1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include 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 ("Main Board Listing Rules"). 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 policy set out below.

Notwithstanding that the Company and the Group sustained recurrent losses and had net current liabilities at 31 December 2003, including unsecured other loans of $6.5 million (note 21) which are overdue and remain outstanding as at the date of authorisation for issue of the financial statements, these financial statements have been prepared on a going concern basis as 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 they fall due having regard to the following:

(i) revolving loan facilities of $20 million and $50 million made available to the Company from financial institutions up to 30 June 2004 and 31 March 2005 respectively, which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; 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, these financial statements have been 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.

1 Significant accounting policies (Continued)

(c) Subsidiaries (Continued)

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the profit and loss account.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's 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.

1 Significant accounting policies (Continued)

(d) Associates (Continued)

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). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

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.

(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.

1 Significant accounting policies (Continued)

(e) Goodwill (Continued)

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.

(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.

1 Significant accounting policies (Continued)

(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.

(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).

1 Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(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) Information Technology-related services income

Income from Information Technology-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.

(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.

1 Significant accounting policies (Continued)

(k) Inventories (Continued)

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) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 Significant accounting policies (Continued)

(l) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (Continued)

(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 are dealt with in the profit and loss account.

The results of subsidiaries and associates 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 subsidiary and associate outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary and associate is included in the calculation of the profit or loss on disposal.

(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.

1 Significant accounting policies (Continued)

(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 costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are separately identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an assets in a subsequent period.

(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 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.

1 Significant accounting policies (Continued)

(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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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, and the provision of Information Technology-related services.

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 Information Technology-related services less sales tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	$'000	*$'000*
Manufacture and sale of healthcare and household products	**93,974**	78,720
Provision of Information Technology-related services	**2,365**	11,313
	96,339	90,033

3 Other revenue and other loss, net

	2003	2002
	$'000	$'000
Other revenue		
Interest income	**3**	32
Income from scrap sales	**403**	1,372
Rental income	**79**	119
Miscellaneous	**403**	1,175
	888	2,698
Other loss, net		
Gain/(loss) on disposal of fixed assets	**280**	(11,368)
Loss on deemed disposal of a subsidiary *(note 26(a))*	**(5,336)**	–
Profit on disposal of subsidiaries *(note 26(a))*	**–**	1,966
Exchange gain/(loss)	**137**	(362)
Others	**379**	1,741
	(4,540)	(8,023)

4 Loss from ordinary activities before taxation

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

	2003	2002
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**2,527**	3,412
Additional finance charges in connection with the redemption of convertible notes (see note below)	**–**	11,059
	2,527	14,471

Note: During the year ended 31 December 2002, due to the occurrence of a triggering event, the 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 were paid and included as finance costs in the profit and loss account.

4 Loss from ordinary activities before taxation (Continued)

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

	2003	2002
	$'000	*$'000*
(b) Other items:		
Cost of inventories#	**77,223**	65,753
Staff costs (including contributions to defined contribution plans of $605,000 (2002: $733,000))#/*	**30,681**	37,614
Amortisation of development costs	**5,845**	–
Amortisation of positive goodwill	**3,063**	1,333
Amortisation of positive goodwill included in share of losses of associates	**605**	–
Auditors' remuneration – audit services	**1,095**	921
Research and development costs*	**3,782**	2,658
Depreciation#	**8,071**	12,740
Operating lease charges in respect of land and buildings	**2,142**	4,254
Impairment loss on fixed assets	**–**	27,457
Provision for bad and doubtful debts	**52**	2,411
Provision for quality guarantee deposit *(note 17)*	**44,933**	–

\# Cost of inventories includes $13,799,000 (2002: $12,449,000) 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 $3,126,000 (2002: $1,986,000) which amount is also included in staff costs disclosed separately above.

