1. GENERAL

The Company was incorporated in Bermuda with limited liability as an exempted company under The Companies Act 1981 of Bermuda (as amended) with its shares listed on The Stock Exchange of Hong Kong Limited ("SEHK").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation of 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 and capital deficiency at 31 December 2004, including unsecured other loans of approximately HK$6.5 million (note 24) 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) the Group is able to attain profitable and cash positive operation in the longer term;

(ii) HK$30 million made available to the Company from financial institutions up to 31 March 2006 which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; and

(iii) continuing financial support received from a substantial shareholder.

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.

(b) Impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(b) Impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (Continued)

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the HKICPA.

(a) 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 consolidated income statement 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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2004.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

The gain or loss on the disposal of interests in a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related exchange fluctuation reserve.

Intra-group balances and transactions, and any unrealised profit 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 consolidated income statement.

Where losses attributable to the minority exceed the minority interests 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.

(c) Subsidiaries

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, 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 income statement as they arise.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement 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. 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 income statement.

In the Company's balance sheet, its investment in associates are stated at cost less impairment losses, 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 income statement 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; and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

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

(f) Investment securities

Investment securities, which are securities held for an identifiable long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement. The reduction is written back to consolidated income statement when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) 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. 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 and impairment losses, if any.

(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 income statement, 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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

(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: (Continued)

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

(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 consolidated income statement on the date of retirement or disposal.

(v) 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
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	5 years
Moulds and tools	5 years

(h) 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:

– fixed assets (other than properties carried at revalued amounts);

– investments in subsidiaries and associates (except for those accounted for at fair value under notes 3(c) & (d));

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

– investment securities; 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).

(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 consolidated income statement in the year in which the reversals are recognised.

(i) 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) 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 expenses 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.

(j) Foreign currency translation

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 consolidated income statement.

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 a 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 gain or loss on disposal.

(k) 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 expenses in the consolidated income statement 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 consolidated income statement when incurred.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Employee benefits (Continued)

(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.

(l) 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.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a present 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.

(n) 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 asset in a subsequent period.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(p) Cash and cash equivalents

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

(q) Operating leases

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 consolidated income statement 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 consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(r) Taxation

(i) Taxation 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 consolidated income statement 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

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.

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:

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

– 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 entitles, 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.

(s) 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.

(t) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. 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:

	2004	2003
	HK$'000	*HK$'000*
Manufacture and sale of healthcare and household products	**170,283**	93,974
Provision of Information Technology-related services	**–**	2,365
	170,283	96,339

5. OTHER REVENUE AND OTHER GAIN/(LOSS), NET

	2004	2003
	HK$'000	*HK$'000*
Other revenue		
Interest income	**236**	3
Income from scrap sales	**587**	403
Rental income	**17**	79
Miscellaneous	**3**	403
	843	888
Other gain/(loss), net		
Net gain on disposal and written off of fixed assets	**288**	280
Gain/(loss) on deemed disposal of a subsidiary	**1,776**	(5,336)
Gain on disposal of a subsidiary (note 30)	**1,570**	–
Exchange gain	**475**	137
Others	**1,180**	379
	5,289	(4,540)

6. SEGMENTAL INFORMATION

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

	Healthcare and household products		Information technology business		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**170,283**	93,974	**–**	2,365	**–**	–	**170,283**	96,339
Other revenue from external customers	**604**	482	**–**	–	**–**	–	**604**	482
Total	**170,887**	94,456	**–**	2,365	**–**	–	**170,887**	96,821
Profit/(loss) from operations	**6,944**	(546)	**(1,145)**	(66,422)	**(17,747)**	(20,456)	**(11,948)**	(87,424)
Finance costs	**–**	–	**–**	–	**(1,456)**	(2,527)	**(1,456)**	(2,527)
Share of losses of associates	**–**	–	**(8,011)**	(3,565)	**–**	(178)	**(8,011)**	(3,743)
Loss from ordinary activities before taxation							**(21,415)**	(93,694)
Taxation							**–**	–
Minority interests							**–**	4,495
Loss attributable to shareholders							**(21,415)**	(89,199)
Depreciation and amortisation	**4,288**	5,995	**1,924**	10,640	**676**	949	**6,888**	17,584
Significant non-cash expenses (other than depreciation and amortisation)	**–**	–	**–**	44,933	**4,731**	–	**4,731**	44,933
Segment assets	**55,051**	46,231	**1,691**	35,536	**23,394**	4,603	**80,136**	86,370
Inter-segment elimination							**–**	–
Total assets							**80,136**	86,370
Segment liabilities	**36,261**	38,232	**8,303**	9,330	**39,554**	22,627	**84,118**	70,189
Inter-segment elimination							**–**	–
Total liabilities							**84,118**	70,189
Capital expenditure incurred during the year	**8,972**	5,200	**–**	–	**–**	100	**8,972**	5,300

