1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as explained in the accounting policies set out below.

Notwithstanding that the Company and the Group sustained recurrent losses and had net current liabilities as at 31 December 2002, including convertible notes of $6.5 million (note 21(a)) which are overdue and remain outstanding as at the date of authorisation for issue of the financial statements, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when the fall due having regard to the following:

(i) an unsecured revolving loan facility of $50 million made available to the Company from a financial institution; and

(ii) continuing financial support received from the ultimate holding company.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1. Significant accounting policies (continued)

(c) Subsidiaries (continued)

Losses attributable to the minority shareholders in a consolidated subsidiary are restricted to their equity interests in the subsidiary. If the subsidiary subsequently reports profits, the Group is allocated all such profits until the minority shareholders' share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1. Significant accounting policies (continued)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Fixed assets are stated in the balance sheets on the following bases:

– land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(h)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

– plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the profit and loss account.

(Expressed in Hong Kong dollars)

1. Significant accounting policies (continued)

(f) Fixed assets (continued)

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(h) Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Land and buildings	30 years
Leasehold improvements	over the unexpired term of the lease
Machinery and equipment	3 – 5 years
Furniture, fixtures, office equipment and motor vehicles	1 – 5 years
Moulds and tools	2 – 5 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– investments in subsidiaries and associates (except for those accounted for at fair value under notes 1(c) & (d)); and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

1. Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

(ii) Internet-related services income

Income from Internet-related services is recognised over the period during which the services are rendered to customers.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(Expressed in Hong Kong dollars)

1. Significant accounting policies (continued)

(k) Inventories

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

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit or loss on disposal.

1. Significant accounting policies (continued)

(n) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to the profit and loss account when incurred.

(iv) When the Group grants employees options to acquire shares of the Company at a nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(Expressed in Hong Kong dollars)

1. Significant accounting policies (continued)

(q) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. Turnover

The principal activity of the Company is investment holding. The principal activities of the Group are the manufacture and sale of healthcare and household products, provision of Internet-related services and the development and sale of enterprise applications software.

Turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax, and revenue from the provision of Internet-related services less sales tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	$'000
Manufacture and sale of healthcare and household products	78,720	92,503
Sale of enterprise applications software	9,475	2,746
Provision of Internet-related services	1,838	29,185
	90,033	124,434

3. Other revenue and other loss, net

	2002	2001
	$'000	$'000
Other revenue		
Interest income	32	8,076
Income from scrap sales	1,372	4,799
Rental income	119	319
Miscellaneous	1,175	–
	2,698	13,194
Other loss, net		
Loss on disposal of fixed assets	(11,368)	(9,324)
Gain on settlement of amount due to a former director (see note below)	–	1,138
Profit on disposal of subsidiaries (note 26(a))	1,966	2,125
Exchange (loss)/gain	(362)	289
Others	1,741	1,260
	(8,023)	(4,512)

Note: In 2000, a former director of the Company instituted proceedings against a subsidiary, claiming repayment of a sum of $3,184,000 which represented a payment made under a guarantee provided by the former director to a bank for banking facilities granted to the subsidiary. In accordance with a Deed of Settlement dated 20 June 2001, the claim was settled and a gain of $1,138,000 was recorded.

4. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging:

		2002	2001
		$'000	$'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings repayable within five years	**3,412**	10,499
	Additional finance charges in connection with the redemption of the convertible notes *(note 21(b))*	**11,059**	–
	Finance charges on obligations under finance leases	**–**	33
		14,471	10,532
(b)	Other items:		
	Cost of inventories #	**65,753**	84,114
	Staff costs (including contributions to defined contribution plans of $733,000 (2001: $1,359,000)) #/*	**37,614**	46,561
	Amortisation of positive goodwill	**1,333**	4,778
	Auditors' remuneration	**921**	982
	Research and development costs *	**2,658**	2,639
	Depreciation #		
	– owned assets	**12,740**	18,895
	– assets held under finance leases	**–**	547
	Operating lease charges in respect of land and buildings	**4,254**	6,198
	Impairment loss on fixed assets	**27,457**	21,000
	Provision for bad and doubtful debts	**2,411**	4,105

\# Cost of inventories includes $12,449,000 (2001: $13,894,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

* Research and development costs include staff costs of $1,986,000 (2001: $2,189,000) which amount is also included in staff costs disclosed separately above.

5. Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2002	2001
	$'000	$'000
Overprovision for Hong Kong Profits Tax in respect of prior years	2,157	–

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries in which the subsidiaries operate.

No provision for Hong Kong Profits Tax and PRC income tax has been made in the financial statements as the Company and the Group did not have any assessable profits for taxation purposes during the year.