5 Income tax

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

	2003	2002
	$'000	$'000
Overprovision for Hong Kong Profits Tax in respect of prior years	–	2,157

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 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) Reconciliation between tax credit and accounting profit at applicable tax rates:

	2003	2002
	$'000	$'000
Loss before tax	(93,694)	(118,526)
Notional tax on loss before tax, calculated at the rates applicable to profits in the places of operations concerned	(18,257)	(22,356)
Tax effect of non-deductible expenses	15,607	12,390
Tax effect of non-taxable revenue	–	(316)
Tax effect of utilisation of timing difference not previously recognised	38	717
Tax effect of tax losses not recognised	2,633	9,565
Tax effect of utilisation of tax losses not previously recognised	(21)	–
Over-provision in prior years	–	(2,157)
	–	(2,157)

5 Income tax (Continued)

(c) Current taxation in the consolidated balance sheet represents:

	2003	2002
	$'000	*$'000*
Balance of Hong Kong Profits Tax provisions relating to prior years	**675**	2,276
Less: Tax Reserve Certificates purchased in respect of the years of assessment 1996/97 to 1997/98	**–**	(920)
	675	1,356
Hong Kong Profits Tax recoverable in respect of the years of assessment 1994/95 to 1995/96	**–**	(2,124)
	675	(768)
Balance of provision for taxation outside Hong Kong relating to prior years	**3,666**	3,666
	4,341	2,898
Representing:		
– Tax recoverable	**–**	(2,124)
– Tax payable	**4,341**	5,022
	4,341	2,898

5 Income tax (Continued)

(d) Deferred tax assets not recognised:

No deferred tax assets in respect of tax losses have been recognised as it is not probable that future profits will be available against which the assets can be utilised. Major components of unprovided deferred tax assets by the Company and the Group are set out below:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	***$'000***	$'000
Tax losses	**30,392**	27,759	**6,890**	6,890

6 Directors' remuneration

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

	2003	2002
	$'000	*$'000*
Fees	**240**	240
Salaries and other emoluments	**5,497**	5,628
Retirement scheme contributions	**166**	153
	5,903	6,021

Included in the directors' remuneration were fees of $240,000 (2002: $240,000) payable to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	Number of directors	
	2003	2002
$Nil – $1,000,000	**3**	3
$1,000,001 – $1,500,000	**1**	1
$3,500,001 – $4,000,000	**1**	1

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2002: three) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2002: two) individuals are as follows:

	2003	2002
	$'000	*$'000*
Salaries and other emoluments	**1,708**	2,721
Retirement scheme contributions	**52**	65
	1,760	2,786

The emoluments of the two (2002: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
$Nil – $1,000,000	**2**	1
$1,500,001 – $2,000,000	**–**	1

8 Loss attributable to shareholders

The consolidated loss attributable to shareholders includes a loss of $89,150,000 (2002: $113,676,000) 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 2003 (2002: $Nil).

For the year ended 31 December 2003 (Expressed in Hong Kong dollars)

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 $89,199,000 (2002: $114,931,000) and the weighted average number of ordinary shares of 1,896,254,734 (2002: 1,504,845,996) in 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, 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 reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 1(l). The effect of this change in accounting policy is not material to the Group's and the Company's results for both the current and prior periods, 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 two business segments:

Healthcare and household products	:	the manufacture and sale of healthcare and household products
Information technology business*	:	the provision of Information Technology-related services

12 Segment reporting (Continued)

Business segments (Continued)

	Healthcare and household products		Information technology business		Unallocated		Consolidated	
	2003	2002	**2003**	2002*	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Turnover	**93,974**	78,720	**2,365**	11,313	**–**	**–**	**96,339**	90,033
Other revenue from external customers	**482**	1,491	**–**	–	**–**	–	**482**	1,491
Total	**94,456**	80,211	**2,365**	11,313	**–**	–	**96,821**	91,524
Loss from operations	**(546)**	(2,023)	**(66,422)**	(81,081)	**(20,456)**	(20,949)	**(87,424)**	(104,053)
Finance costs							**(2,527)**	(14,471)
Share of losses of associates	**–**	–	**(3,565)**	(2)	**(178)**	–	**(3,743)**	(2)
Loss from ordinary activities before taxation							**(93,694)**	(118,526)
Income tax							**–**	2,157
Minority interests							**4,495**	1,438
Loss attributable to shareholders							**(89,199)**	(114,931)
Depreciation and amortisation	**5,995**	5,979	**10,640**	6,255	**949**	1,839	**17,584**	14,073
Impairment loss for the year	**–**	–	**–**	58,457	**–**	–	**–**	58,457
Significant non-cash expenses (other than depreciation and amortisation)	**–**	2,878	**44,933**	10,572	**–**	–	**44,933**	13,450
Segment assets	**46,231**	41,151	**35,536**	72,296	**4,603**	8,287	**86,370**	121,734
Inter-segment elimination							**–**	(755)
Total assets							**86,370**	120,979
Segment liabilities	**38,232**	22,377	**9,330**	10,395	**22,627**	46,379	**70,189**	79,151
Inter-segment elimination							**–**	(755)
Total liabilities							**70,189**	78,396
Capital expenditure incurred during the year	**5,200**	3,881	**–**	294	**100**	1,895	**5,300**	6,070

