

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Ming Yuan Holdings Limited which is incorporated in the British Virgin Islands with limited liability.

The Company is an investment holding company. The principal activities of its subsidiaries at 31st December, 2004 are set out in note 37.

### 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

#### **Basis of consolidation**

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

The results of subsidiaries which are 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.

All significant intra-group transactions and balances have been eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### **Revenue recognition**

Sales of goods are recognised when the goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the respective leases.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is 20 years or less.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease, or the land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Plant and equipment	10% – 30%
Office equipment	15% – 50%
Motor vehicles	15% – 33%
Leasehold improvements	10% – 33% or the term of the lease
Furniture and fixtures	20% – 33%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### **Investments in securities**

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Operating leases**

Rentals payable in respect of leases other than finance leases operating leases are charged to the income statement on a straight line basis over the relevant lease term.

#### **Retirement benefits costs**

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 4. SEGMENT INFORMATION

#### Business segments

For management purposes, the Group is organised into the following three major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

- |   |   |   |
|---|---|---|
| Protein chips operation                                       | – | Manufacturing and trading of protein chips and related equipments |
| Information technology ("IT") products and services operation | – | Trading of IT products and related accessories                    |
| Property investment   | – | Leasing of properties, properties holding and property trading    |

#### 4. SEGMENT INFORMATION (Continued)

##### Business segments (Continued)

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by business segments is as follows:

	Protein chips operation HK\$'000	IT products and services operation HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
For the year ended 31st December, 2004					
TURNOVER					
External sales	78,798	429,696	15,074	–	523,568
RESULTS					
Segment results	54,986	6,641	7,523	(4,530)	64,620
Interest income					583
Profit from operations					65,203
Profit on disposal of subsidiaries			9,673		9,673
Finance costs					(2,853)
Profit before taxation					72,023
Taxation					(4,771)
Profit before minority interests					67,252
Minority interests					(232)
Net profit for the year					67,020
Assets and liabilities at 31st December, 2004					
ASSETS					
Segment assets	116,830	83,591	14,518	210,807	425,746
Goodwill	47,115	–	–	–	47,115
Negative goodwill	(234)	(427)	–	–	(661)
Unallocated assets					599
Consolidated total assets					472,799
LIABILITIES					
Segment liabilities	5,016	34,174	1,663	3,183	44,036
Unallocated liabilities	–	–	–	–	35,913
Consolidated total liabilities					79,949



## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 4. SEGMENT INFORMATION *(Continued)*

#### Business segments *(Continued)*

	Protein chips operation <i>HK\$'000</i>	IT products and services operation <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Other information for the year ended 31st December, 2004					
Capital expenditure	2,997	24	–	654	3,675
Depreciation on property, plant and equipment	5,843	495	–	939	7,277
Amortisation of goodwill	5,490	–	–	–	5,490
Release of negative goodwill	26	50	154	–	230

#### 4. SEGMENT INFORMATION (Continued)

##### Business segments (Continued)

	Protein chips operation HK\$'000	IT products and services operation HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
For the year ended 31st December, 2003					
TURNOVER					
External sales	33,032	412,382	10,634	–	456,048
RESULTS					
Segment results	28,209	13,330	3,339	(6,618)	38,260
Interest income					2,846
Profit from operations					41,106
Finance costs					(1,812)
Profit before taxation					39,294
Taxation					(3,546)
Profit before minority interests					35,748
Minority interests					(2,055)
Net profit for the year					33,693
Assets and liabilities at 31st December, 2003					
ASSETS					
Segment assets	118,793	54,031	138,622	34,691	346,137
Goodwill	52,605	–	–	–	52,605
Negative goodwill	–	(476)	(1,488)	–	(1,964)
Unallocated assets					22,726
Consolidated total assets					419,504
LIABILITIES					
Segment liabilities	28,117	19,847	1,835	850	50,649
Unallocated liabilities					67,826
Consolidated total liabilities					118,475

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 4. SEGMENT INFORMATION *(Continued)*

#### Business segments *(Continued)*

	Protein chips operation <i>HK\$'000</i>	IT products and services operation <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Other information for the year ended 31st December, 2003					
Capital expenditure	102,442	709	70,909	463	174,523
Depreciation on property, plant and equipment	2,598	274	–	733	3,605
Amortisation of technical know-how	311	–	–	–	311
Amortisation of goodwill	2,287	–	–	–	2,287
Release of negative goodwill	–	21	65	–	86

#### Geographical segments

The following table provides an analysis of the Group's turnover by geographic markets, irrespective of the origin of the goods and services:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	296,734	314,963
PRC	220,920	136,921
Canada	5,914	4,164
	<b>523,568</b>	456,048

#### 4. SEGMENT INFORMATION (Continued)

##### Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital and intangible assets additions	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	249,472	113,300	654	463
PRC	222,749	298,996	3,021	174,060
Canada	578	7,208	–	–
	<b>472,799</b>	<b>419,504</b>	<b>3,675</b>	<b>174,523</b>