(b) Taxation in the consolidated balance sheet represents:

	2002	2001
	$'000	$'000
Balance of Hong Kong Profits Tax provisions relating to prior years	2,276	2,309
Less: Tax Reserve Certificates purchased in respect of the years of assessment 1996/97 to 1997/98	(920)	(920)
	1,356	1,389
Hong Kong Profits Tax recoverable in respect of the years of assessment 1994/95 to 1995/96	(2,124)	–
	(768)	1,389
Balance of provision for taxation outside Hong Kong relating to prior years	3,666	3,663
	2,898	5,052
Representing:		
– Tax recoverable	(2,124)	–
– Tax payable	5,022	5,052
	2,898	5,052

5. Taxation (continued)

(c) No deferred tax benefits have been recognised as their realisation is not assured beyond reasonable doubt. Major components of unprovided deferred tax by the Company and the Group are set out below:

	The Group		The Company	
	2002	2001	**2002**	2001
	Potential assets unprovided		**Potential assets unprovided**	
	$'000	*$'000*	***$'000***	*$'000*
Tax losses	**27,759**	18,194	**6,890**	3,651

6. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	$'000	*$'000*
Fees	**240**	480
Salaries and other emoluments	**5,628**	6,259
Retirement scheme contributions	**153**	113
	6,021	6,852

Included in the directors' remuneration were fees of $240,000 (2001: $480,000) payable to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	Number of directors	
	2002	2001
$Nil – $1,000,000	**3**	5
$1,000,001 – $1,500,000	**1**	–
$1,500,001 – $2,000,000	**–**	1
$2,000,001 – $2,500,000	**–**	–
$3,500,001 – $4,000,000	**1**	1

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2001: two) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2001: three) individuals are as follows:

	2002 $'000	2001 $'000
Salaries and other emoluments	2,721	3,592
Retirement scheme contributions	65	110
	2,786	3,702

The emoluments of the two (2001: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2002	2001
$Nil – $1,000,000	1	1
$1,000,001 – $1,500,000	–	1
$1,500,001 – $2,000,000	1	1

8. Loss attributable to shareholders

The consolidated loss attributable to shareholders includes a loss of $113,676,000 (2001: $1,218,395,000) which has been dealt with in the financial statements of the Company.

9. Dividends

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2002 (2001: $Nil).

10. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $114,931,000 (2001: $1,216,597,000) and the weighted average number of ordinary shares of 1,504,845,996 (2001: 1,196,850,859) in issue during the year. The weighted average number of ordinary shares in issue for 2001 has been retrospectively adjusted for the effect of rights issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented as the inclusion of the effects of all potential dilutive ordinary shares would have an anti-dilutive effect on the basic loss per share for both the current and prior years.

11. Change in accounting policy

In prior years, the results of enterprises outside Hong Kong were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1 January 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the HKSA, the Group translates the results of enterprises outside Hong Kong at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

12. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Healthcare and household products	:	The manufacture and sale of healthcare and household products
Enterprise applications software	:	The development and sale of enterprise applications software
Internet-related services	:	The provision of Internet-related services

	2002	2001
	$'000	$'000
Revenue from external customers		
– Healthcare and household products	**78,720**	92,503
– Internet-related services	**1,838**	29,185
– Enterprise applications software	**9,475**	2,746
	90,033	124,434
Other revenue from external customers		
– Healthcare and household products	**1,491**	5,118
Total revenue	**91,524**	129,552

12. Segment reporting (continued)

Business segments (continued)

	2002 $'000	2001 $'000
Segment result		
– Healthcare and household products	**(2,023)**	(7,730)
– Internet-related services	**(42,503)**	(1,173,173)
– Enterprise applications software	**(38,578)**	(5,874)
– Unallocated operating income and expenses	**(20,949)**	(22,987)
Loss from operations	**(104,053)**	(1,209,764)
Finance costs	**(14,471)**	(10,532)
Share of profit less losses of associates		
– Healthcare and household products	**–**	1,587
– Internet-related services	**(2)**	(3)
	(2)	1,584
Loss from ordinary activities before taxation	**(118,526)**	(1,218,712)
Taxation	**2,157**	–
Minority interests	**1,438**	2,115
Loss attributable to shareholders	**(114,931)**	(1,216,597)
Depreciation and amortisation		
– Healthcare and household products	**5,979**	8,484
– Internet-related services	**4,545**	9,259
– Enterprise applications software	**1,710**	4,854
– Unallocated	**1,839**	1,623
	14,073	24,220

12. Segment reporting (continued)

Business segments (continued)

	2002	2001
	$'000	$'000
Impairment loss for the year		
– Enterprise applications software	31,000	–
– Internet-related services	27,457	1,151,621
Significant non-cash expenses (other than depreciation and amortisation)		
– Healthcare and household products	2,878	6,778
– Internet-related services	6,570	8,700
– Enterprise applications software	4,002	–
Segment assets		
– Healthcare and household products	41,151	39,669
– Internet-related services	66,192	166,878
– Enterprise applications software	12,036	46,141
– Unallocated	8,287	86,404
Less: Inter-segment elimination	(6,687)	(3,090)
Total assets	120,979	336,002
Segment liabilities		
– Healthcare and household products	22,377	15,691
– Internet-related services	8,365	10,751
– Enterprise applications software	7,962	5,656
– Unallocated	46,379	226,351
Less: Inter-segment elimination	(6,687)	(3,090)
Total liabilities	78,396	255,359
Captial expenditure incurred during the year		
– Healthcare and household products	3,881	1,803
– Internet-related services	112	1,747
– Enterprise applications software	182	2,881
	4,175	6,431

12. Segment reporting (continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. North America and Europe are major markets for the sale of healthcare and household products; PRC is a major market for the enterprise applications software and Internet-related operations.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	2002	2001
	$'000	$'000
Revenue from external customers		
– North America	41,476	65,633
– Europe	20,892	13,659
– PRC	11,313	31,931
– Asia (other than PRC) and others	16,352	13,211
	90,033	124,434
Segment assets		
– PRC	101,883	313,027
– Hong Kong	19,096	22,975
Total assets	120,979	336,002
Capital expenditure incurred during the year		
– PRC	4,060	5,737
– Hong Kong	115	694
	4,175	6,431

