

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

For the six months ended 30 June 2005

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 report has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK").

The accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the Group financial statements for the year ended 31 December 2004, except for the changes in the accounting policies that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA) which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted all such HKFRSs that are pertinent to its operation. The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Management
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 34 and 37 do not result in substantial changes to the Group’s accounting policies. In summary, these HKASs and Interpretations affect certain presentation in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, and disclosure to the financial statements.

2. Changes in accounting policies (Continued)

(a) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

- (i) positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and
- (ii) positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortization as at 1 January 2005 has been offset against the cost of the goodwill and no amortization charge for goodwill has been recognized in the income statement for the six months ended 30 June 2005. This has reduced the Group's loss after taxation for the six months ended 30 June 2005 by HK\$907,000.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognized in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the interim financial report as there was no negative goodwill deferred as at 31 December 2004.

2. Changes in accounting policies *(Continued)*

(b) Employee share option scheme (HKFRS 2, Shared-based payment)

In prior years, no amounts were recognized when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of the share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 7 November 2002; and
- (ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

There is no impact on the results for the 6 months ended 30 June 2005, and the reserves as of that date as all options granted were before 7 November 2002, correspondingly, no comparative figures were restated.

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surplus or deficits were normally taken to the land and buildings revaluation reserve except when a surplus arises on revaluation of an asset where a deficit on revaluation was previously charged to the income statement.

2. Changes in accounting policies (Continued)

(c) *Leasehold land and buildings held for own use (HKAS 17, Leases) (Continued)*

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments are amortised on a straight line basis over the lease term.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKAS 17, except that the Group has taken advantage of the exemption provisions set out in paragraph 17 of HKAS 17 under which the requirement to separate the land and buildings element have not been applied as the land element is immaterial in relation to the value of the entire lease. As a result, the change in policy had no effect on the interim financial report as the land and buildings is treated as a single unit for the purpose of lease classification and continues to be accounted for as property, plant and equipment, measured using the revaluation model as allowed in HKAS 16.

(d) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

In prior years, the accounting policies for equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision.

With effect from 1 January 2005, and in accordance with HKAS 39, all non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognized in equity, unless there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for period in which the impairment is identified. Any subsequent increase in fair value of available-for-sale equity securities is recognized directly in equity.

2. Changes in accounting policies *(Continued)*

(d) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (Continued)*

There was no adjustment to the opening balance of accumulated losses due to the change in accounting policy as the investment securities were stated at fair value as at 31 December 2004. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, the Group's loss before taxation for the six months ended 30 June 2005 has increased by HK\$75,000 and net income recognized directly in equity for the six months ended 30 June 2005 has increased by the same amount.

3. Going concern basis

Notwithstanding that the Group sustained recurrent losses and had net current liabilities as at 30 June 2005, including unsecured other loans of \$6.5 million 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 30 million made available to the Company from financial institutions; and
- (ii) 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 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.

4. Turnover and segment information

The principal activity of the Company is investment holding. During the period ended 30 June 2005, the Group is wholly engaged in the manufacture and sales of healthcare and household products. During the period ended 30 June 2004, the Group was also involved in the provision of Information Technology-related services but the provision of such services were ceased during the period ended 30 June 2004 with only interests in an associated company which is involved in 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.

During the current interim period, segment information is presented in respect of the Group's business and geographical segments. Business segment information will continue to be chosen as the primary reporting format as this is more relevant to the Group's internal financial reporting.

4. 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	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	67,048	58,330	-	-	-	-	67,048	58,330
Other revenue from external customers	224	348	-	-	-	-	224	348
Total	67,272	58,678	-	-	-	-	67,272	58,678
Profit/(loss) from operations	534	(557)	-	(385)	(6,853)	(7,888)	(6,319)	(8,830)
Finance costs							(761)	(691)
Share of losses of associates	-	-	(2,161)	(4,893)	-	(229)	(2,161)	(5,122)
Loss from ordinary activities before taxation							(9,241)	(14,643)
Taxation							-	-
Loss attributable to shareholders							(9,241)	(14,643)

This segment information for the period ended 30 June 2004 has been reclassified to conform with the current period's presentation.

4. Turnover and segment information (Continued)

	Group turnover	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Geographical locations of customers		
North America	35,311	33,531
Europe	17,696	14,719
Asia	8,903	8,343
Others	5,138	1,737
	<u>67,048</u>	<u>58,330</u>

5. Loss from ordinary activities before taxation

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on borrowings	<u>761</u>	<u>691</u>
(b) Other items:		
Cost of inventories	42,382	45,418
Staff costs	16,168	15,590
Depreciation	2,326	2,311
Amortisation of positive goodwill	–	111
Net (profit)/loss on disposal of fixed assets	(671)	(764)
Profit on disposal of subsidiaries (note (i))	–	(1,569)
Interest income	<u>(244)</u>	<u>(165)</u>

5. 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 income statement. 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.

