party transactions

Details of the related party transactions are set forth under "Continuing connected transactions" in the section headed "Business" in this document and under note 28 under "Notes to the financial information" in the accountants' report, the text of which is set forth in Appendix I to this document. Save as these transactions and the services contracts and letters of appointment described under "Particulars of Directors' service contracts and letters of appointment" above, there were no contracts of significance to which the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisting at the end of the financial year or at any time during the two years immediately preceding the date of this document.

(f) Disclaimers

Save as disclosed in this document:–

(i) none of the Directors or any chief executive of the Company had any interest (or "long positions") and short positions in the Shares, the underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have taken 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 to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" in the Listing Rules;

(ii) there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) or letters of appointment between the Company or any of its subsidiaries and any of the Directors;

(iii) none of the Directors or the experts named under "Qualification of experts" below was or is interested in the promotion of, or had or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this document, or which are proposed to be acquired or disposed of by or leased to any member of the Group;

(iv) no Director is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

(v) none of the experts named under "Qualifications of experts" below has any shareholding in any members of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group; and

(vi) no cash, securities or other benefit was paid, allotted or given within the two years preceding the date of this document to the promoter of the Company nor is any such cash, securities or benefit proposed to be paid, allotted or given on the basis of the placing or related transaction as mentioned in this document.

2. Persons who have an interest or short position which is discloseable under the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following persons had or were deemed or taken to have, interests or short positions in the Shares and the 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 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:–

Name	Number of Shares	Percentage of issued Shares (%)
Future 2000 Limited *(Note 1)*	211,500,013	70
Mr. Lee Wai, Timothy *(Note 2)*	211,500,013	70
Mr. Steve Lau *(Note 3)*	211,500,013	70

Name	Number of shares in Synergy	Percentage of issued shares (%)
Well Force *(Note 4)*	11,814	49

Notes: –

1. Future 2000 Limited is wholly-owned by Mr. Lee Wai, Timothy as trustee of The Lau's Family Trust (being a discretionary trust) of which Mr. Steve Lau, his spouse and their two children are the current eligible beneficiaries but who do not have a fixed interests in the assets of the Lau's Family Trust.

2. Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in the Shares which Future 2000 Limited has interests as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

3. Mr. Steve Lau is interested in 211,500,013 Shares through being one of the eligible beneficiaries of The Lau's Family Trust. Pursuant to the SFO, he is also deemed to be interested in the interests of his wife and two children who are also the eligible beneficiaries under The Lau's Family Trust.

4. Well Force is holding 11,814 shares in the issued share capital of Synergy, representing 49% of the issued share capital of Synergy.

SHARE OPTION SCHEMES

1. Summary of the principal terms of the Existing Share Option Scheme

The following is a summary of the principal terms of the Existing Share Option Scheme approved and adopted by the resolutions passed by all the Shareholders on 2 February 2000. As at the Latest Practicable Date, no options had been granted or agreed to be granted under the Existing Share Option Scheme.

(a) Who may join

The Directors may, at their discretion, offer full-time employees, including executive Directors, of the Company and/or any of its subsidiaries, to take up options to subscribe for Shares at $1 per option payable on acceptance within 28 days of the date of offer.

However no grant of option may be made after a price sensitive development has occurred or a price sensitive matter has been made the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules.

(b) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Existing Share Option Scheme (or under any other share option scheme of the Company pursuant to which options may from time to time be granted to full-time employees and/or executive directors of the Company or its subsidiaries) is that number which represents ten per cent. of the issued ordinary share capital of the Company from time to time, excluding for this purpose (i) any Shares issued on exercise of options granted pursuant to the Existing Share Option Scheme and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i).

No option may be granted to any one person which, if exercised in full, would result in the total number of Shares already issued and issuable to him/her under the Existing Share Option Scheme exceeding 25 per cent. of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Existing Share Option Scheme.

(c) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Existing Share Option Scheme will be such price as the Board in its absolute discretion determine at the grant of the option, save that such price must not be less than a specified minimum. Such minimum price is whichever is the higher of (i) the nominal value of a Share, (ii) the closing price of the Shares on the Stock Exchange on the day of grant and (iii) the average closing prices of Shares on the Stock Exchange on the five business days immediately preceding the date of grant of the option.