(Expressed in Hong Kong dollars)

13. Fixed assets

(a) The Group

	Land and buildings $'000	Optical fibre cable $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fixtures, office equipment and motor vehicles $'000	Moulds and tools $'000	Total $'000
Cost or valuation:							
At 1 January 2002	16,000	48,457	2,340	35,734	26,262	17,741	146,534
Exchange adjustments	151	–	3	320	115	175	764
Additions	–	–	1,871	1,090	1,096	2,013	6,070
Disposals							
– through disposal of subsidiaries	–	–	–	–	(230)	–	(230)
– others	–	–	(2,139)	(15,484)	(12,033)	(1,913)	(31,569)
Surplus on revaluation	1,849	–	–	–	–	–	1,849
At 31 December 2002	18,000	48,457	2,075	21,660	15,210	18,016	123,418
Representing:							
Cost	–	48,457	2,075	21,660	15,210	18,016	105,418
Valuation – 2002	18,000	–	–	–	–	–	18,000
	18,000	48,457	2,075	21,660	15,210	18,016	123,418
Accumulated depreciation:							
At 1 January 2002	–	21,000	1,258	18,362	17,258	15,267	73,145
Exchange adjustments	–	–	–	145	49	169	363
Charge for the year	568	–	954	6,850	3,235	1,133	12,740
Impairment loss	–	27,457	–	–	–	–	27,457
Through disposal of subsidiaries	–	–	–	–	(36)	–	(36)
Written back on disposal	–	–	(1,915)	(8,242)	(8,260)	(332)	(18,749)
Written back on revaluation	(568)	–	–	–	–	–	(568)
At 31 December 2002	–	48,457	297	17,115	12,246	16,237	94,352
Net book value:							
At 31 December 2002	18,000	–	1,778	4,545	2,964	1,779	29,066
At 31 December 2001	16,000	27,457	1,082	17,372	9,004	2,474	73,389

13. Fixed assets (continued)

(a) The Group (continued)

In 2001, the Group carried out a review of the carrying value of the optical fibre cable ("cable") of $48,457,000. Due to the spiral downturn of the market conditions for Internet and multi-media related businesses which affected the value of Internet businesses both in Hong Kong and the PRC, the directors of the Company considered that there were indications of impairment of the cable. Based on their assessment, the carrying amount of the cable was written down by $21 million (included in "Other operating expenses"). The estimate of the recoverable amount was by reference to the sale values of similar assets disposed of prevailing in the market.

In 2002, the Group carried out a further review of the carrying value of the cable of $27,457,000. Based on the assessment which was by reference to the value in use taking account of the prevailing market condition, a full provision for impairment loss of $27,457,000 has been made (included in "Other operating expenses").

(b) The analysis of the net book value of properties is as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Outside Hong Kong – medium-term leases	**18,000**	16,000

(c) The Group's land and buildings held for own use were revalued at 31 December 2002 on an open market value basis by C S Surveyors Limited, an independent firm of professional valuers, who have among their staff Associates of the Hong Kong Institute of Surveyors. The revaluation surplus of $2,417,000 (2001: revaluation deficit of $2,619,000) has been credited to the consolidated profit and loss account. Had the land and buildings held for own use been carried at historical cost less accumulated depreciation as at 31 December 2002 their carrying value would have been approximately $30,543,000 (2001: $31,636,000).

(Expressed in Hong Kong dollars)

14. Goodwill

	Positive goodwill recognised as an asset	Positive goodwill carried in reserves
	$'000	*$'000*
Cost:		
At 1 January and 31 December 2002	47,780	1,130,621
Accumulated amortisation and impairment:		
At 1 January 2002	4,778	1,130,621
Charge for the year	1,333	–
Impairment loss	31,000	–
At 31 December 2002	37,111	1,130,621
Carrying amounts:		
At 31 December 2002	10,669	–
At 31 December 2001	43,002	–

Positive goodwill recognised as an asset is amortised on a straight-line basis over 10 years. The amortisation of positive goodwill for the year is included in "Other operating expenses" in the consolidated profit and loss account.

The Group's enterprise applications software development business ("software business") is facing intense competition in the PRC. This is further affected by the high staff turnover during the year. Accordingly, the management has streamlined the operations by placing all resources on research and development while sales and marketing of the products are subcontracted to designated distributors in the PRC. The directors of the Company consider that the change in the business models affects the recoverable amount of the goodwill. Based on their assessment, the carrying amount of the goodwill was written down by $31 million. The estimate of the recoverable amount was based on the value in use of the operations, determined using a discount rate of 7%. Subsequent to the year end, the Group disposed of certain software, intellectual property rights and fixed assets of the software business (note 30(b)).