6. SEGMENTAL INFORMATION (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		The PRC		Hong Kong and others		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**87,740**	40,036	**45,121**	36,289	**–**	2,365	**38,026**	18,131	**170,887**	96,821
Segment assets	**–**	–	**–**	–	**23,863**	37,930	**56,273**	48,440	**80,136**	86,370
Capital expenditure incurred during the year	**–**	–	**–**	–	**8,694**	5,200	**278**	100	**8,972**	5,300

7. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	2004	2003
	HK$'000	*HK$'000*
Cost of inventories #	**132,988**	77,223
Staff costs including directors' remuneration (including contributions to retirement scheme of HK$559,000 (2003: HK$605,000))#/*	**36,750**	30,681
Amortisation of development costs	**–**	5,845
Amortisation of positive goodwill	**111**	3,063
Amortisation of positive goodwill included in share of losses of associates	**1,813**	605
Auditors' remuneration	**580**	1,095
Research and development costs *	**3,558**	3,782
Depreciation #	**4,964**	8,071
Operating lease charges in respect of land and buildings	**2,330**	2,142
Provision for impairment of investment securities	**4,731**	–
Provision for quality guarantee deposit	**–**	44,933

7. LOSS FROM OPERATIONS (Continued)

Cost of inventories includes HK$12,797,000 (2003: HK$13,799,000) 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 HK$2,938,000 (2003: HK$3,126,000) which amount is also included in staff costs disclosed separately above.

8. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on bank advances and other borrowings repayable within five years	**1,384**	2,527
Factoring loan interest	**72**	–
	1,456	2,527

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

	2004	2003
	HK$'000	*HK$'000*
Fees	**255**	240
Salaries and other emoluments	**5,368**	5,497
Retirement scheme contributions	**166**	166
	5,789	5,903

Included in the directors' remuneration were fees of HK$255,000 (2003: HK$240,000) payable to the independent non-executive directors during the year.

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments during the year.

During the year, no share option was granted to the directors.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' remuneration (Continued)

The remuneration of the directors are within the following bands:

	Number of directors	
	2004	2003
HK$Nil – HK$1,000,000	**4**	3
HK$1,000,001 – HK$1,500,000	**1**	1
HK$3,000,001 – HK$3,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**–**	1

(b) Individuals with the highest emoluments

Of the five individuals with the highest emoluments, three (2003: three) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2003: two) individuals are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other emoluments	**1,594**	1,708
Retirement scheme contributions	**56**	52
	1,650	1,760

The emoluments of the two (2003: two) individuals with the highest emoluments are within the following band:

	Number of individuals	
	2004	2003
HK$Nil – HK$1,000,000	**2**	2

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. TAXATION

(a) Hong Kong profits tax is provided at 17.5% (2003: 17.5%) based on the assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax and PRC income tax has been made in the financial statements as the individual companies comprising the Group do not have any assessable profits for taxation purposes during the year or have sufficient tax losses brought forward to set off against current year's assessable profit.