(d) Time of exercise of option

An option may be exercised in accordance with the terms of the Existing Share Option Scheme at any time during a period to be determined and notified by the Board to each grantee, such period of time shall not expire earlier than three years and not later than 10 years from the date on which the option is granted.

(e) Rights are personal to grantee

An option may not be transferred and is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

(f) Right on cessation of employment by death

If the grantee of an option cease to be an employee of the Company or its subsidiaries by reason of death, his legal personal representatives may exercise the option within a period of twelve months thereafter, failing which it will lapse.

(g) Right on cessation of employment by dismissal

If the grantee of an option ceases to be an employee of the Company or its subsidiaries by reason of his dismissal on the grounds including but not limited to, misconduct, bankruptcy, insolvency, or conviction of any criminal offence, his option will thereupon lapse.

(h) Right on cessation of employment for other reasons

If the grantee of an option leaves the service of the Company and its subsidiaries because of retirement or resignation or for any other reason, his option will lapse 3 months after the date of such cessation.

(i) Rights on winding up

If a resolution is being proposed for a members' voluntary winding up of the Company, the grantee of an option may at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) and will accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the Company's assets available in the liquidation rank pari passu with other holders of Shares on the day prior to the date of such resolution.

(j) Ranking of Shares

Shares allotted on the exercise of options will rank pari passu with the other fully-paid Shares in issue at the date of allotment, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of allotment.

(k) Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company (including a capitalisation issue, rights issue) whilst any option may become or remains exercisable, such corresponding alterations (if any) will be made in the number of Shares subject to the option so far as unexercised and/or the subscription price and/or the method of exercise of the option as the auditors or an independent financial adviser of the Company shall certify in writing to be in their opinion that the participants are given the same proportion of equity capital as to which that person was previously entitled (except in the case of a capitalisation issue where no such certification is required). Any such alterations will be made on the basis that the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(l) Period and administration of the Existing Share Option Scheme

Subject to earlier termination by the Company in general meeting, the Existing Share Option Scheme shall have a life of ten years from 2 February 2000, the date on which the Existing Share Option Scheme was conditionally adopted by the Company. The Existing Share Option Scheme will be administered by the Board.

(m) Cancellation of options granted but not exercised

Any cancellation of options granted but not exercised must be approved by shareholders of the Company in general meeting, with participants and their associates abstaining from voting. The vote taken at general meeting to approve such cancellation must be taken by poll.

(n) Termination of the Existing Share Option Scheme

The Company may by resolution in general meeting terminate the operation of the Existing Share Option Scheme at any time and in such event no further options shall be offered but in all other respects the provisions of the Existing Share Option Scheme shall remain in force.

(o) Alteration of the Existing Share Option Scheme

The Existing Share Option Scheme may be altered from time to time in any respect by resolution of the Board except for matters set out in this paragraph and paragraphs (a) to (n) above which cannot be altered to the advantage of the participants without the prior approval of shareholders in general meeting, with participants and their associates abstaining from voting.

2. Summary of the principal terms of the Proposed Share Option Scheme

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme. The Proposed Share Option Scheme is conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, any Shares which may fall to be issued and allotted pursuant to the exercise of any options which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder, or under the Proposed Share Option Scheme and is further conditional upon the Bermuda Monetary Authority granting approval for the issue of any options which may be granted under the Proposed Share Option Scheme and the allotment and issue of Shares pursuant to the exercise of such options.

Applications have been made to the Stock Exchange and the Bermuda Monetary Authority for obtaining the approvals mentioned above.

(a) Who may join

The Board may at its discretion grant options to (i) any part-time or full time employee or officer of any member of the Group or of any Associated Company (collectively, the "Employee"); (ii) the chief executive or director (executive or non-executive or independent non-executive) of any member of the Group or of any Associated Company; or (iii) any supplier, agent, customer, distributor, business associate or partner, professional or other adviser of, or consultant or contractor to, any member of the Group or any Associated Company; (iv) any shareholder of any member of the Group or of any Associated Company who, in the opinion of the Board, has made or will make contributions which are or may be beneficial to the Group as a whole (collectively, "Qualified Persons").