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

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 other business segments.

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.

	North America		Europe		PRC		Hong Kong and others		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**40,036**	41,476	**36,289**	20,892	**2,365**	11,313	**17,649**	16,352	**96,339**	90,033
Segment assets	**–**	–	**–**	–	**37,930**	101,883	**48,440**	19,096	**86,370**	120,979
Capital expenditure incurred during the year	**–**	–	**–**	–	**5,200**	4,060	**100**	2,010	**5,300**	6,070

13 Fixed assets

The Group

	Land and buildings $'000	Optical fibre cable $'000	Leasehold improve-ments $'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 2003	18,000	48,457	2,075	21,660	15,210	18,016	123,418
Additions							
– through acquisition of a subsidiary	–	–	–	–	1,629	–	1,629
– others	–	–	–	993	1,244	3,063	5,300
Disposals							
– through disposal of a subsidiary	–	–	–	–	(1,507)	–	(1,507)
– others	–	–	–	(6,725)	(2,374)	(939)	(10,038)
Deficit on revaluation	(200)	–	–	–	–	–	(200)
At 31 December 2003	17,800	48,457	2,075	15,928	14,202	20,140	118,602
Representing:							
Cost	–	48,457	2,075	15,928	14,202	20,140	100,802
Valuation – 2003	17,800	–	–	–	–	–	17,800
	17,800	48,457	2,075	15,928	14,202	20,140	118,602
Accumulated depreciation and impairment:							
At 1 January 2003	–	48,457	297	17,115	12,246	16,237	94,352
Through acquisition of a subsidiary	–	–	–	–	407	–	407
Charge for the year	597	–	667	3,657	2,037	1,113	8,071
Through disposal of a subsidiary	–	–	–	–	(542)	–	(542)
Written back on disposal	–	–	–	(6,722)	(2,068)	(133)	(8,923)
Written back on revaluation	(597)	–	–	–	–	–	(597)
At 31 December 2003	–	48,457	964	14,050	12,080	17,217	92,768
Net book value:							
At 31 December 2003	17,800	–	1,111	1,878	2,122	2,923	25,834
At 31 December 2002	18,000	–	1,778	4,545	2,964	1,779	29,066

13 Fixed assets (Continued)

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

	The Group	
	2003	2002
	$'000	*$'000*
Outside Hong Kong – medium-term leases	**17,800**	18,000

(b) The Group's land and buildings held for own use were revalued at 31 December 2003 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 $397,000 (2002: $2,417,000) 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 and impairment loss as at 31 December 2003 their carrying value would have been approximately $29,449,000 (2002: $30,543,000).

14 Goodwill

	Positive goodwill recognised as an asset	**Positive goodwill carried in reserves**
	$'000	*$'000*
Cost:		
At 1 January 2003	47,780	1,130,621
Addition through acquisition of a subsidiary *(note (a))*	23,320	–
Deemed disposal of a subsidiary *(note (b))*	(23,320)	–
At 31 December 2003	47,780	1,130,621

14 Goodwill (Continued)

	Positive goodwill recognised as an asset *$'000*	Positive goodwill carried in reserves *$'000*
Accumulated amortisation and impairment:		
At 1 January 2003	37,111	1,130,621
Charge for the year	2,889	–
Written back on deemed disposal of a subsidiary *(note (b))*	(1,555)	–
At 31 December 2003	38,445	1,130,621
Carrying amounts:		
At 31 December 2003	9,335	–
At 31 December 2002	10,669	–

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.

