

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

for the six months ended 30 June 2004

1. Basis of preparation and principal accounting policies

This interim financial report is unaudited, but has been reviewed by the Company's Audit Committee.

The unaudited interim financial report has been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the Group's financial statements for the year ended 31 December 2003.

2. Going concern basis

Notwithstanding that the Group sustained recurrent losses and had net current liabilities as at 30 June 2004, including unsecured other loans of HK\$6.5 million (notes 12) which are overdue and remain outstanding as at the date of authorisation for issue of the 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 HK\$50 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. Turnover and segment information

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 period is as follows:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Manufacture and sale of healthcare and household products	58,330	45,650
Provision of Information Technology-related services	—	1,502
	<u>58,330</u>	<u>47,152</u>

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

3. Turnover and segment information (Continued)

	Healthcare and household products		Information technology business		Unallocated		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	58,330	45,650	-	1,502	-	-	58,330	47,152
Other revenue from external customers	348	164	-	-	-	-	348	164
Total	<u>58,678</u>	<u>45,814</u>	<u>-</u>	<u>1,502</u>	<u>-</u>	<u>-</u>	<u>58,678</u>	<u>47,316</u>
Segment results	<u>(557)</u>	<u>1,464</u>	<u>(385)</u>	<u>(7,450)</u>	<u>-</u>	<u>-</u>	<u>(942)</u>	<u>(5,986)</u>
Unallocated operating income and expenses							<u>(7,888)</u>	<u>(10,479)</u>
Loss from operations							<u>(8,830)</u>	<u>(16,465)</u>
Finance costs							<u>(691)</u>	<u>(1,328)</u>
Share of losses of associates	-	-	<u>(4,893)</u>	-	<u>(229)</u>	<u>(423)</u>	<u>(5,122)</u>	<u>(423)</u>
Loss from ordinary activities before taxation							<u><u>(14,643)</u></u>	<u><u>(18,216)</u></u>

The segment information for the period ended 30 June 2003 has been reclassified to conform with the current period's presentation.

3. Turnover and segment information (Continued)

	Group turnover	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
<i>Geographical locations of customers</i>		
North America	33,531	16,772
Europe	14,719	21,938
Asia	8,343	7,664
Others	1,737	778
	58,330	47,152

4. Loss from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
<i>(a) Finance costs:</i>		
Interest on borrowings	691	1,328
<i>(b) Other items:</i>		
Cost of inventories	45,418	35,771
Staff costs	15,590	15,048
Depreciation	2,311	4,522
Amortisation of positive goodwill	111	2,475
Net (profit)/loss on disposal of fixed assets	(764)	13
Profit on disposal of subsidiaries (note (i))	(1,569)	–
Interest income	(165)	–

4. Loss from ordinary activities before taxation *(Continued)*

Note:

- (i) Pursuant to a sale and purchase agreement dated 23 June 2004, the Company disposed of its entire interest in the Group's investments in a subsidiary, Super Standard Limited, at a nominal consideration. This transaction gave rise to a profit of HK\$1,569,000, which was included in "Other income, net" in the consolidated profit and loss account. The subsidiary disposed of during the period ended 30 June 2004 did not have significant contribution to the Group's cash flows or operating results.

5. Taxation

Provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 assets 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 HK\$14,643,000 (2003: HK\$16,485,000) and the weighted average number of ordinary shares of 1,937,043,932 (2003: 1,918,679,165) 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 2004 (2003: HK\$Nil).

8. Goodwill

	Positive goodwill <i>HK\$'000</i>
<i>Cost:</i>	
At 1 January 2004	47,780
Deemed disposal of the software business (<i>note (b)</i>)	<u>(47,780)</u>
At 30 June 2004	----- -
<i>Accumulated amortisation and impairment:</i>	
At 1 January 2004	38,445
Charge for the period	111
Written back on deemed disposal of the software business (<i>note (b)</i>)	<u>(38,556)</u>
At 30 June 2004	----- ----- -
<i>Carrying amounts:</i>	
At 30 June 2004	----- ----- -
At 31 December 2003	<u>9,335</u>

- (a) 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 HK\$31 million during the year ended 31 December 2002. At 31 December 2003, the carrying amount of this goodwill amounted to approximately HK\$9.3 million.