(b) The purpose of the Proposed Share Option Scheme

The Proposed Share Option Scheme seeks to recognize and acknowledge the contributions or potential contributions made or to be made by the Qualified Persons to the Group, to motivate the Qualified Persons to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with the Qualified Persons whose contributions are or may be beneficial to the growth of the Group.

(c) Subscription price

The subscription price (the "Subscription Price") in relation to each option under the Proposed Share Option Scheme shall be a price notified by the Board to the respective Qualified Person. Such price shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person (the "Offer Date") (which is deemed to be the date of grant of the offer for the grant of an option is accepted by the Qualified Person), which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the Offer Date (which is deemed to be the date of grant of the offer for the grant of an option is accepted by the Qualified Person), which must be a business day; and (iii) the nominal value for each Share.

(d) Grant of option

An offer of the grant of an option shall be made to a Qualified Person by letter ("Offer Letter") in such form as the Board may from time to time determine specifying the terms and subject to the conditions on which the option is to be granted. Subject to the terms of the Offer Letter, there shall be no general performance target to or minimum holding period for the vesting or exercise of options.

An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate Offer Letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof shall have been received by the Board on or before the last day for acceptance as set out in the Offer Letter. Such remittance shall in no circumstance be refundable.

(e) Maximum number of Shares

(i) Scheme Mandate

The maximum number of Shares in respect of which options may be granted under the Proposed share option scheme and any other share option schemes of the Company shall not in aggregate exceed such number of Ordinary Shares as shall represent ten percent

(10%) (the "Scheme Mandate") of the total number of Shares in issue as at the date when the Proposed Share Option Scheme is approved by the shareholders of the Company. For the purpose of calculating the Scheme Mandate, options which have been lapsed in accordance with the terms of the Proposed Share Option Scheme shall not be counted.

(ii) Refreshment of the Scheme Mandate

The Company may seek approval by its shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as being refreshed must not in aggregate exceed 10% of the total number of Shares in issue as at the date when such refreshment of the Scheme Mandate is approved by shareholders of the Company. For the foregoing purpose, options previously granted under the Proposed Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted.

(iii) Grant of options to specifically identified Qualified Persons

The Company may seek separate approval by its shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Persons specifically identified before such approval is sought. A circular will be sent by the Company to its shareholders in accordance with the Listing Rules in such circumstance.

(iv) Overriding Limit

Notwithstanding any provisions to the contrary, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30% of the Shares in issue from time to time.

(v) Maximum entitlement of each Qualified Person

Unless separately approved by shareholders in general meeting in the manner as prescribed in the Listing Rules, the total number of Shares issued and to be issued upon exercise of options granted to each Qualified Person (including both exercised, cancelled and outstanding options) under the Proposed Share Option Scheme and any other share option schemes of the Company in any 12-month period must not exceed 1% of the Shares then in issue.

(f) Timing for exercise options

The period during which an option may be exercised in accordance with the terms of the Proposed Share Option Scheme ("Option Period") shall be the period set out in the Offer Letter provided that such period shall commence on the date upon which such option is deemed to be accepted in accordance with the terms of the Proposed Share Option Scheme and must expire no later than the tenth anniversary of the Offer Date.

(g) Rights personal to option-holder

An option shall not be sold, transferred, charged, mortgaged, encumbered or created with any interest (legal or beneficial) in favour of any third party or assigned and shall be personal to the option-holder (save that the option-holder may nominate a nominee to hold the Shares to be issued pursuant to the exercise of options granted under the Proposed Share Option Scheme on trust for the sole benefit of such option-holder provided that evidence of such trust arrangement between the option-holder and the nominee shall be provided to the satisfaction of the Company).

(h) Rights on ceasing employment

If the option-holder being an Employee ceases to be a Qualified Person for any reason other than his or her death or termination of his or her employment on one or more of the grounds specified in sub-paragraph (v) of paragraph (p) below or retirement in accordance with the terms of his or her contract of employment or appointment or by virtue of any statutory requirement, such option-holder may exercise the option up to his or her entitlement at the date of cessation (to the extent not already exercised) within the period of 1 month following the date of such cessation, which date shall be the last actual working day with the Company or its relevant subsidiary or its relevant Associated Company (as the case may be) whether salary is paid in lieu of notice or not.

