INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2004: HK$Nil per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's business is slowly gathering momentum as the global economic climate continues to improve. The Group's turnover was HK$58 million in the first half of 2004, an increase of HK$11 million or 23% as compared to the first half of 2003 of HK$47 million. The Group incurred a net loss of HK$15 million for the first half of 2004 as compared to a net loss of HK$16 million in the same period last year.

The Group's significant investments are investments in subsidiaries of which their performance during the period under review have been grouped according to their respective segments and discussed below.

Manufacturing Business

As the Group's core business, the manufacturing unit has maintained a steady growth since the first half of 2004 and recorded an increase of 26% in turnover from HK$46 million in the first half of 2003 to HK$58 million in the first half of 2004. The increase was a result of the management's consistent effort in improving quality control and securing new orders from customers. Gross margin was comparable to the same period last year despite the raw materials prices hike during the period under review. Increased competition had also reduced the average selling price. In an effort to maintain the gross margin, management had focused on production rationalization and implemented various cost-reducing measures. However due to extra resources invested for development of new products, the unit recorded an operating loss of HK$0.6 million in the first half of 2004 as compared to the operating profit of HK$1.5 million in the same period last year.

Business Review *(Continued)*

Information Technology Business

In an effort to reduce its losses, the group had started divesting its loss-making IT businesses since the year 2003 and the restructuring had concluded during the period under review. As a result, no turnover was recorded for this unit during the period under review as compared to HK$1.5 million in the same period last year. Operating loss was HK$0.4 million in the first half of 2004 as compared to HK$7.5 million in the first half of 2003.

However, the Group's share of losses of associates included an amount of HK$5 million, being the share of losses incurred by the Group's associated company, Chinese 2 Linux (Holdings) Limited ("C2L") and the amortization of goodwill arising from the acquisition of C2L in 2003 amounted to HK$0.9 million. The directors are aware of the impact of the losses incurred by C2L on the Group's carrying value of C2L of HK$18.2 million at 30 June 2004. The directors will continue to monitor the performance of C2L and will make necessary adjustments upon being able to quantify any impairment loss on the value in the accounts of the Group for the year ending 31 December 2004.

Outlook

We expect challenging business conditions to persist for the rest of the year and do not foresee an imminent upturn in the Group's business. However we are optimistic about our manufacturing business where we have the scale and competitive edge. Capitalizing on our effort in research and development, we will be able to offer a wider range of quality products to our customers. A new oral care product has started delivery on May 2004 and has already brought the manufacturing unit back to profit on a quarterly basis. At the same time we will continue to pursue a policy of cost containment and production rationalization.

The Group's Liquidity and Financial Resources

At 30 June 2004, the Group recorded a net current liability of HK$51,559,000 (31 December 2003: HK$45,390,000) and a current ratio of 0.52 (31 December 2003: 0.35). Cash and bank balances at 30 June 2004 were HK$963,000 (31 December 2003: HK$385,000). The gearing ratio, as a ratio of net borrowings to shareholders' equity was 7.67 (31 December 2003: 1.15).

Borrowings at 30 June 2004 were all due within one year amounted to HK$21,871,000 (31 December 2003: HK$18,931,000). Secured borrowings amounted to HK$8,600,000 (31 December 2003: HK$9,056,000) were secured by legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK$17.3 million (31 December 2003: HK$17.8 million). No other assets of the Group were pledged to secure borrowings outstanding at 30 June 2004.

The total facilities available to the Group from its financial institutions amounted to HK$50 million (31 December 2003: HK$70 million). The management believes the Group has adequate financial resources for its business requirement.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's borrowings and cash and cash equivalents were primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedged against foreign exchange risk, as the managements do not expect any exchange rate fluctuation to have significant impact on the Group.

The interest rates profile of the Group's borrowings comprise a mixture of fixed and floating rates. The Group does not hedged against interest rates risk as the managements do not expect the impact of any fluctuation in interest rates to be material to the Group.

Material Contingent Liabilities

At 30 June 2004, the Group had provided a guarantee on a joint and several basis with a third party in respect of payment obligations of service fees payable by an associated company of approximately HK$11.8 million (31 December 2003: HK$11.8 million).

Employees and Remuneration Policies

At 30 June 2004, the Group employed approximately 41 (31 December 2003: 45) staff in Hong Kong and had approximately 1900 (31 December 2003: 760) employees in Mainland China.

The managements review its remuneration policy regularly and reward staffs through fair remuneration packages and other fringe benefits, which includes a contributory provident fund and medical insurance plans. In addition, the Group may also grant discretionary bonus to eligible staff based on the Group's performance and individual merits.

The Company also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. However, with effect from 1 September 2001, the Company no longer can grant any options under the existing scheme unless the Company changes the terms of the scheme to comply with the requirements of Chapter 17 of the Listing Rules.

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