8. Goodwill (Continued)

(b) 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 MegalInfo Limited ("MegalInfo") an independent third party. Pursuant to such agreements, the Group granted a perpetual licence to MegalInfo to use the TianXin management software which 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 HK\$11 million was satisfied by MegalInfo issuing and allotting 2,340,000 shares of HK\$0.01 each representing 18% of the enlarged issued share capital of MegalInfo to the Group. MegalInfo was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 19 January 2004 and the shareholding of the Group was diluted to 13.95%, which represent 74,632,500 shares of HK\$0.01 each. Accordingly in January 2004, the carrying value of the Group's goodwill arising from the acquisition of TianXin Software amounted to HK\$9.2 million was deemed disposed and reclassified as other investments, being the investment costs of the Group's 13.95% interests in MegalInfo (note 9).

9. Other Investments

	At 30 June 2004 HK\$'000 (unaudited)	At 31 December 2003 HK\$'000 (audited)
Equity Securities listed in Hong Kong	<u>9,224</u>	<u>–</u>
Market value of listed Securities	<u>11,792</u>	<u>–</u>

10. Inventories

	At 30 June 2004 HK\$'000 (unaudited)	At 31 December 2003 HK\$'000 (audited)
Raw materials	14,359	10,374
Work in progress	8,077	687
Finished goods	<u>6,512</u>	<u>1,189</u>
	<u>28,948</u>	<u>12,250</u>

At 30 June 2004, inventories of HK\$1,330,000 (At 31 December 2003: HK\$1,444,000) are stated at estimated net realisable value.

11. 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	At 31 December
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Current	14,142	4,603
1 to 3 months overdue	2,615	1,356
More than 3 months overdue but less than 12 months overdue	471	417
More than 12 months overdue	194	–
	<hr/>	<hr/>
Total trade debtors	17,422	6,376
Deposits, prepayments and other receivables	7,445	5,788
	<hr/>	<hr/>
	24,867	12,164
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Trade debts are due within 30 days from the date of billing.

12. 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 (the "Notes") with an aggregate principal amount of HK\$9 million were issued. The Notes were convertible to ordinary shares of HK\$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK\$2.5 million were converted during 2000.

Prior to maturity, holders of the remaining Notes of HK\$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 HK\$7 million are due for repayment. As at the date of authorisation for issue of the interim financial report, the creditors have not yet requested the Company to repay the loans.

13. Trade and other payables

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

	At 30 June 2004 HK\$'000 (unaudited)	At 31 December 2003 HK\$'000 (audited)
Due within 1 month or on demand	30,663	8,490
Due after 1 month but within 3 months	11,609	7,693
Due after 3 months but within 6 months	–	1,421
Due after 6 months	553	737
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Total trade creditors	42,825	18,341
Other creditors and accrued charges	37,300	28,576
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	80,125	46,917
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14. Pledge of assets

At 30 June 2004, a loan from a financial institution of approximately HK\$8.6 million (At 31 December 2003: HK\$9 million) was secured by the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of HK\$17.3 million (At 31 December 2003: HK\$17.8 million).

15. Share capital

	No. of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.05 each		
at 31 December 2003 and 30 June 2004	<u>6,000,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2004	1,933,706,789	96,685
Exercise of warrants (<i>note (a)</i>)	<u>4,120,000</u>	<u>206</u>
	<hr/>	<hr/>
At 30 June 2004	<u>1,937,826,789</u>	<u>96,891</u>
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15. Share capital (Continued)

Notes:

(a) Warrants

Pursuant to the Company's announcement dated 6 November 2003, the Company issued 370,000,000 warrants ("2004 Warrants") at a placing price of HK\$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 HK\$0.05 each of the Company at an initial subscription price of HK\$0.28 (subject to adjustment) during the one-year period from the date of issue. The net proceeds of HK\$24.5 million were used for repayment of loans from financial institutions. Dealing in the 2004 Warrants on the Stock Exchange commenced on 10 December 2003. No warrants were exercised during the year ended 31 December 2003.