In 2001, due to significant uncertainties existing in the market conditions both in Hong Kong and the PRC upon the occurrence of the September 11 crisis coupled with the slow down in the progress of the Group's Internet-related businesses in the PRC upon the publication of the Measures for the Administration of Telecommunications Service Operating Permits by the PRC Ministry of Information Industry in which stringent rules were imposed on the application of operating permits for Intelligent Building projects, the directors of the Company considered that there were indications of impairment of the goodwill carried in reserves arising from the acquisition of certain subsidiaries engaging in Internet-related operations. They carried out a review of the recoverable amount of the goodwill. Based on their assessment which was by reference to the value in use of the operations and taking into account the abovementioned uncertainties surrounding the operations, a full provision for impairment loss of $1,130,621,000 was made.

15. Investments in subsidiaries

	The Company	
	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**191,351**	68,891
Amounts due from subsidiaries	**1,386,465**	1,480,750
Amounts due to subsidiaries	**(11,878)**	(1,105)
	1,565,938	1,548,536
Less: Impairment loss	**(1,494,268)**	(1,339,422)
	71,670	209,114

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated in the Group financial statements.

Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Archiever Company Limited	British Virgin Islands ("BVI")	1 share of US$1 each	100	100	–	Investment holding
Beijing Infohighway Information and Technology Limited *(note (a))*	PRC	Registered capital US$10,000,000	90	–	90	Provision of Internet-related consultancy services
Cyber Info Management Limited	BVI	1 share of US$1 each	100	100	–	Investment in optical fibre cable
Dongguan Fairform Manufacturing Co. Ltd.	PRC	Registered capital RMB10,065,194	100	–	100	Dormant

(Expressed in Hong Kong dollars)

15. Investments in subsidiaries (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Dongguan Weihang Electrical Product Company Limited *(note (b))*	PRC	Registered capital US$8,107,000	100	–	100	Manufacture and trading of healthcare and household products
Dynamic Technology Limited	BVI	1 share of US$1 each	100	100	–	Trademark holding
eForce China Limited	BVI	1 share of US$1 each	100	100	–	Provision of management services
eForce Management Limited	Hong Kong	2 shares of $1 each	100	100	–	Provision of management services
Fairform Group Limited (formerly known as "Gold Fortress Holdings Ltd.")	BVI	15,700,200 shares of US$1 each	100	100	–	Investment holding
Fairform Holdings Limited	Hong Kong	2 shares of $1 each	100	100	–	Name holding
Fairform Information Technology Limited	Hong Kong	600,000 ordinary shares of $1 each	100	–	100	Dormant
Fairform Manufacturing Company Limited	Hong Kong	4,750,000 ordinary shares of $1 each and 250,000 non-voting deferred shares of $1 each	100	–	100	Manufacture and trading of healthcare and household products

(Expressed in Hong Kong dollars)

15. Investments in subsidiaries (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Gainford International Inc.	BVI	50 shares of US$1 each	100	–	100	Investment holding
Gold Landmark Assets Limited	BVI	1 share of US$1 each	100	–	100	Investment holding
Megabit Telecom Inc.	BVI	10,000 shares of US$1 each	100	–	100	Investment holding
New Hong Kong Industrial Company Limited	Hong Kong	2 shares of $1 each and 300,000 non-voting deferred shares of $1 each	100	–	100	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	100	–	100	Provision of management services
Outshine Technology Limited	BVI	1 share of US$1 each	100	100	–	Investment holding
Palm Beach Holdings Limited	Republic of Mauritius	1 share of US$1 each	100	–	100	Investment holding
Pro-Tek Electroforming Limited	Hong Kong	200,000 ordinary shares of $1 each	100	–	100	Dormant

(Expressed in Hong Kong dollars)

15. Investments in subsidiaries (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Qesco International (HK) Ltd	Hong Kong	1,000,000 ordinary shares of $1 each	100	–	100	Dormant
Skilful Developments Limited	BVI	1 share of US$1 each	100	100	–	Investment holding
Space Treasure Limited	Hong Kong	2 shares of $1 each	100	–	100	Dormant
Super Standard Limited	BVI	1 share of US$1 each	100	100	–	Investment holding
Top Harvest Industrial Limited	Hong Kong	3,300,000 ordinary shares of $1 each and 2,700,000 non-voting deferred shares of $1 each	100	–	100	Investment holding
Wixford Limited	BVI	1 share of US$1 each	100	100	–	Investment holding
Zhuhai Tianxin Business Software Limited *(note (c))*	PRC	Registered capital of $1,000,000	100	–	100	Development and sale of enterprise applications software

Notes:

(a) Beijing Infohighway Information and Technology Limited is a sino-foreign equity joint venture with an operating period of 20 years expiring on 21 July 2019.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

(c) Zhuhai Tianxin Business Software Limited ("Tianxin") is a wholly foreign owned enterprise with an operating period of 10 years expiring on 19 June 2006.

16. Interest in associates

	The Group 2002 $'000	2001 $'000
Share of net assets	**2,291**	2,294
Amount due to an associate	**(2,000)**	(2,000)
	291	294

Amount due to an associate is unsecured, interest-free and has no fixed terms of repayment.