(i) Rights on death

If the option-holder (being an individual) ceases to be a Qualified Person by reason of his or her death (and, in the case of such option-holder is an Employee, none of the events which would be a ground for termination of his or her employment or appointment as specified in sub-paragraph (v) of paragraph (p) below has arisen), the legal personal representative(s) of the option-holder shall be entitled within a period of 12 months from the date of death (or such other period as the Board may determine) to exercise the option in full (to the extent not already exercised).

(j) Rights on retirement

If the option-holder being an Employee ceases to be a Qualified Person by reason of retirement in accordance with the terms of his or her contract of employment or appointment by virtue of any statutory requirement and none of the events which would be a ground for termination of his or her employment or appointment as specified in sub-paragraph (v) of paragraph (p) below has arisen, the option-holder shall be entitled within a period of 12 months from the date of retirement (or such other period as the Board may determine) to exercise the option up to his or her entitlement (to the extent not already exercised).

(k) Rights on termination of business relation

If the option-holder being a non-Employee in the absolute opinion of the Board ceases to be qualified as a Qualified Person by reason of termination of its business relation with the relevant member of the Group or the Associated Company (as the case may be) or otherwise, any outstanding options then held by such option-holder shall lapse with effect from the date on which the Board notifies such option-holder in writing of the relevant termination.

(l) Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its shareholders or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to the option-holder (or his or her legal representative(s)) on the same day as it gives notice of the meeting to its shareholders or creditors to consider such compromise or arrangement and thereupon the option-holder may, during the period commencing on the date of the aforesaid notice and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by court, exercise any of the option whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Proposed Share Option Scheme. The Company may require the option-holder (or his or her personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option-holder in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(m) Effect of capital alteration

In the event of alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization issue, rights issue, consolidation, share sub-division or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), the Board shall make (and shall notify to the option-holder) such corresponding alterations (if any) in: –

(i) the number or nominal amount of Shares subject to any option so far as such option remains unexercised; and/or

(ii) the Subscription Price,

as the auditors shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a option-holder is entitled after such alteration shall remain the same as that to which he was entitled before such alteration, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value.

(n) Rights on voluntary winding up

In the event a notice is given by the Company to its shareholders to convene a shareholder's meeting for the purpose of considering and, if thought fit, approving a resolution to wind up the Company voluntarily, the Company shall on the same date as or promptly after it dispatches such notice to each shareholder of the Company gives notice thereof to the option-holder, and thereupon the option-holder (or his or her personal representative(s)) shall be entitled to exercise all or any of the option at any time no later than four business days prior to the proposed shareholders' meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as practicable as the circumstances allow but in any event no later than the business day immediately before the proposed shareholders' meeting, allot the relevant Shares to the option-holder credited as fully paid.

(o) Rights on general offer

If a general offer is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the option-holder (or his or her legal personal representative(s)) shall be entitled to exercise the option then outstanding in full at any time within fourteen (14) days after the date on which the offer becomes or is declared unconditional notwithstanding that the Option Period of the relevant option may not have commenced.

(p) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of: –

(i) the expiry of the Option Period;

(ii) the expiry of the periods referred to in paragraphs (h), (i), (j) or (o);

(iii) the date of the commencement of the winding-up of the Company in respect of the situation contemplated in paragraph (n);

(iv) subject to the scheme of arrangement or compromise becoming effective, the expiry of the period referred to in paragraph (l);

(v) the date on which the option-holder being an Employee ceases to be a Qualified Person by reason of the termination of his or her employment or appointment on any one or more of the grounds that he or she has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the option-holder's service contract with the Company or its relevant subsidiary or its relevant Associated Company (as the case may be);

(vi) the date on which the option-holder commits a breach of paragraph (g);

(vii) if an option was granted subject to certain conditions, restrictions or limitations, the date on which the Board resolves that the option-holder has failed to satisfy or comply with such conditions, restrictions or limitations;

(viii) in respect of the option-holder being a consultant or adviser (whether individual or corporation), the date on which the Board resolves that the consultant or adviser fails to comply with any provisions of the relevant contract, or breaches its fiduciary duty under the common law; or

(ix) the occurrence of such event or expiry of such period as may have been specifically provided for in the Offer Letter, if any.

