NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 18. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice 25 (revised) "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the statutory financial statements of the Company and its subsidiaries ("the Group") for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Stock Exchange's website. The auditors have issued a modified report, having a paragraph dealing with a fundamental uncertainty in connection with the Group's ability to continue as a going concern, and expressed an unqualified opinion on those financial statements in their report dated 24 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except for the adoption of revised accounting standard as disclosed below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

Adoption of revised accounting standard

SSAP 12 (revised) "Income taxes", which became effective for accounting period beginning on or after 1 January 2003, was adopted for preparation of the Group's interim financial report for the six months ended 30 June 2003, details of which are as follows.

1 Basis of preparation (continued)

In prior years, deferred tax liabilities were 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 were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

Following the adoption of the revised SSAP 12, deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised.

The adoption of this accounting policy does not have significant impact on the Group's results for both the current and prior periods, therefore, the opening balances have not been restated.

2 Going concern basis

Notwithstanding that the Group sustained recurrent losses and had net current liabilities as at 30 June 2003, including unsecured other loans of $6.5 million (note 11) which are overdue and remain outstanding as at the date of authorisation for issue of this interim financial report, this interim financial report has been prepared on a going concern basis as the directors of the Company are of the opinion that the Group is able to continue as a going concern and to meet its obligations as and when they fall due having regard to the following:

(i) loan facilities totalling $70 million made available to the Company from financial institutions; 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 this interim financial report should be prepared on a going concern basis and does not include any adjustments that would be required should the Group fail to continue as a going concern.

3 Segment reporting

The Group has chosen business segment information as the primary reporting format because this is more relevant to the Group's internal financial reporting. The analysis of the Group's segment revenue and segment results for the period is as follows:

Business segments

The Group comprises three business segments:

Healthcare and household products	:	the manufacture and sale of healthcare and household products
Information Technology business *	:	provision of Internet-related services and development and sale of enterprise applications software
Logistics business	:	provision of logistics-related services

	Healthcare and household products Six months ended 30 June		Information Technology business Six months ended 30 June		Logistics business Six months ended 30 June		Consolidated Six months ended 30 June	
	2003	2002	**2003**	2002*	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover	**45,650**	28,848	**1,502**	7,086	**–**	–	**47,152**	35,934
Other revenue from external customers	**164**	568	**–**	–	**–**	–	**164**	568
Total	**45,814**	29,416	**1,502**	7,086	**–**	–	**47,316**	36,502
Segment results	**1,464**	(2,621)	**(7,450)**	(41,247)	**(1,892)**	–	**(7,878)**	(43,868)
Unallocated operating income and expenses							**(8,587)**	(9,816)
Loss from operations							**(16,465)**	(53,684)
Finance costs							**(1,328)**	(13,545)
Share of profits less losses of associates	–	–	–	(2)	**(423)**	–	**(423)**	(2)
Loss from ordinary activities before taxation							**(18,216)**	(67,231)

* Starting from 1 January 2003, the Internet-related services business segment was combined with enterprise applications software business segment to form Information Technology business segment. Comparative figures have been reclassified to conform with the current period's presentation.

3 Segment reporting (continued)

	Group turnover Six months ended 30 June **2003** **$'000**	 2002 $'000
Geographical locations of customers		
Europe	**21,938**	7,849
North America	**16,772**	15,667
Asia	**7,664**	11,551
Others	**778**	867
	47,152	35,934

4 Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June **2003** **$'000**	 2002 $'000
(a) Finance costs:		
Interest on borrowings	**1,328**	2,486
Additional finance charges in connection with the redemption of convertible notes (note (i))	**–**	11,059
	1,328	13,545
(b) Other items:		
Depreciation	**4,522**	6,620
Amortisation of positive goodwill	**2,475**	667
Net loss on disposal of fixed assets	**13**	1,949
Profit on disposal of subsidiaries (note (ii))	**–**	(1,966)

4 Loss from ordinary activities before taxation (continued)

Note:

(i) During the period ended 30 June 2002, due to the occurrence of a triggering event, holders of the Company's convertible notes issued in 2001 of approximately $61 million (including unpaid interest) (the "Notes") requested the Company to redeem the Notes plus the payment of an additional charge and late payment surcharge (the "finance charges"). As a result, finance charges totalling approximately $11 million was paid and included as finance costs in the profit and loss account.

(ii) 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 was included in "Other income, net" in the consolidated profit and loss account.