(b) The taxation on the Group's loss before taxation differs from the theoretical amount as follows:

	2004	2003
	HK$'000	*HK$'000*
Loss before taxation	**(21,415)**	(93,694)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the places of operations concerned	**(3,752)**	(18,257)
Tax effect of non-deductible expenses	**3,617**	15,607
Tax effect of non-taxable revenue	**(41)**	–
Tax effect of utilisation of timing difference not previously recognised	**(382)**	38
Tax effect of tax losses not recognised	**789**	2,633
Tax effect of utilisation of tax losses not previously recognised	**(231)**	(21)
	–	–

(c) Taxation in the consolidated balance sheet represents:

	2004	2003
	HK$'000	*HK$'000*
Balance of Hong Kong Profits Tax provisions relating to prior years	**675**	675
Balance of provision for taxation outside Hong Kong relating to prior years	**3,666**	3,666
Tax payable	**4,341**	4,341

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of HK$65,116,000 (2003: HK$89,150,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2004 (2003: HK$Nil).

13. 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$21,415,000 (2003: HK$89,199,000) and the weighted average number of ordinary shares of 1,937,430,068 (2003: 1,896,254,734) 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.

14. FIXED ASSETS

Group

	Land and buildings HK$'000	Optical fibre cable HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Moulds and tools HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2004	17,800	48,457	2,075	15,928	14,202	20,140	118,602
Additions	–	–	–	1,941	568	6,463	8,972
Disposals	–	–	(212)	(401)	(1,956)	(3,644)	(6,213)
Written off	–	–	–	(6)	–	(61)	(67)
At 31 December 2004	17,800	48,457	1,863	17,462	12,814	22,898	121,294
Representing:							
Cost	–	48,457	1,863	17,462	12,814	22,898	103,494
Valuation – 2003	17,800	–	–	–	–	–	17,800
	17,800	48,457	1,863	17,462	12,814	22,898	121,294
Accumulated depreciation and impairment:							
At 1 January 2004	–	48,457	964	14,050	12,080	17,217	92,768
Charge for the year	848	–	621	1,170	731	1,594	4,964
Written back on disposals	–	–	(85)	(349)	(1,360)	(292)	(2,086)
Written back on write off	–	–	–	(6)	–	(46)	(52)
At 31 December 2004	848	48,457	1,500	14,865	11,451	18,473	95,594
Net book value:							
At 31 December 2004	16,952	–	363	2,597	1,363	4,425	25,700
At 31 December 2003	17,800	–	1,111	1,878	2,122	2,923	25,834

14. FIXED ASSETS (Continued)

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Outside Hong Kong – medium-term leases	**16,952**	17,800

(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 HK$397,000 had been credited to the consolidated income statement for the year ended 31 December 2003. Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2004 their carrying value would have been approximately HK$28,355,000 (2003: HK$29,449,000).

(c) At 31 December 2004, land and buildings of the Group with a carrying value of HK$16,952,000 (2003: HK$17,800,000) held outside Hong Kong was pledged to secure certain loan facilities granted to the Group (note 23).

15. GOODWILL

	Positive goodwill recognised as an asset *HK$'000*	Positive goodwill carried in reserves *HK$'000*
Cost:		
At 1 January 2004	**47,780**	**1,130,621**
Deemed disposal of a subsidiary *(note (a))*	**(47,780)**	**–**
At 31 December 2004	**–**	**1,130,621**
Accumulated amortisation and impairment:		
At 1 January 2004	**38,445**	**1,130,621**
Charge for the year	**111**	**–**
Written back on deemed disposal of a subsidiary *(note (a))*	**(38,556)**	**–**
At 31 December 2004	**–**	**1,130,621**
Carrying amounts:		
At 31 December 2004	**–**	**–**
At 31 December 2003	**9,335**	**–**

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 income statement.

(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.

15. GOODWILL (Continued)

(a) (Continued)

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 HK$11 million was satisfied by MegaInfo issuing and allotting 2,340,000 shares of HK$0.01 each representing 18% of the enlarged issued share capital of MegaInfo to the Group. MegaInfo was listed on the Growth Enterprise Market of the SEHK 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 amount of the Group's goodwill arising from the acquisition of TianXin Software amounted to approximately HK$9.2 million was deemed disposed.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**191,351**	191,351
Amounts due from subsidiaries	**1,450,854**	1,446,390
Amounts due to subsidiaries	**(24,554)**	(24,554)
	1,617,651	1,613,187
Less: Impairment loss	**(1,641,861)**	(1,578,968)
	(24,210)	34,219

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

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 3(c) and have been consolidated in the Group financial statements.