(q) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all provisions of the Bye-laws of the Company for the time being in force and will rank pari passu with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividends or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

(r) Life of the Proposed Share Option Scheme

The Proposed Share Option Scheme shall be valid and effective for a period of ten (10) years commencing from the date on which the Proposed Share Option Scheme is deemed to take effect in accordance with its terms, after which period no further options will be granted but the provisions of the Proposed Share Option Scheme shall remain in full force and effect in all other respects.

(s) Alterations of the Proposed Share Option Scheme

The Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to its terms and conditions or any change to the terms of options granted (except where such alterations take effect automatically under the existing terms of the Proposed Share Option Scheme) shall first be approved by the shareholders of the Company in general meeting and the provisions of the Proposed Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the option-holders except with the prior sanction of a resolution of the Company in general meeting. Any amended terms of the Proposed Share Option Scheme shall comply with Chapter 17 of the Listing Rules.

(t) Administration

The Proposed Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters relating to the Proposed Share Option Scheme or its interpretation or effect (save as otherwise provided) shall be final and binding on all parties affected thereby.

Without prejudice to any of the provisions of the Proposed Share Option Scheme, the Board may from time to time adopt such operational rules as it may deem fit for the purpose of giving effect to or implementing the Proposed Share Option Scheme including without limitation rules which may restrict the exercise of the options granted or to be granted in any way or otherwise impose restrictions whatsoever on the part of the option-holder provided always that such operational rules shall not contravene the applicable provisions of the Listing Rules.

Any change to the authority of the Board or the administrators of the Proposed Share Option Scheme in relation to any alteration of the terms of the Proposed Share Option Scheme shall be approved by the shareholders of the Company in general meeting.

(u) Options to related persons

(i) Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates ("Related Person") must be approved by the independent non-executive directors of the Company (excluding independent non-executive director who is the option-holder of such options).

(ii) Any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates shall comply with paragraph (iii) below if such proposed grant of options, when aggregated with all options (whether exercised, cancelled or outstanding) already granted to that Related Person under the Proposed Share Option Scheme and any other share option schemes of the Company during the 12-month period up to and including the date of such grant of options, and upon exercise of all such options so granted to the relevant Related Person would (a) entitle him or her to receive more than 0.1% of the total issued Shares for the time being; and (b) represent an aggregate value in excess of HK$5,000,000 (or such higher amount as shall be permissible under the Listing Rules from time to time) based on the closing price of the Shares on the Stock Exchange at the date of each grant.

(iii) Any grant of options referred to in paragraph (ii) must, in addition to obtaining the approval of the independent non-executive directors pursuant to paragraph (i), be approved by the shareholders of the Company in general meeting where all connected persons of the Company must abstain from voting save and except any connected person may vote against the proposed grant in the general meeting provided that his intention so to do has been stated in a circular to be despatched to the shareholders of the Company in accordance with the Listing Rules.

(iv) Any vote taken at such general meeting to approve the grant of such options must be taken on a poll.

(v) Restrictions on grant of options

No grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. Without prejudice to the foregoing, no option shall be granted during a period during which no option may be granted.

(w) Cancellation of options

Subject to the consent from the relevant option-holder, the Board may in its discretion cancel options previously granted to, and yet to be exercised by, such option-holder; provided that if such cancellation of options is made for the purpose of re-issuing new options to such option-holder, there must be sufficient available unissued options (excluding such cancelled options) for such re-issuance under the General Mandate.

(x) Termination

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Proposed Share Option Scheme and in such event no further options will be offered but the provisions of the Proposed Share Option Scheme shall remain in force in all other respects.

(xi) Value of the options granted

Since the Proposed Share Option Scheme is yet to be approved by the Shareholders of the Company, the Board has not yet determined the time frame on the granting of option, thereunder and the number of Shares for which any grantee may subscribe upon exercise of an option. Accordingly, the Board consider that it is premature and inappropriate to state the value of the options for the time being in this document.