The following list contains the particulars of associates, all of which are unlisted corporate entities:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by subsidiary	Principal activity
Crown eForce Logistics Management (HK) Limited	Hong Kong	100 ordinary shares of $10 each	49	49	Not yet commenced business
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US$1 each	50	50	Dormant
Esterham Enterprise Inc.	BVI	2 ordinary shares of US$1 each	50	50	Dormant
Jade Ocean Surface Finishing Company Limited	Hong Kong	10,000 ordinary shares of $1 each	49	49	Dormant

(Expressed in Hong Kong dollars)

17. Other non-current assets

	The Group	
	2002	2001
	$'000	*$'000*
Deposits (note (a))	**44,933**	56,731
Other receivable (note (b))	**875**	1,775
	45,808	58,506

Notes:

(a) The deposits represent quality guarantee deposits paid to China Infohighway Communications Co., Ltd ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee (note 28(b)). In the event that the Group fails to provide the required equipment and facilities, IHW can make use of the deposit to purchase the required equipment and facilities.

The deposit is unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

(b) Other receivable represents the long-term portion of the balance of consideration for the disposal of the Group's subsidiary in 2001. The outstanding receivable of $1,775,000 (2001: $2,550,000 (note 26(a))) is repayable by step-up monthly instalments with the final instalment due in November 2004. It is secured over the ordinary shares of the subsidiary disposed of and a pledge of the investment property held by the subsidiary. In the event of default, interest at prime lending rate plus 2% per annum will be charged on the overdue balance.

As at 31 December 2002, the current portion of $900,000 (2001: $775,000) is included in "Other debtors, deposits and prepayments" (note 19).

18. Inventories

	The Group	
	2002	2001
	$'000	*$'000*
Raw materials	**4,683**	3,355
Work in progress	**1,452**	483
Finished goods	**241**	398
	6,376	4,236

At 31 December 2002, inventories of $881,000 (2001: $Nil) are stated at estimated net realisable value.

19. Trade and other receivables

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors *(notes (a)&(b))*	**16,465**	31,014	**–**	–
Other debtors, deposits and prepayments *(note 17(b))*	**4,789**	41,981	**39**	197
Amounts due from associates *(note (c))*	**20**	19	**–**	–
	21,274	73,014	**39**	197

Notes:

(a) All the trade and other receivables are expected to be recovered within one year.

(b) Included in trade debtors is an amount of $12,758,000 (2001: $27,412,000) due from a related party for the provision of consultancy services (note 28(b)).

(c) Amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

The ageing analysis of trade debtors (net of specific provisions for bad and doubtful debts) is as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Current	**3,118**	2,091
1 to 3 months overdue	**589**	812
More than 3 months overdue but less than 12 months overdue	**924**	28,111
More than 12 months overdue	**11,834**	–
	16,465	31,014

Trade debts are due within 30 days from the date of billing.

20. Loans from banks and other financial institutions

At 31 December 2002, loans from banks and other financial institutions were secured as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Bank loans				
– unsecured	**929**	–	**–**	–
– secured (note (a))	**–**	89,326	**–**	13,088
Loans from other financial institutions				
– unsecured	**13,550**	30,900	**13,550**	30,900
– secured (note (b))	**9,056**	8,037	**–**	–
	23,535	128,263	**13,550**	43,988

Notes:

(a) At 31 December 2001, bank loans of $76 million were secured by US dollar bank deposits of US$9.7 million (approximately equivalent to $75 million); the remaining balance of $13 million was secured over the Group's entire shareholding in Fairform Group Limited (formerly known as "Gold Fortress Holdings Ltd.") and all assets held by Fairform Manufacturing Company Limited with a carrying value of approximately $16 million.

(b) The loan was secured over the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of $18 million (2001: $16 million).

21. Convertible notes

	The Group and the Company	
	2002	2001
	$'000	*$'000*
HK dollar convertible notes (note (a))	**6,500**	6,500
US dollar convertible notes (note (b))	**–**	64,743
	6,500	71,243

21. Convertible notes (continued)

(a) HK dollar convertible notes

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of $9 million were issued ("the notes"). The notes were convertible to ordinary shares of $0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 at a conversion price of $0.42 (adjusted for the effects of the Company's capital reorganisation and rights issue in 2000). There was no conversion of the notes for both the current and prior years.

Since the noteholders did not exercise the conversion right before maturity and consents from all noteholders to extend the maturity date for one year to 31 January 2003 have not been obtained, the directors of the Company consider that the conversion right attaching to the notes has lapsed and the outstanding balance of the notes together with the accrued interest of approximately $6,878,000 are due for repayment. As at the date of authorisation for issue of the financial statements, the noteholders have not yet requested the Company to redeem the convertible notes.

(b) US dollar convertible notes and warrants

On 12 July 2001, the Company entered into a subscription agreement ("the agreement") with independent third parties to issue 3% convertible notes ("the Notes") and warrants. US$10 million of the Notes were issued during 2001 which might be convertible to ordinary shares of $0.05 each of the Company at any time during the three years after the date of issue. Details of conversion of the Notes during the year are set out in note 24(b).

During the year, due to the occurrence of a triggering event as defined in the agreement, the noteholders issued triggering event redemption notices in March 2002 and subsequently statutory demands in May 2002 to the Company requesting the repayment of the outstanding Notes together with the unpaid interest of approximately $61 million plus an additional charge equal to 15% of the aforementioned amount of approximately $9.1 million. In addition, due to the delay in the repayment, the Company paid a late charge of approximately $1.9 million. As a result, a total amount of approximately $11 million has been included as finance costs in the consolidated profit and loss account (note 4(a)).