Notes:

(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. The goodwill arising from the acquisition of Chinese 2000 amounted to approximately $23 million.

(b) On 23 July 2003, the Group entered into various agreements and business co-operation arrangements with Transmeta Corporation; 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 disposed of its entire interest of 51% in Chinese 2000 to C2L for a consideration of $91.8 million which was 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 transactions were completed in September 2003. As a result of these arrangements, the Group's effective interest in Chinese 2000 was diluted from 51% to 42.5%. The loss on this deemed disposal of approximately $5.3 million has been included in "Other loss, net" in the consolidated profit and loss account. Upon the completion of the disposal, the Group's remaining 42.5% equity interest has been reclassified as interest in associates.

14 Goodwill (Continued)

Notes: (Continued)

(c) 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 year ended 31 December 2002. At 31 December 2003, the carrying amount of this goodwill amounted to approximately $9 million (2002: $10.7 million).

During the year ended 31 December 2003, the Group granted a perpetual licence to MegaInfo Limited to use the TianXin management software which specialises in Enterprise Resource Planning and Customer Relationship Management, at a consideration of $11 million. Further details of this transaction are set out in note 31.

15 Investments in subsidiaries

	The Company	
	2003	2002
	$'000	*$'000*
Unlisted shares, at cost	**191,351**	191,351
Amounts due from subsidiaries	**1,446,390**	1,386,465
Amounts due to subsidiaries	**(24,554)**	(11,878)
	1,613,187	1,565,938
Less: Impairment loss	**(1,578,968)**	(1,494,268)
	34,219	71,670

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.

For the year ended 31 December 2003 (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
Achiever 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
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

For the year ended 31 December 2003 (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
Fairform Group Limited	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
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

For the year ended 31 December 2003 (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
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
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

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
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 softwares

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	
	2003	2002
	$'000	*$'000*
Share of net assets	**7,703**	2,291
Goodwill	**17,533**	–
Amounts due from/(to) associates	**1,166**	(2,000)
	26,402	291

For the year ended 31 December 2003 (Expressed in Hong Kong dollars)

16 Interest in associates (Continued)

Amounts due from/(to) associates are unsecured, interest-free and have 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
Chinese 2 Linux (Holdings) Limited	BVI	9,000 ordinary shares of US$1 each	42.5	42.5	Development and sale of enterprise applications software
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

17 Other non-current assets

	The Group	
	2003	2002
	$'000	*$'000*
Deposit *(note)*	–	44,933
Other receivable *(note 19(b))*	–	875
	–	45,808

Note: The deposit represent quality guarantee deposit 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 on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee (note 29(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.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group has decided to suspend the cooperation projects. The directors are currently negotiating a refund of the deposit with IHW but has been unable to reach an agreement at this point in time.

As it is uncertain at this stage as to the recoverability of the deposit, the directors consider that it is prudent to make full provision of $44,933,000 (included in "Other operating expenses") against the deposit.

18 Inventories

	The Group	
	2003	2002
	$'000	*$'000*
Raw materials	**10,374**	4,683
Work in progress	**687**	1,452
Finished goods	**1,189**	241
	12,250	6,376

At 31 December 2003, inventories of $1,444,000 (2002: $881,000) are stated at estimated net realisable value.

19 Trade and other receivables

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors *(note (a))*	**6,376**	16,465	**–**	–
Other debtors, deposits and prepayments *(note (b))*	**5,766**	4,789	**152**	39
Amounts due from associates *(note (c))*	**22**	20	**–**	–
	12,164	21,274	**152**	39

Notes:

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

(b) Included in other debtors, deposits and prepayments is an outstanding receivable of $875,000 (2002: $1,775,000 of which $875,000 is included in "other non-current assets"), which represents the balance of consideration for the disposal of the Group's subsidiary in 2001. The outstanding receivable 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 previous subsidiary. In the event of default, interest at prime lending rate plus 2% per annum will be charged on the overdue balance.