OTHER INFORMATION

1. Estate duty and other tax indemnity

Each of Future 2000 Limited, Fortune 97 Associates Limited, Mr. Steve Lau, Mr. Lee Wai, Timothy (as trustee of the Lau's Family Trust) and Mr. Lau Chin Ying (together, the "Indemnifiers") has entered into a deed of indemnity dated 10 December 1999 with and in favour of the Company and each member of the Group to provide indemnities in connection with, inter alia, Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance) to any member of the Group and other tax liabilities of the Group (to the extent that such have not been provided for in the audited accounts of the Company for the six months ended 30 September 1999 and excluding (i) any liability in respect of any accounting period commencing on or after 1 October 1999 unless liability for such taxation would not have arisen but for some act or omission of, or transaction entered into by, the Indemnifiers, the Group or any of them otherwise than in the course of normal day to day trading operations on or before the date on which the share offer under the Prospectus becomes unconditional; and (ii) where such taxation arises out of any change in the law having retrospective effect or to the extent such taxation arises or is increased by an increase in rates of taxation with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of anywhere else in the world on the profits of companies for the current or any earlier financial period)) arising from any income, profits or gains earned or accrued or received on or before the date on which the share offer under the Prospectus becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Bermuda, the BVI and the PRC.

2. Promoter

The promoter of the Company is Mr. Steve Lau. Mr. Lau did not receive any remuneration or benefit (other than those described in the Director's service agreement) in connection with the Introduction.

3. Sponsors

The Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board the Shares in issue and any Shares which may fall to be issued upon the exercise of any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme.

4. Expenses

The estimated expenses in respect of the Introduction are approximately HK$2.9 million and are payable by the Company.

5. Litigation

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. Qualification of experts

The qualifications of the experts who have given opinions in this document and/or whose names are included in this document are as follows: –

Expert	Qualifications
South China	Deemed licensed corporation under the SFO
Watterson Asia	Deemed licensed corporation under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Midland Surveyors Limited	Professional surveyors
Commerce and Finance Law Offices	PRC legal advisers
Conyers Dill & Pearman	Bermuda barristers and attorneys

7. Consents of experts

Each of the Sponsors and Deloitte Touche Tohmatsu, Midland Surveyors Limited, Commerce and Finance Law Office and Conyers Dill & Pearman have each given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included in this document in the form and context in which they are respectively included.

8. Miscellaneous

Save as disclosed in this document:–

(a) within two years immediately preceding the date of this document:–

(i) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) there has been no material adverse change in the financial or trading position of the Group since 31 August 2003 (being the date to which the latest audited consolidated financial statements of the Group were made up);

(c) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months preceding the date of this document; and

(d) neither the Company nor any of its subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.

9. All necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS.

10. The Group has no present intention to change the nature of its business in the near future.

Copies of the following documents will be available for inspection at the office of Koo and Partners *in Association with* Paul, Hastings, Janofsky & Walker LLP during normal business hours up to and including 14 January, 2004:–

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

(b) the Bye-laws;

(c) the accountants' report of the Group prepared by Deloitte Touche Tohmatsu, the text of which is set forth in Appendix I to this document;

(d) the annual reports of the Company for each of the three financial years ended 31 March 2003 and the audited report of the Company for the five months ended 31 August 2003;

(e) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by Midland Surveyors Limited, the text of which is set forth in Appendix II to this document;

(f) the Prospectus;

(g) the Companies Act;

(h) the letter of advice summarising certain aspects of Bermuda company law prepared by Conyers Dill & Pearman, Bermuda;

(i) the shareholders' circular dated 22 December 2003 issued by the Company for the voluntary withdrawal of listing on GEM, adoption of the new Bye-laws and the Proposed Share Option Scheme;

(j) the respective rules of the Existing Share Option Scheme and the Proposed Share Option Scheme;

(k) the material contract referred to in Appendix IV to this document;

(l) the Directors' service contracts and the letters of appointment referred to in Appendix IV to this document; and

(m) the written consents referred to in Appendix IV to this document.