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued share 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 ("BIHW") *(note (a))*	The PRC	Registered capital US$10,000,000	90	–	90	Inactive
Dongguan Weihang Electrical Product Company Limited *(note (b))*	The PRC	Registered capital US$9,000,000	100	–	100	Manufacture and trading of healthcare and household products
eForce Management Limited	Hong Kong	2 ordinary share of HK$1 each	100	100	–	Provision of management services
eForce Project Services Limited	BVI	1 share of US$1 each	100	100	–	Provision of management consultancy services
Fairform Group Limited	BVI	15,700,200 shares of US$1 each	100	100	–	Investment holding
Fairform Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	100	100	–	Name holding

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued share and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Fairform Information Technology Limited	Hong Kong	600,000 ordinary shares of HK$1 each	100	–	100	Dormant
Fairform Manufacturing Company Limited	Hong Kong	138,750,000 (2003: 4,750,000) ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each	100	–	100	Manufacturing and trading of healthcare and household products
Gainford International Inc.	BVI	50 shares of US$1 each	100	–	100	Investment holding
Gofull Investments Limited	BVI	1 share 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 ordinary shares of HK$1 each and 300,000 non-voting deferred shares of HK$1 each	100	–	100	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	100	–	100	Trademark holding
Outshine Technology Limited	BVI	1 share of US$1 each	100	100	–	Investment holding

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued share and paid up capital	Percentage of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
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 HK$1 each	100	–	100	Dormant
Qesco International (HK) Ltd	Hong Kong	1,000,000 ordinary shares of HK$1 each	100	–	100	Trademark holding
Skilful Developments Limited	BVI	1 ordinary share of US$1 each	100	100	–	Investment holding
Space Treasure Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	100	Dormant
Successful Mode Investments Limited	BVI	1 shares of US$1 each	100	100	–	Investment holding
Top Harvest Industrial Limited	Hong Kong	3,300,000 ordinary shares of HK$1 each and 2,700,000 non-voting deferred shares of HK$1 each	100	–	100	Investment holding
Wixford Limited	BVI	1 share of US$1 each	100	100	–	Investment holding

Notes:

(a) BIHW 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.

16. INVESTMENTS IN SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTEREST IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**1,911**	7,703
Goodwill	**15,720**	17,533
Amounts due (to)/from associates	**(1,454)**	1,166
	16,177	26,402

Amounts due (to)/from 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 ("C2L")	BVI	9,000 ordinary shares of US$1 each	42.5	42.5	Development and sale of enterprise applications software
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

18. OTHER NON-CURRENT ASSETS

It represented a 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. 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 was 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 had 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.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full provision of HK$44,933,000 against the deposit for the year ended 31 December 2003.

19. INVESTMENT SECURITIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at cost	**11,000**	–
Less: Provision of impairment	**(4,731)**	–
	6,269	–
Market value of listed equity securities	**6,269**	–

20. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**12,411**	10,374
Work in progress	**3,654**	687
Finished goods	**1,244**	1,189
	17,309	12,250

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

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors and bills receivables *(note (a))*	**9,301**	6,376	**–**	–
Other debtors, deposits and prepayments	**3,706**	5,766	**155**	152
Amounts due from associates *(note (b))*	**24**	22	**–**	–
	13,031	12,164	**155**	152

Notes:

(a) An ageing analysis of trade debtors and bills receivables (net of specific provision for bad and doubtful debts) is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current	**6,839**	4,603
1 to 3 months overdue	**2,206**	1,356
More than 3 months overdue but less than 12 months overdue	**97**	417
More than 12 months overdue	**159**	–
	9,301	6,376

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

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

22. CASH AND BANK BALANCES

At 31 December 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$508,000 (2003: approximately HK$58,000). RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

23. LOANS FROM FINANCIAL INSTITUTIONS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loans from financial institutions				
– unsecured *(note (i))*	**7,386**	3,375	**7,386**	3,375
– secured *(note (ii))*	**8,585**	9,056	**–**	–
	15,971	12,431	**7,386**	3,375

Note:

(i) The unsecured loan represents a revolving loan facilities to 31 March 2005 of HK$50 million, interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited. As at 31 December, approximately HK$7.4 million (2003: HK$3.4 million) has been utilised. Subsequent after the year end, the revolving loan facilities was extended to 31 March 2006 with the loan facilities reduced to HK$30 million.