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

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

	The Group	
	2003	2002
	$'000	*$'000*
Current	**4,603**	3,118
1 to 3 months overdue	**1,356**	589
More than 3 months overdue but less than 12 months overdue	**417**	924
More than 12 months overdue	**–**	11,834
	6,376	16,465

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

20 Loans from banks and other financial institutions

At 31 December 2003, loans from banks and other financial institutions were secured as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Bank loans – unsecured	**–**	929	**–**	–
Loans from other financial institutions				
– unsecured	**3,375**	13,550	**3,375**	13,550
– secured *(note)*	**9,056**	9,056	**–**	–
	12,431	23,535	**3,375**	13,550

Note: 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 (2002: $18 million).

21 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 subsequently 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 had 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 financial statements, the notes holders have not yet requested the Company to repay the loans. Comparative figures have been reclassified to conform with the current year's presentation.

22 Trade and other payables

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**18,341**	13,371	**–**	–
Other creditors and accrued charges	**25,443**	27,299	**6,037**	7,989
Amount due to ultimate holding company *(note 29(a))*	**1,340**	1,090	**1,340**	554
Amount due to an associate	**605**	605	**–**	–
Amounts due to directors	**1,188**	820	**960**	720
Amounts due to former directors and officers	**–**	154	**–**	–
	46,917	43,339	**8,337**	9,263

22 Trade and other payables (Continued)

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	
	2003	2002
	$'000	*$'000*
Due within 1 month or on demand	**8,490**	4,342
Due after 1 month but within 3 months	**7,693**	7,303
Due after 3 months but within 6 months	**1,421**	1,079
Due after 6 months	**737**	647
	18,341	13,371

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.

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 share 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 Main Board Listing Rules if the Company wishes to continue to grant options under the existing scheme.

23 Employee benefits (Continued)

(b) Equity compensation benefits (Continued)

Movements in share options are as follows:

	Number	
	2003	2002
At 1 January	**36,180,000**	24,300,000
Cancelled	**–**	(180,000)
Adjustment*	**–**	12,060,000
At 31 December – options vested	**36,180,000**	36,180,000

* Adjustment for the effect of rights issue in 2002

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.

24 Share capital

	2003	2002
	$'000	*$'000*
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	**300,000**	300,000

	2003		2002	
	No. of shares	**Amount**	No. of shares	Amount
		$'000		*$'000*
Issued and fully paid:				
At 1 January	**1,763,706,789**	**88,185**	1,169,754,065	58,488
Shares issued by private placement *(note (a))*	**170,000,000**	**8,500**	–	–
Rights issue *(note (b))*	**–**	**–**	587,902,263	29,395
Conversion of convertible notes *(note (c))*	**–**	**–**	6,050,461	302
At 31 December	**1,933,706,789**	**96,685**	1,763,706,789	88,185

24 Share capital (Continued)

Notes:

(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 14(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) Pursuant to the resolutions 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.

(c) During the year ended 31 December 2002, US dollar convertible notes of US$0.5 million (approximately equivalent to $3,900,000 were converted by the noteholders at conversion prices ranging from $0.5 to $0.97, resulting in the issue of 6,050,461 ordinary shares of $0.05 each in the Company. An amount of $302,000 and $3,615,000 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.

(d) Warrants

(i) Unlisted warrants

On 31 July 2001, as a package deal, the Company issued unlisted warrants together with the US dollars convertible notes to the subscribers and no consideration was received by the Company for the issue of the unlisted warrants. Each warrant 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 of $1.3719 (subject to adjustment) at 31 December 2003. No warrants have been exercised for both the current and prior years. At 31 December 2003, the number of outstanding unlisted warrants is 14,781,939 (2002: 11,945,186) after the adjustments for the effect of issue of the Company's ordinary shares (note (a) above) and the issue of the Company's 2004 warrants (note below) during the year.

(ii) 2004 warrants

Pursuant to the Company's announcement dated 6 November 2003, the Company issued 370,000,000 warrants at a placing price of $0.07 per warrant by private placement to not less than 100 selected independent investors on 27 November 2003. Each warrant entitles the holder thereof to subscribe for one ordinary share of $0.05 each of the Company at an initial subscription price of $0.28 (subject to adjustment) during the one-year period from the date of issue. The net proceeds of $24.5 million were used for repayment of loans from financial institutions. During the year, no warrants were exercised. Dealing in the 2004 warrants on the SEHK commenced on 10 December 2003.