During the six months ended 30 June 2004, registered holders of 4,120,000 units of outstanding 2004 Warrants exercised their rights to subscribe for 4,120,000 at a consideration of HK\$1,153,600, of which HK\$206,000 was credited to share capital and the balance of HK\$947,600 was credited to the share premium account.

On 30 June 2004, the Company had 365,880,000 outstanding 2004 Warrants conferring rights to subscribe up to approximately HK\$102 million in cash for shares of HK\$0.05 each in the Company. Exercise in full of those outstanding warrants would, under the present share capital structure of the Company as at 30 June 2004, result in the issue of 365,880,000 additional shares of HK\$0.05 each in the Company.

(b) Share Options

At 30 June 2004, 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	HK\$0.392	30,780,000

During the period under review, a total of 5.4 million share options were cancelled as a result of employees' resignation. No share options were exercised or lapsed during the period under review.

16. Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	Warrant reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	1,361,271	(1,889)	–	(1,404,984)	(45,602)
Rights issue by private placement	29,750	–	–	–	29,750
Placement of warrants	–	–	25,900	–	25,900
Expenses incurred in connection with warrants 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)
	<u>1,391,021</u>	<u>(1,840)</u>	<u>24,498</u>	<u>(1,494,183)</u>	<u>(80,504)</u>
At 31 December 2003	<u>1,391,021</u>	<u>(1,840)</u>	<u>24,498</u>	<u>(1,494,183)</u>	<u>(80,504)</u>
At 1 January 2004	1,391,021	(1,840)	24,498	(1,494,183)	(80,504)
Exercise of warrant (note 15(a))	948	–	–	–	948
Transfer from other reserve to share premium due to exercise of warrants	273	–	(273)	–	–
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	34	–	–	34
Loss for the period	–	–	–	(14,643)	(14,643)
	<u>1,392,242</u>	<u>(1,806)</u>	<u>24,225</u>	<u>(1,508,826)</u>	<u>(94,165)</u>
At 30 June 2004	<u>1,392,242</u>	<u>(1,806)</u>	<u>24,225</u>	<u>(1,508,826)</u>	<u>(94,165)</u>

17. Capital commitments

At 30 June 2004, the Group had the following capital commitments outstanding and not provided for in the financial statements:

	At 30 June 2004 HK\$'000 (unaudited)	At 31 December 2003 HK\$'000 (audited)
Contracted for:		
Quality guarantee deposit	17,500	17,500
Others	1,395	12,366
	<u>18,895</u>	<u>29,866</u>

18. Material related party transactions

- (a) During the period ended 30 June 2004, the Group was granted financial assistance from the ultimate holding company. At 30 June 2004, included in trade and other payables is an amount due to the ultimate holding company of HK\$139,862 (At 31 December 2003: HK\$1,340,000) which is unsecured, interest-free and has no fixed terms of repayment.
- (b) During the period ended 30 June 2004, the Group paid consultancy fees of HK\$85,000 (2003: HK\$460,000) 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.

19. 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 Beijing Infohighway Information and Technology Limited ("BIHW"), a non-wholly owned subsidiary of the Group, 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.

20. Subsequent events

As announced by the Company on 9 August 2004, the Company was informed that out of 982,212,000 shares, representing, 50.69% of the entire issued share capital of the Company in aggregate held by Mr. Leung Chung Shan ("Mr. Leung") and Tees Corporation (beneficially owned as to 100% by Mr. Leung), the controlling shareholder of the Company (the "Controlling Shareholder"), 882,212,000 shares, representing 45.53% of the entire issued shares of the Company were pledged to TKR Finance Limited ("TKR Finance") for personal reasons.

However, in view that both Mr. Leung and the Controlling Shareholder have expressed their intention to redeem the shares pledged tentatively within a period of 6 months, the appointment of a provisional liquidator for TKR Finance will have no material adverse impact on the operation and management of the Company. Accordingly, the directors consider the ultimate holding company at 30 June 2004 to be Tees Corporation, which is incorporated in the British Virgin Islands.

21. Approval of interim financial report

This interim financial report was approved and authorised for issue by the Board of Directors on 21 September 2004.