#### 5. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	583	2,846
Unrealised gain on investments in securities	6,710	1,296
Gain on disposal of property, plant and equipment	6,708	–
Gain on disposal of investment in securities	–	11
Gain on disposal of investment properties	–	356
Gain on disposal of technical know-how	–	8,080
Government grant	–	2,210
Others	1,263	16
	<b>15,264</b>	<b>14,815</b>

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 6. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation	7,277	3,605
Staff costs		
– Directors' remuneration ( <i>Note 8(a)</i> )	2,477	–
– other staff costs	10,926	5,929
– retirement benefits scheme contributions, excluding directors	109	68
Total staff costs	13,512	5,997
Auditors' remuneration	1,000	800
Amortisation of goodwill included in other operating expenses	5,490	2,287
Allowance for bad and doubtful debts	–	1,960
Amortisation of technical know-how included in other operating expenses	–	311
Research and development expenses	1,227	902
and after crediting:		
Net rental income in respect of premises after outgoings of approximately HK\$3,000,000 (2003: HK\$1,589,000)	7,364	6,450
Release of negative goodwill included in administrative expenses	230	86

### 7. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	2,853	1,812

## 8. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) DIRECTORS' REMUNERATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	2,014	–
Non-executive	–	–
Independent non-executive	151	–
	<b>2,165</b>	–
Other emoluments of executive directors:		
Salaries and other benefits	297	–
Retirement benefits scheme contributions	15	–
Compensation for loss of office	–	–
	<b>312</b>	–
	<b>2,477</b>	–

No emoluments were payable to directors during the year ended 31st December, 2003.

The number of directors whose remuneration falls within the bands set out below is as follows:

HK\$	2004 Number of directors	2003 Number of directors
Nil to 1,000,000	8	7
1,000,000 to 1,500,000	1	–

None of the directors has waived any emoluments during the year.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 8. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

#### (b) EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group include one director of the Company (2003: Nil), details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>2,246</b>	1,801
Performance related bonus	–	–
Retirement benefits scheme contributions	<b>40</b>	53
	<b>2,286</b>	1,854

The number of employees whose remuneration falls within the bands set out below is as follows:

<i>HK\$</i>	<b>2004</b> <i>Number of</i> <i>employees</i>	2003 <i>Number of</i> <i>employees</i>
Nil to 1,000,000	<b>4</b>	5

## 9. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– Current year	<b>(1,103)</b>	(1,349)
Taxation in other jurisdictions		
– Current year	<b>(1,054)</b>	(2,197)
– Underprovision in prior years	<b>(2,614)</b>	–
Taxation attributable to the Company and its subsidiaries	<b>(4,771)</b>	(3,546)

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The tax charge for the year can be reconciled to the profit before taxation as per the consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<b>72,023</b>	39,294
Tax at the domestic income tax rate at 33% (2003: 33%) ( <i>Note a</i> )	<b>23,767</b>	12,967
Tax effect of income not taxable in determining taxable profit	<b>(5,384)</b>	(782)
Tax effect of expenses not deductible for tax purpose	<b>5,347</b>	63
Tax effect of tax losses not recognised	<b>4,468</b>	1,603
Underprovision in prior years	<b>2,614</b>	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(6,529)</b>	(3,788)
Effect of tax exemptions granted to PRC subsidiaries	<b>(20,060)</b>	(6,517)
Others	<b>548</b>	–
Taxation for the year	<b>4,771</b>	3,546



## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 9. TAXATION *(Continued)*

*Notes:*

- (a) Being tax rate in PRC where the operation of the Group is substantially based.
- (b) As at 31st December, 2004, the Group had unused tax losses of approximately HK\$38,089,000 (2003: HK\$24,545,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$67,020,000 (2003: HK\$33,693,000) and the weighted average number of 2,685,082,531 ordinary shares in issue (2003: 2,382,931,846 ordinary shares in issue) during the year.

No diluted earnings per share for both years ended 31st December, 2004 are calculated as there were no dilutive ordinary shares in issue during both years.

### 11. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	<i>HK\$'000</i>
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VALUATION	
At 1st January, 2004	114,700
Transfer to properties held for resale	(10,600)
Disposal of subsidiaries	(102,000)
Surplus arising on revaluation	750
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At 31st December, 2004	2,850
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The Group's investment properties were revalued as at 31st December, 2004 by Chesterton Petty Ltd., an independent firm of professional property valuers, on an open market value basis. The revaluation gave rise to a surplus of HK\$750,000 which has been credited to the investment property revaluation reserve.