25 Reserves

(a) The Group

	Share premium $'000	Exchange reserves $'000	Warrant reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2002	1,313,987	(3,144)	–	(1,290,053)	20,790
Rights issue *(note 24(b))*	45,269	–	–	–	45,269
Conversion of convertible notes *(note 24(c))*	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 24(a))*	29,750	–	–	–	29,750
Placement of warrants *(note 24(d))*	–	–	25,900	–	25,900
Expenses incurred in connection with warrant issue	–	–	(1,402)	–	(1,402)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	49	–	–	49
Loss for the year	–	–	–	(89,199)	(89,199)
At 31 December 2003	1,391,021	(1,840)	24,498	(1,494,183)	(80,504)

Included in the figure for the accumulated losses is an amount of $3,999,000 (2002: $256,000), 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(m)).

25 Reserves (Continued)

(b) The Company

	Share premium	Contributed surplus	Warrant reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2002	1,313,987	9,354	–	(1,302,551)	20,790
Rights issue *(note 24(b))*	45,269	–	–	–	45,269
Conversion of convertible notes *(note 24(c))*	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)
At 1 January 2003	1,361,271	9,354	–	(1,416,227)	(45,602)
Shares issued by private placement *(note 24(a))*	29,750	–	–	–	29,750
Placement of warrants *(note 24(d))*	–	–	25,900	–	25,900
Expenses incurred in connection with warrant issue	–	–	(1,402)	–	(1,402)
Loss for the year	–	–	–	(89,150)	(89,150)
At 31 December 2003	1,391,021	9,354	24,498	(1,505,377)	(80,504)

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.

25 Reserves (Continued)

(b) The Company (Continued)

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.

The warrant reserve represents the proceeds received from the issue of the 2004 warrants (note 24(d)), net of warrant issue expenses. The reserve will be released to the share capital and share premium accounts upon exercise of the 2004 warrants.

26 Acquisition and disposal of subsidiaries

(a) Disposal of subsidiaries

On 1 September 2003, the Group disposed of its entire interest of 51% in Chinese 2000 to C2L for a consideration of $91.8 million which was satisfied by C2L issuing and allotting 3,825 shares of US$1 each, representing 42.5% of enlarged issued share capital of C2L to the Group. The details are set out in note 14(b).

On 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.

26 Acquisition and disposal of subsidiaries (Continued)

(a) Disposal of subsidiaries (Continued)

	2003	2002
	$'000	*$'000*
Net assets/(liabilities) disposed of:		
Fixed assets	**965**	194
Development costs	**16,513**	–
Goodwill	**2,661**	–
Inventories	**1,542**	231
Cash and bank balances	**313**	270
Trade debtors	**75**	–
Other debtors, deposits and prepayments	**2,161**	2,108
Other creditors and accrued charges	**(4,129)**	(4,769)
Minority interests	**(9,850)**	–
Net identifiable assets/(liabilities)	**10,251**	(1,966)
Unamortised goodwill	**21,765**	–
Profit on disposal	**–**	1,966
Loss on deemed disposal of a subsidiary	**(5,336)**	–
Disposal proceeds net of expenses	**26,680**	–
Less: Consideration satisfied by shares	**(26,680)**	–
Cash consideration	**–**	–
Less: Cash of the subsidiaries disposed	**(313)**	(270)
	(313)	(270)
Cash received in respect of subsidiary disposed of in 2001 *(note 19(b))*	**900**	775
Net cash inflow in respect of disposal of subsidiaries	**587**	505

26 Acquisition and disposal of subsidiaries (Continued)

(b) Acquisition of a subsidiary

On 17 January 2003, the Group acquired a 51% equity interest in Chinese 2000, for the details are set out in note 14(a).