(ii) The loan was secured over the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of approximately HK$17 million (2003: HK$18 million).

24. 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 HK$9 million were issued (the "Notes"). 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 subsequently converted during 2000.

Prior to maturity, holders of the remaining Notes of approximately 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 had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$7.3 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.

25. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors *(note (a))*	**21,263**	18,341	**–**	–
Other creditors and accrued charges	**30,080**	25,443	**4,598**	6,037
Amount due to a substantial shareholder *(note (b))*	**40**	–	**40**	–
Amount due to ultimate holding company	**–**	1,340	**–**	1,340
Amount due to an associate *(note (b))*	**605**	605	**5,215**	–
Amounts due to directors *(note (b))*	**5,318**	1,188	**–**	960
	57,306	46,917	**9,853**	8,337

Notes

(a) An ageing analysis of trade creditors is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Due within 1 month or on demand	**12,248**	8,490
Due after 1 month but within 3 months	**7,071**	7,693
Due after 3 months but within 6 months	**681**	1,421
Due after 6 months	**1,263**	737
	21,263	18,341

(b) Amounts due to a substantial shareholder, an associate and directors are unsecured, interest-free and have no fixed terms of repayment.

26. 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.

26. EMPLOYEE BENEFITS (Continued)

(a) Employee retirement benefits (Continued)

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

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the 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 subscribe 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.

Movements in share options are as follows:

	Number	
	2004	2003
At 1 January	**36,180,000**	36,180,000
Cancelled	**(5,400,000)**	–
At 31 December – options vested	**30,780,000**	36,180,000

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. During the year, a total of 5,400,000 share options were cancelled as a result of employees' resignation. No other share options previously granted were exercised during the year.

27. DEFERRED TAXATION

No provision for deferred taxation has been made in the financial statements as the tax effect of temporary differences is immaterial to the Group.

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 of the Company and the Group are set out below:

	Group		**Company**	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Tax losses	**25,823**	30,392	**4,546**	6,890

28. SHARE CAPITAL

	2004	2003
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	300,000	300,000

	2004		2003	
	No. of shares	**Amount**	No. of shares	Amount
		HK$'000		*HK$'000*
Issued and fully paid:				
At 1 January	**1,933,706,789**	**96,685**	1,763,706,789	88,185
Shares issued by private placement *(note (a))*	**–**	**–**	170,000,000	8,500
Shares issued upon exercise of warrants *(note (b))*	**4,120,000**	**206**	–	–
	1,937,826,789	**96,891**	1,933,706,789	96,685

28. SHARE CAPITAL (Continued)

Notes:

(a) As a result of the issue and allotment of 170 million ordinary shares of HK$0.05 each of the Company in relation to the acquisition of C2L, amounts of HK$8,500,000 and HK$29,750,000 were 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 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 approximately HK$24.5 million were used for repayment of loans from financial institutions. Dealing in the 2004 Warrants on the SEHK commenced on 10 December 2003.

During the year, registered holders of 4,120,000 units of 2004 Warrants exercised their rights to subscribe for 4,120,000 ordinary shares at a consideration of HK$1,154,000, of which HK$206,000 was credited to share capital and the balance of HK$948,000 was credited to the share premium account.

The trading of 2004 Warrants on the SEHK had ceased after 2 December 2004 of which the listing on the SEHK was withdrawn after 7 December 2004. The subscription rights attaching to 2004 Warrants had expired after 7 December 2004 which the Company had 365,880,000 outstanding 2004 Warrants had not exercised.

29. RESERVES

(a) Group

	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)
Shares issued by private placement *(note 28(a))*	29,750	–	–	–	29,750
Placement of warrants *(note 28(b))*	–	–	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)
At 1 January 2004	1,391,021	(1,840)	24,498	(1,494,183)	(80,504)
Shares issued upon exercise of warrants *(note 28(b))*	948	–	–	–	948
Release of warrant proceeds upon exercise of warrants *(note 28(b))*	272	–	(272)	–	–
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	98	–	–	98
Loss for the year	–	–	–	(21,415)	(21,415)
At 31 December 2004	1,392,241	(1,742)	24,226	(1,515,598)	(100,873)

Included in the figure for the accumulated losses is an amount of HK$9,790,000 (2003: HK$3,999,000), being the accumulated losses attributable to associates.