5 Taxation

Provision for Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. 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 and overseas Profits Tax has been made as the Group sustained a loss for taxation purpose for the period.

No deferred tax asset in respect of the accumulated losses has been recognised as it is not probable that future profits will be available against which the asset can be utilised.

6 Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders of $16,485,000 (2002: $66,664,000) and the weighted average number of ordinary shares of 1,918,679,165 (2002: 1,241,694,692) in issue during the period.

(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 periods.

7 Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003 (2002: $Nil).

8 Goodwill

	Positive goodwill $'000
Cost:	
At 1 January 2003	47,780
Addition through acquisition of subsidiaries (note a)	36,169
At 30 June 2003	83,949
Accumulated amortisation and impairment:	
At 1 January 2003	37,111
Charge for the period	2,475
At 30 June 2003	39,586
Carrying amounts:	
At 30 June 2003	44,363
At 31 December 2002 (note b)	10,669

(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 a 51% equity interest in Chinese 2000 Holdings Limited ("Chinese 2000") for a total consideration of $38,250,000 which was satisfied by the issue and allotment 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.

At 30 June 2003, the carrying amount of the goodwill arising from the acquisition of Chinese 2000 amounted to approximately $34 million.

Subsequent to 30 June 2003, the Group entered into agreements for the disposal of its entire interest in Chinese 2000. Further details of this disposal are set out in note 19.

8 Goodwill *(continued)*

(b) The Group's enterprise applications software development business acquired in 2001 ("software business") faced intense competition in the PRC and was further affected by high staff turnover. Therefore, in 2002, management streamlined the operations by placing all resources on research and development while sales and marketing of the products were subcontracted to designated distributors in the PRC. The directors of the Company considered that the change in business model affected the recoverable amount of the goodwill. Based on their assessment, the carrying amount of the goodwill arising from the acquisition of this software business was written down by $31 million during the period ended 30 June 2002. The estimate of the recoverable amount was based on the value in use of the operations, determined using a discount rate of 7%.

On 31 December 2002, the Group entered into a Software Purchase Agreement (the "Purchase agreement") with Megainfo Limited ("Megainfo"), an independent third party, for the sale of the Group's software materials, intellectual property rights and fixed assets in relation to the software business in accordance with terms and conditions contained in the Purchase agreement at a consideration of $11 million which shall be 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 interim financial report, the sale and purchase is yet to be consummated.

At 30 June 2003, the carrying amount of this goodwill amounted to approximately $10 million (at 31 December 2002: $10.7 million).

9 Inventories

At 31 December 2002, inventories of $881,000 were stated at estimated net realisable value.

10 Trade and other receivables

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2003 $'000	At 31 December 2002 $'000 (audited)
Current	**8,158**	3,118
1 to 3 months overdue	**349**	589
More than 3 months overdue but less than 12 months overdue	**30**	924
More than 12 months overdue	**–**	11,834
Total trade debtors	**8,537**	16,465
Deposits, prepayments and other receivables	**6,334**	4,809
	14,871	21,274

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

11 Unsecured other loans

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 and notes of $2.5 million were converted during 2000.

Prior to maturity, holders of the remaining notes of $6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the notes has lapsed. The notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately $7 million are due for repayment. As at the date of authorisation for issue of the interim financial report, the notes holders have not yet requested the Company to repay the loans. Comparative figures have been reclassified to conform with the current period's presentation.

12 Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2003 $'000	At 31 December 2002 $'000 (audited)
Due within 1 month or on demand	**10,989**	4,342
Due after 1 month but within 3 months	**6,961**	7,303
Due after 3 months but within 6 months	**337**	1,079
Due after 6 months	**48**	647
Total trade creditors	**18,335**	13,371
Other creditors and accrued charges	**30,158**	29,968
	48,493	43,339

13 Pledge of assets

At 30 June 2003, a loan from a financial institution of approximately $9 million (at 31 December 2002: $9 million) was secured by the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of $17.7 million (at 31 December 2002: $18 million).

14 Share capital

	No. of shares	**Amount** $'000
Authorised:		
Ordinary shares of $0.05 each at 31 December 2002 and 30 June 2003	6,000,000,000	300,000
Issued and fully paid:		
At 1 January 2003	1,763,706,789	88,185
Share issued by private placement (note (a))	170,000,000	8,500
At 30 June 2003	**1,933,706,789**	**96,685**

14 Share capital (continued)

(a) As a result of the issue and allotment of 170 million ordinary shares of $0.05 each of the Company in relation to the acquisition of Chinese 2000 as disclosed in note 8(a), an amount of $8,500,000 and $29,750,000 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 14 June 2002 and rank pari passu in all respects with the ordinary shares in issue.