6. Taxation

Provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 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 utilized.

7. 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\$9,241,000 (2004: HK\$14,643,000) and the weighted average number of ordinary shares of 1,937,826,789 (2004: 1,937,043,932) 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.

8. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2005 (2004: HK\$Nil).

9. Other investments

	At 30 June 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
Available-for-sale equity securities	<u>6,344</u>	<u>6,269</u>
Market value of Available-for-sale equity securities	<u>6,344</u>	<u>6,269</u>

10. Inventories

	At 30 June 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
Raw materials	7,244	12,411
Work in progress	4,352	3,654
Finished goods	<u>4,500</u>	<u>1,244</u>
	<u>16,096</u>	<u>17,309</u>

At 30 June 2005, inventories of \$56,099 (at 31 December 2004: \$Nil) 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
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Current	7,715	6,839
1 to 3 months overdue	2,380	2,206
More than 3 months overdue but less than 12 months overdue	65	97
More than 12 months overdue	139	159
	<hr/>	<hr/>
Total trade debtors	10,299	9,301
Deposits, prepayments and other receivables	5,179	3,706
Amounts due from associates	21	24
	<hr/>	<hr/>
	15,499	13,031
	<hr/> <hr/>	<hr/> <hr/>

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 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 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 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
Due within 1 month or on demand	12,929	12,248
Due after 1 month but within 3 months	5,240	7,071
Due after 3 months but within 6 months	912	681
Due after 6 months	1,560	1,263
	<hr/>	<hr/>
Total trade creditors	20,641	21,263
Other creditors and accrued charges	43,739	36,043
	<hr/>	<hr/>
	64,380	57,306
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14. Pledge of assets

At 30 June 2005, a loan from a financial institution of approximately HK\$8.1 million (at 31 December 2004: HK\$8.6 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 2004: HK\$17.3 million).

15. Share capital

	No. of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of \$0.05 each		
at 31 December 2004 and 30 June 2005	6,000,000,000	300,000
	<hr/> <hr/>	<hr/> <hr/>
<i>Issued and fully paid:</i>		
At 31 December 2004 and 30 June 2005	1,937,826,789	96,891
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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 \$0.07 per warrant by private placement to not less than 100 selected independent investors on 27 November 2003. Each warrant entitles the holder thereof to subscribe for one ordinary share of \$0.05 each of the Company at an initial subscription price of \$0.28 (subject to adjustment) during the one-year period from the date of issue. The net proceeds of \$24.5 million were used for repayment of loans from financial institutions. Dealing in the 2004 Warrants on the SEHK 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 \$1,153,600, of which \$206,000 was credited to share capital and the balance of \$947,600 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.

16. Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	Warrant reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	1,391,021	(1,840)	24,498	(1,494,183)	(80,504)
Shares issued upon exercise of warrants (note 15(a))	948	-	-	-	948
Release of warrant proceeds upon exercise of warrants (note 15(a))	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	<u>1,392,241</u>	<u>(1,742)</u>	<u>24,226</u>	<u>(1,515,598)</u>	<u>(100,873)</u>
At 1 January 2005	1,392,241	(1,742)	24,226	(1,515,598)	(100,873)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	46	-	-	46
Changes in fair value of available-for-sale securities	-	-	-	75	75
Loss for the period	-	-	-	(9,241)	(9,241)
At 30 June 2005	<u>1,392,241</u>	<u>(1,696)</u>	<u>24,226</u>	<u>(1,524,764)</u>	<u>(109,993)</u>

17. Capital Commitments

At 30 June 2005, the Group had the following capital commitments outstanding and not provided for in the financial statements:

	At 30 June 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
Contracted for:		
Quality guarantee deposit	17,500	17,500
Purchases of fixed assets	528	586
	<u>18,028</u>	<u>18,086</u>

18. Litigation

- (a) In October 1999, Mersongate Holdings Limited, an independent third party (the "Plaintiff"), commenced an action against (1) Mr Huen Raico Hing Wah, a former director of the Company; (2) Central Growth Limited and Bridal Path Corporation, former substantial shareholders of the Company; and (3) the Company (collectively the Defendants"), alleging that the Defendants have agreed to certain arrangements in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangements, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangements. The Company has filed a defence against the claim and the Directors of the Company consider that no provision for the claim is necessary.
- (b) In 2002, certain creditors of 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.

19. Approval of interim financial report

This interim financial report was approved and authorised for issue by the Board of Directors on 16 September 2005.