	2003
	$'000
Net assets/(liabilities) acquired:	
Fixed assets	1,222
Development costs	22,358
Goodwill	2,835
Cash and bank balances	2,318
Inventories	303
Trade debtors	74
Other debtors, deposits and prepayments	1,821
Trade creditors	(3)
Other creditors	(1,655)
Minority interests	(14,343)
Net identifiable assets	14,930
Positive goodwill arising on consolidation	23,320
Total purchase consideration	38,250
Less: Consideration satisfied by shares	(38,250)
Cash consideration	–
Less: Cash of the subsidiaries acquired	(2,318)
Net cash inflow in respect of the purchase of subsidiaries	(2,318)

(c) Major non-cash transactions

(i) During the year ended 31 December 2003, the Group acquired Chinese 2000 by the issue and allotment of ordinary shares of the Company (note 14(a)). The Group subsequently disposed of its entire interest in Chinese 2000 for a consideration satisfied in shares (note 14(b)).

(ii) During the year ended 31 December 2002, holders of $3,900,000 convertible notes exercised the right to convert into 6,050,461 ordinary shares of $0.05 each of the Company (note 24(c)).

27 Commitments

(a) At 31 December 2003 the Group had the following capital commitments outstanding and not provided for in the financial statements:

	2003	2002
	$'000	$'000
Contracted for:		
Quality guarantee deposit	**17,500**	17,500
Purchases of fixed assets	**12,366**	405
	29,866	17,905

(b) At 31 December 2003, the total future lease payments under non-cancellable operating leases in respect of land and buildings of the Group are payable as follows:

	2003	2002
	$'000	$'000
Within 1 year	**2,576**	3,247
After 1 year but within 5 years	**2,200**	3,866
After 5 years	**8,051**	7,932
	12,827	15,045

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two years, with an option to renew the leases when all terms are renegotiated. None of these leases includes contingent rentals.

28 Contingent liabilities

Pursuant to the agreements and arrangements as disclosed in note 14(b), the Group and Culturecom 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 $11.8 million (equivalent to US$1.52 million).

29 Material related party transactions

(a) During the year ended 31 December 2003, the Group was granted financial assistance from the ultimate holding company. At 31 December 2003, amount due to the ultimate holding company of $1,340,000 (2002: $1,090,000) is unsecured, interest-free and has no fixed terms of repayment.

29 Material related party transactions (Continued)

(b) During the year ended 31 December 2002, facility fee of $924,000 was charged by Beijing Infohighway Information and Technology Limited ("BIHW"), a non-wholly owned subsidiary of the Group, to China Infohighway Communications Co., Ltd. ("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 and other receivables is an amount due from IHW of $12,758,000, which was unsecured, interest-free and had no fixed terms of repayment. There are no such transactions during the year ended 31 December 2003.

(c) During the year ended 31 December 2003, the Group paid consultancy fees of $400,000 (2002: $Nil) to Crown Worldwide Holdings Limited, a substantial shareholder of Crown eForce Logistics Management (HK) Limited, for the provision of logistics related advisory services.

(d) During the year ended 31 December 2003, the Group paid consultancy fees of $970,000 (2002: $Nil) to 深圳市金商國際投資有限公司, which is controlled by a close family member of an executive director of the Group, for the provision of logistics related advisory services in Shenzhen, PRC. The Company is aware that this constituted a connected transaction but is exempted under Rule 14.24(5) of the Listing Rules.

30 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 instigated 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.

31 Post balance sheet events

The Group entered into a Software Purchase Agreement on 31 December 2002, a supplemental agreement and a Software Licence Agreement on 23 December 2003 with MegaInfo Limited ("MegaInfo"), an independent third party. Pursuant to such agreements, the Group granted a perpetual licence to MegaInfo to use the TianXin management software which specialises in Enterprise Resource Planning and Customer Relationship Management ("TianXin Software") together with an option to acquire TianXin Software and the associated intellectual property rights. The licence fee of $11 million shall be satisfied by MegaInfo issuing and allotting 2,340,000 shares of $0.01 each representing 18% of the enlarged issued share capital of MegaInfo to the Group. Upon MegaInfo's listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 19 January 2004, the shareholding of the Group was diluted to 13.95%, which represent 74,632,500 shares of $0.01 each.

32 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2003 to be Tees Corporation, which is incorporated in the British Virgin Islands.