(b) At 30 June 2003, the outstanding share options were:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
10 July 2000	10 July 2001 to 9 July 2010	$0.392	36,180,000

No share options have been granted, exercised or cancelled during the period.

15 Reserves

	Share premium $'000	Exchange reserves $'000	Accumulated losses $'000	Total $'000
At 1 January 2002	1,313,987	(3,144)	(1,290,053)	20,790
Rights issue	45,269	–	–	45,269
Conversion of convertible notes	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)
At 1 January 2003	1,361,271	(1,889)	(1,404,984)	(45,602)
Shares issued by private placement (note 14(a))	29,750	–	–	29,750
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	(9)	–	(9)
Loss for the period	–	–	(16,485)	(16,485)
At 30 June 2003	1,391,021	(1,898)	(1,421,469)	(32,346)

16 Capital commitments

At 30 June 2003, the Group had the following capital commitments outstanding and not provided for in the financial statements:

	At 30 June 2003 $'000	At 31 December 2002 $'000 (audited)
Contracted for:		
Quality guarantee deposit	**17,500**	17,500
Others	**11,214**	405
	28,714	17,905

17 Material related party transactions

(a) During the period ended 30 June 2003, the Group was granted financial assistance from the ultimate holding company. At 30 June 2003, included in trade and other payables is an amount due to the ultimate holding company of $1,040,000 (at 31 December 2002: $1,090,000) which is unsecured, interest-free and has no fixed terms of repayment.

(b) At 30 June 2003, included in trade and other payables is an amount due to Culturecom Technology Limited, a substantial shareholder of Chinese 2000, of $1,010,000 (at 31 December 2002: $Nil) which is unsecured, interest-free and has no fixed terms of repayment.

(c) Pursuant to Cooperation Agreement and Supplemental Agreements (collectively the "Agreements") entered into between Beijing Infohighway Information and Technology Limited ("BIHW"), a non-wholly owned subsidiary of the Group, and China Infohighway Communications Co., Ltd ("IHW"), a substantial shareholder of BIHW, quality guarantee deposits (the "deposits") were paid to IHW. These deposits are unsecured, non-interest bearing and repayable upon the expiry of the Agreements on 21 July 2019. At 30 June 2003, included in other non-current assets is the balance of the deposits totalling $44,933,000 (at 31 December 2002: $44,933,000).

During the period ended 30 June 2002, facility fee of $924,000 was charged by BIHW to IHW. The Company was aware that this constituted a connected transaction but was exempted under Rule 14.24(5) of The Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

17 Material related party transactions (continued)

In addition to the deposits paid to IHW set out above, at 31 December 2002, included in trade and other receivables was an amount due from IHW of $12,758,000 which was unsecured, interest-free and repaid during the period ended 30 June 2003.

(d) On 1 August 2001, eForce Management Limited ("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 a lease of an office space (the "lease") dated 15 December 1999 between the ultimate holding company and a third party ("the landlord") to eForce Management at nil consideration. The office 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.

18 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) In 2002, certain creditors of BIHW instituted proceedings against BIHW, claiming amounts totalling approximately RMB606,000 in respect of advertising services provided to BIHW. Full provision for these claims has been included in this interim financial report.

19 Subsequent event

On 23 July 2003, the Group entered into various agreements and business co-operation arrangements with Transmeta Corporation ("Transmeta"); Culturecom Holdings Limited ("Culturecom") and its subsidiaries; and Chinese 2 Linux (Holdings) Limited ("C2L") for the further development of the Group's existing software applications business. Pursuant to these agreements and arrangements, the Group has agreed to dispose of its entire interest of 51% in Chinese 2000 to C2L for a consideration of $91.8 million which shall be satisfied by C2L issuing and allotting 3,825 shares of US$1 each, representing 42.5% of the enlarged issued share capital of C2L to the Group. The Group and Culturecom will provide a guarantee to Transmeta, on a joint and several basis and not in proportion to their respective shareholdings in C2L, in respect of payment obligations of a subsidiary of C2L of certain service fees to Transmeta totalling approximately US$1.52 million (equivalent to $11.8 million). The transactions were completed in September 2003.

20 Approval of interim financial report

This interim financial report was approved and authorised for issue by the board of directors on 23 September 2003.