Each warrant, issued together with the Notes, entitles the holder to subscribe for one ordinary share of $0.05 each of the Company at any time during the three years after the date of issue, at a subscription price at 31 December 2002 of $1.6977 (subject to adjustment). No warrants have been exercised for both the current and prior years. At 31 December 2002, the number of outstanding warrants was 11,945,186 (2001: 8,167,106) after the adjustment for the effect of rights issue during the year.

22. Trade and other payables

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**13,371**	9,029	**–**	–
Other creditors and accrued charges	**27,299**	31,043	**7,989**	10,302
Amount due to ultimate holding company *(note 28(a))*	**1,090**	9,333	**554**	4,877
Amount due to an associate	**605**	540	**–**	–
Amounts due to directors	**820**	702	**720**	480
Amounts due to former directors and officers	**154**	154	**–**	–
	43,339	50,801	**9,263**	15,659

Amounts due to an associate, directors, former directors and officers are unsecured, interest-free and have no fixed terms of repayment.

An ageing analysis of trade creditors is as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Due within 1 month or on demand	**4,342**	5,998
Due after 1 month but within 3 months	**7,303**	3,024
Due after 3 months but within 6 months	**1,079**	7
Due after 6 months	**647**	–
	13,371	9,029

23. Employee benefits

(a) Employee retirement benefits

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

(Expressed in Hong Kong dollars)

23. Employee benefits (continued)

(a) Employee retirement benefits (continued)

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per shares on The Stock Exchange of Hong Kong Limited ("SEHK") for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscriber for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the SEHK ("the Listing Rules") if the Company wishes to continue to grant options under the existing scheme.

Movements in share options are as follows:

	Number	
	2002	2001
At 1 January	**24,300,000**	53,800,000
Exercised (note 24(c))	**–**	(4,850,000)
Cancelled	**(180,000)**	(24,650,000)
Adjustment*	**12,060,000**	–
At 31 December – options vested	**36,180,000**	24,300,000

* Adjustment for the effect of rights issue during the year

The outstanding share options at the balance sheet dates were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of $0.392 per share (after adjustment for the effect of rights issue during the year).

24. Share capital

	2002	2001
	$'000	$'000
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	**300,000**	300,000

	2002 No. of shares	2002 Amount $'000	2001 No. of shares	2001 Amount $'000
Issued and fully paid:				
At 1 January	**1,169,754,065**	**58,488**	1,136,851,600	56,843
Rights issue *(note (a))*	**587,902,263**	**29,395**	–	–
Conversion of convertible notes *(note (b))*	**6,050,461**	**302**	6,352,465	318
Shares issued under share option scheme *(note (c))*	**–**	**–**	4,850,000	242
Shares issued by private placement *(note (d))*	**–**	**–**	21,700,000	1,085
At 31 December	**1,763,706,789**	**88,185**	1,169,754,065	58,488

(a) Pursuant to resolution passed at the directors' meetings held on 10 May 2002 and 26 June 2002, the Company issued 587,902,263 ordinary shares of $0.05 each in the Company at $0.127 per share by way of a rights issue in the proportion of one rights share for every two existing shares held. An amount of $29,395,000 and $45,269,000 was credited to the share capital and the share premium account respectively. The net proceeds of the rights issue of approximately $73 million were used to redeem the US dollar convertible notes (note 21(b)).

(b) During the year, US dollar convertible notes of US$0.5 million (2001: US$1.7 million) (approximately equivalent to $3,900,000 (2001: $13,277,000)) were converted by the noteholders at conversion prices ranging from $0.5 to $0.97 (2001: $1.1656 to $2.2968), resulting in the issue of 6,050,461 (2001: 6,352,465) ordinary shares of $0.05 each in the Company. An amount of $302,000 (2001: $318,000) and $3,615,000 (2001: $12,959,000) was credited to the share capital and the share premium account respectively. These ordinary shares were issued under the general mandate granted to the directors at the annual general meeting held on 29 May 2001 and rank pari passu in all respects with the ordinary shares in issue.

(c) During the period between 28 June 2001 and 23 August 2001, share options were exercised to subscribe for 4,850,000 ordinary shares of $0.05 each in the Company at an exercise price of $0.588. The weighted average market price over the period during which the share options were exercised was $2.279. Proceeds of $2,852,000 were received, of which $242,000 was credited to share capital and the balance of $2,610,000 was credited to share premium account.

(d) Pursuant to a conditional agreement dated 1 August 2001, the Company issued 21,700,000 ordinary shares of $0.05 each in the Company to an independent third party at a price of $2.212 per share representing a discount of approximately 7.8% to the closing price of the share of the Company on 1 August 2001 as consideration of $48 million for the acquisition of Tianxin. An amount of $1,085,000 and $46,915,000 was credited to the share capital and the share premium account respectively. These shares were issued under the general mandate granted to the directors at the annual general meeting on 29 May 2001 and rank pari passu in all respects with the ordinary shares in issue.