The exchange reserves have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation (note 3(j)).

29. RESERVES (Continued)

(b) Company

	Share premium	Contributed surplus	Warrant reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	1,361,271	9,354	–	(1,416,227)	(45,602)
Shares issued by private placement *(note 28(a))*	29,750	–	–	–	29,750
Placement of warrants *(note 28(b))*	–	–	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)
At 1 January 2004	1,391,021	9,354	24,498	(1,505,377)	(80,504)
Shares issued upon exercise of warrants *(note 28(b))*	948	–	–	–	948
Release of warrant proceeds upon exercise of warrants *(note 28(b))*	272	–	(272)	–	–
Loss for the year	–	–	–	(65,116)	(65,116)
At 31 December 2004	1,392,241	9,354	24,226	(1,570,493)	(144,672)

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.

29. RESERVES (Continued)

(b) Company (Continued)

Under The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

The warrant reserve represents the proceeds received from the issue of the 2004 Warrants (note 28(b)), net of warrant issue expenses. The reserve will be released to the share capital and share premium accounts upon exercise of the 2004 Warrants.

30. DISPOSAL OF A SUBSIDIARY

	2004	2003
	HK$'000	*HK$'000*
Net assets disposed of:		
Fixed assets	**–**	965
Investment in associate	**2,214**	–
Development costs	**–**	16,513
Goodwill	**–**	2,661
Inventories	**–**	1,542
Cash and bank balances	**–**	313
Trade debtors	**–**	75
Other debtors, deposits and prepayments	**–**	2,161
Other creditors and accrued charges	**–**	(4,129)
Amounts due to directors	**(1,180)**	–
Minority interests	**–**	(9,850)
Net identifiable assets	**1,034**	10,251
Unamortised goodwill	**–**	21,765
Gain on disposal	**1,570**	–
Loss on deemed disposal of a subsidiary	**–**	(5,336)
Disposal proceeds net of expenses	**2,604**	26,680
Less: Consideration satisfied by shares	**–**	(26,680)
Cash consideration	**2,604**	–
Less: Cash of the subsidiaries disposed	**–**	(313)
	2,604	(313)
Cash received in respect of subsidiary disposal of in 2001	**–**	900
Net cash inflow in respect of disposal of subsidiaries	**2,604**	587

The subsidiary disposed of during the year made no significant contribution to the Group's cash flow, turnover and loss attributable to shareholders for the year ended 31 December 2004.

31. OPERATING LEASE COMMITMENTS

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**2,455**	2,576
In the second to fifth year inclusive	**1,920**	2,200
After five years	**7,869**	8,051
	12,244	12,827

32. COMMITMENTS

At 31 December 2004, the Group has the following capital commitments outstanding and not provided for in the financial statements:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted for:		
Quality guarantee deposit	**17,500**	17,500
Purchases of fixed assets	**586**	12,366
	18,086	29,866

33. CONTINGENT LIABILITIES

(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.

33. CONTINGENT LIABILITIES (Continued)

(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.

(c) Pursuant to agreements and arrangements between the Group, Culturcom Holdings Limited and Transmeta Corporation, 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 Corporation totalling approximately HK$11.8 million (equivalent to US$1.52 million).

(d) At 31 December 2004, the Company had provided corporate guarantee to the extent of HK$10,000,000 (2003: HK$Nil) for banking facilities granted to a subsidiary, which were utilised to the extent of HK$1.64 million.

34. RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2004, the Group was granted financial assistance from a substantial shareholder. At 31 December 2004, included in trade and other payables is an amount due to a substantial shareholder of HK$40,000 (2003: due to the ultimate holding company of HK$1,340,000) is unsecured, interest-free and has no fixed terms of repayment.

(b) During the year ended 31 December 2004, the Group paid consultancy fees of HK$85,000 (2003: HK$970,000) 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.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 25 to 69 were approved and authorised for issue by the board of directors on 22 April 2005.