25. Reserves

(a) The Group

	Share premium	Exchange reserves	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*
At 1 January 2001	1,251,594	(3,736)	(1,204,077)	43,781
Conversion of convertible notes *(note 24(b))*	12,959	–	–	12,959
Shares issued under share option scheme *(note 24(c))*	2,610	–	–	2,610
Shares issued by private placement *(note 24(d))*	46,915	–	–	46,915
Expenses incurred in connection with rights issue	(91)	–	–	(91)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	592	–	592
Impairment loss on goodwill	–	–	1,130,621	1,130,621
Loss for the year	–	–	(1,216,597)	(1,216,597)
At 31 December 2001	1,313,987	(3,144)	(1,290,053)	20,790
At 1 January 2002	1,313,987	(3,144)	(1,290,053)	20,790
Rights issue *(note 24(a))*	45,269	–	–	45,269
Conversion of convertible notes *(note 24(b))*	3,615	–	–	3,615
Expenses incurred in connection with rights issue	(1,600)	–	–	(1,600)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	1,255	–	1,255
Loss for the year	–	–	(114,931)	(114,931)
At 31 December 2002	1,361,271	(1,889)	(1,404,984)	(45,602)

Included in the figure for the accumulated losses is an amount of $256,000 (2001: $254,000), being the accumulated losses attributable to associates.

The exchange reserves have been set up and will be dealt with in accordance with the accounting polices adopted for foreign currency translation (note 1).

25. Reserves (continued)

(b) The Company

	Share premium	Contributed surplus	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*
At 1 January 2001	1,251,594	9,354	(84,156)	1,176,792
Conversion of convertible notes *(note 24(b))*	12,959	–	–	12,959
Shares issued under share option scheme *(note 24(c))*	2,610	–	–	2,610
Shares issued by private placement *(note 24(d))*	46,915	–	–	46,915
Expenses incurred in connection with rights issue	(91)	–	–	(91)
Loss for the year	–	–	(1,218,395)	(1,218,395)
At 31 December 2001	1,313,987	9,354	(1,302,551)	20,790
At 1 January 2002	1,313,987	9,354	(1,302,551)	20,790
Rights issue *(note 24(a))*	45,269	–	–	45,269
Conversion of convertible notes *(note 24(b))*	3,615	–	–	3,615
Expenses incurred in connection with rights issue	(1,600)	–	–	(1,600)
Loss for the year	–	–	(113,676)	(113,676)
At 31 December 2002	1,361,271	9,354	(1,416,227)	(45,602)

The contributed surplus of the Company arose as a result of the Group's reorganisation carried out on 31 May 1997 and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

Under The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances which the Company is currently unable to meet.

26. Acquisition and disposal of subsidiaries

(a) Disposal of subsidiaries

Pursuant to a sale and purchase agreement dated 2 April 2002, the Company disposed of its entire interest in certain of the Group's investments in subsidiaries, Wellrose Profits Limited and ChinaInfohighway Hong Kong Limited at a nominal consideration. This transaction gave rise to a profit of $1,966,000 which is included in "Other loss, net" in the consolidated profit and loss account.

On 31 May 2001, the Group disposed of its entire interest in Anford International Limited for a consideration of $5 million. The Group recorded a profit on disposal of $2,125,000 which is included in "Other loss, net" in the consolidated profit and loss account.

	2002	2001
	$'000	*$'000*
Net (liabilities)/assets disposed of:		
Fixed assets	**194**	5,438
Inventories	**231**	–
Cash and bank balances	**270**	–
Other debtors, deposits and prepayments	**2,108**	677
Other creditors and accrued charges	**(4,769)**	(3,240)
Net identifiable assets and liabilities	**(1,966)**	2,875
Profit on disposal *(note 3)*	**1,966**	2,125
Disposal proceeds net of expenses	**–**	5,000
Set off against trade creditors	**–**	(2,100)
Cash of subsidiaries disposed of/cash consideration receivable *(note 17(b))*	**(270)**	(2,550)
	(270)	350
Cash received in respect of disposal of subsidiary in prior year *(note 17(b))*	**775**	–
Net cash inflow in respect of disposal of subsidiaries	**505**	350

26. Acquisition and disposal of subsidiaries (continued)

(b) Acquisition of a subsidiary

On 1 November 2001, the Group acquired the entire interest in Tianxin together with the shareholders' loans due by Tianxin from an independent third party for a total consideration of $48 million, satisfied by the issue and allotment of 21.7 million ordinary shares of $0.05 each of the Company.

	2001
	$'000
Net assets acquired:	
Fixed assets	2,188
Cash and bank balances	1,006
Trade debtors	257
Other debtors, deposits and prepayments	636
Trade creditors	(21)
Other creditors and accrued charges	(3,683)
Net identifiable assets and liabilities	383
Positive goodwill arising on consolidation	47,780
Total purchase consideration	48,163
Less: Consideration satisfied by shares	(48,000)
Cash consideration	163
Less: Cash of the subsidiary acquired	(1,006)
Net cash inflow in respect of the purchase of the subsidiary	(843)

(c) Major non-cash transactions

(i) During the year ended 31 December 2002, holders of $3,900,000 (2001: $13,277,000) convertible notes exercised the right to convert into 6,050,461 (2001: 6,352,465) ordinary shares of $0.05 each of the Company (note 24(b)).

(ii) During the year ended 31 December 2001, the Group acquired Tianxin by the issue and allotment of ordinary shares of the Company (note 24(d)).

27. Commitments

(a) At 31 December 2002 the Group had the following capital commitments outstanding and not provided for in the financial statements:

	2002	2001
	$'000	$'000
Contracted for:		
Quality guarantee deposit	17,500	5,700
Purchases of fixed assets	405	–
	17,905	5,700

(b) At 31 December 2002, the total future lease payments under non-cancellable operating leases in respect of land and buildings of the Group are payable as follows:

	2002	2001
	$'000	$'000
Within 1 year	3,247	3,326
After 1 year but within 5 years	3,866	842
After 5 years	7,932	8,807
	15,045	12,975

28. Material related party transactions

(a) During the year ended 31 December 2002, the Group was granted financial assistance from the ultimate holding company. At 31 December 2002, amount due to the ultimate holding company of $1,090,000 (2001: $9,333,000) is unsecured, interest-free and has no fixed terms of repayment.

(b) During the year ended 31 December 2002, facility fee of $924,000 (2001: $3,888,000) and consultancy fee of $Nil (2001: $26,138,000) was charged by Beijing Infohighway Information and Technology Limited ("BIHW"), a non-wholly owned subsidiary of the Group, to IHW, a substantial shareholder of BIHW, in accordance with the Agreements between BIHW and IHW. The Company is aware that this constituted a connected transaction but is exempted under Rule 14.24(5) of the Listing Rules.

At 31 December 2002, included in trade debtors is an amount due from IHW of $12,758,000 (2001: $27,412,000) which is unsecured, interest-free and has no fixed terms of repayment.

28. Material related party transactions (continued)

(c) A wholly-owned subsidiary of the Company, eForce Management Limited ("eForce Management") entered into a lease agreement with the ultimate holding company to lease an office space for a period of 7 months commencing from 1 January to 31 July 2001 at a monthly rental of $142,800. The total rental payable to the ultimate holding company for the year ended 31 December 2001 amounted to $999,600. The lease was entered into on normal commercial terms. The Company was aware that this constituted a connected transaction by virtue of Mr. Leung Chung Shan's interest in the ultimate holding company but was exempted under Rule 14.24(5) of the Listing Rules.

On 1 August 2001, eForce Management entered into an assignment agreement with the ultimate holding company, whereby the ultimate holding company agreed to assign its rights and obligations under the lease dated 15 December 1999 between the ultimate holding company and a third party ("the landlord") relating to the abovementioned office space ("the lease") to eForce Management at nil consideration. The property was used as the principal place of business of the Group in Hong Kong up to November 2002. The assignment agreement was negotiated on terms favourable to eForce Management and the ultimate holding company provided a guarantee in favour to the landlord for eForce Management's obligations under the lease. As the assignment agreement constituted a connected transaction under the Listing Rules, the Company made an announcement pursuant to Rule 14.25(1) of the Listing Rules on 2 August 2001.

29. Litigation

(a) In October 1999, Mersongate Holdings Limited, an independent third party (the "Plaintiff"), commenced an action against (1) Mr Huen Raico Hing Wah, a former director of the Company; (2) Central Growth Limited and Bridal Path Corporation, former substantial shareholders of the Company; and (3) the Company (collectively the "Defendants"), alleging that the Defendants have agreed to certain arrangements in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangements, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangements. The Company has filed a defence against the claim and the directors of the Company consider that no provision for the claim is necessary.

(b) During 2002, certain creditors of BIHW instituted proceedings against BIHW, claiming amounts totalling approximately RMB606,000 in respect of advertising services provided to BIHW. Full provisions for these claims have been included in the financial statements.

30. Post balance sheet events

(a) The Group entered into an agreement on 18 November 2002 and a supplemental agreement on 17 January 2003 with Culturecom Technology Limited, an independent third party, to acquire an equity interest of 51% in Chinese 2000 Holdings Limited ("Chinese 2000") for a total consideration of $38,250,000 which was satisfied by the issue and allottment of 170 million ordinary shares of $0.05 each of the Company. Chinese 2000 is a company incorporated in the British Virgin Islands with limited liability and its principal activity is investment holding. Chinese 2000 and its subsidiaries are engaged in the development of Chinese language computer operating system. The sale and purchase was completed in January 2003.

(b) On 31 December 2002, the Group entered into a Software Purchase Agreement ("the agreement") with Megainfo Limited ("Megainfo"), an independent third party, for the sale of the Group's certain software, intellectual property rights and fixed assets in relation to the enterprise applications software business segment in accordance with terms and conditions contained in the agreement at a consideration of $11 million which was satisfied by Megainfo issuing and allotting 180 shares of US$1 each, representing 18% of the enlarged issued share capital of Megainfo to the Group. As at the date of authorisation for issue of the financial statements, the sale and purchase is yet to be consummated.

(c) On 11 March 2003, an associate of the Group, Crown eForce Logistics Management (HK) Limited ("Crown eForce"), entered into an agreement with Shenzhen Shum Yip Logistics Group Holdings Co. Ltd., to establish SYC Logistics (Shenzhen) Limited ("SYC"), a sino-foreign equity joint venture enterprise with registered capital of RMB45 million. Upon the establishment of SYC, Crown eForce will be interested in 50% of the paid up share capital of SYC. Capital contribution of RMB22.5 million (equivalent to approximately $21.24 million) shall be satisfied in cash by Crown eForce.

The formation of SYC is subject to the approval of the relevant authorities in the PRC. SYC shall be principally engaged in the provision of warehouse and logistics services and other logistics related business in the PRC.

31. Comparative figures

The presentation and classification of items in the cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities, as appropriate, and a detailed breakdown of cash flows from operating activities has been included on the face of the cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

32. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2002 to be Tees Corporation, which is incorporated in the British Virgin Islands.