## 11. INVESTMENT PROPERTIES *(Continued)*

The carrying value of the investment properties comprises:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Properties held under medium-term leases in Hong Kong	–	4,800
Properties held under long-term leases in Hong Kong	–	5,800
Properties held under medium-term land use rights in the PRC	<b>2,850</b>	51,100
Properties held under long-term land use rights in the PRC	–	53,000
	<b>2,850</b>	114,700

As at 31st December, 2003, investment properties with a carrying value of HK\$107,800,000 were pledged to secure general banking facilities granted to the Group and a third party.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Plant and equipment <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>							
COST							
At 1st January, 2004	12,764	25,880	1,719	2,764	1,596	576	45,299
Adjustment ( <i>Note</i> )	(6,224)	-	-	-	-	-	(6,224)
Additions	50	2,712	191	609	60	53	3,675
Disposal	-	(4,669)	-	-	-	-	(4,669)
At 31st December, 2004	6,590	23,923	1,910	3,373	1,656	629	38,081
DEPRECIATION							
At 1st January, 2004	111	2,203	364	432	642	122	3,874
Provided for the year	406	4,776	591	894	419	191	7,277
Eliminated on disposal	-	(810)	-	-	-	-	(810)
At 31st December, 2004	517	6,169	955	1,326	1,061	313	10,341
NET BOOK VALUES							
At 31st December, 2004	6,073	17,754	955	2,047	595	316	27,740
At 31st December, 2003	12,653	23,677	1,355	2,332	954	454	41,425
<b>THE COMPANY</b>							
COST							
At 1st January, 2004	-	-	150	-	798	101	1,049
Additions	-	-	83	-	20	14	117
At 31st December, 2004	-	-	233	-	818	115	1,166
DEPRECIATION							
At 1st January, 2004	-	-	96	-	321	45	462
Provided for the year	-	-	84	-	209	38	331
At 31st December, 2004	-	-	180	-	530	83	793
NET BOOK VALUE							
At 31st December, 2004	-	-	53	-	288	32	373
At 31st December, 2003	-	-	54	-	477	56	587

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

*Note:* The amount represents adjustment made on the consideration for a land use right related to a piece of land located in PRC acquired in prior year.

The land and buildings held by the Group as at 31st December, 2004 shown above were held under medium lease terms located in the PRC.

At 31st December, 2003, the Group's property, plant and equipment with an aggregate net book value HK\$12,653,000 were pledged to secure general banking facilities granted to the Group. The pledge was released during the year.

## 13. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHT

### THE GROUP

During the year, 上海數康生物科技有限公司, a wholly-owned subsidiary of the Company, entered into an agreement with 上海松江工業園區 to acquire a land use right relating to a piece of land located in the PRC for a consideration of US\$4,900,000 (equivalent to approximately HK\$37,551,000). As at 31st December, 2004, a deposit of US\$3,000,000 (equivalent to HK\$22,991,000) was paid by the Group.

## 14. GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
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COST	
At 1st January, 2004 and 31st December, 2004	54,892
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AMORTISATION	
At 1st January, 2004	2,287
Provided for the year	5,490
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At 31st December, 2004	7,777
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NET BOOK VALUE	
At 31st December, 2004	47,115
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At 31st December, 2003	52,605
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Goodwill is amortised over a period of 10 years.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 15. NEGATIVE GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
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COST	
At 1st January, 2004	2,050
Arising on acquisition additional interest in subsidiaries	260
Released upon disposal of subsidiaries	(1,553)
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At 31st December, 2004	757
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AMORTISATION	
At 1st January, 2004	86
Released to income	230
Released upon disposal of subsidiaries	(220)
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At 31st December, 2004	96
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NET BOOK VALUE	
At 31st December, 2004	661
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At 31st December, 2003	1,964
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The negative goodwill is released to the consolidated income statement over a period of 10 years, the remaining weighted average useful lives of the depreciable assets acquired.

## 16. INTERESTS IN SUBSIDIARIES

		THE COMPANY	
	Notes	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost		–	–
Amounts due from subsidiaries	(i)	<b>293,420</b>	235,726
		<b>293,420</b>	235,726
Less: Allowance		<b>(13,488)</b>	(13,488)
		<b>279,932</b>	222,238
Less: Amounts shown under current assets		<b>(119,031)</b>	(15,991)
Amounts shown under non-current	(ii)	<b>160,901</b>	206,247
Amounts due to subsidiaries – current	(i)	<b>17,696</b>	4,686

*Notes:*

- (i) At the balance sheet date, the amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.
- (ii) In the opinion of directors, the amounts are unlikely to be repaid within one year and are therefore shown as non-current.

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 37.

## 17. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At cost		
Raw materials	<b>3,758</b>	2,953
Work in progress	<b>2,150</b>	2,226
Finished goods	<b>6,617</b>	8,960
	<b>12,525</b>	14,139

The cost of inventories recognised as expenses during the year was approximately HK\$416,880,000 (2003: HK\$394,831,000).

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade receivables ( <i>Note a</i> )	90,257	22,522
Prepayments for purchases	14,561	23,629
Consideration receivable for disposal of subsidiaries ( <i>Note b</i> ) ( <i>Note 30</i> )	75,000	–
Purchase price adjustment receivable ( <i>Note 29</i> )	–	10,268
Deposits and other receivables ( <i>Note c</i> )	12,681	28,011
	<b>192,499</b>	<b>84,430</b>

*Notes:*

- (a) The Group normally allows a credit period of 30 to 90 days to its trade customers. An aged analysis of the trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0-60 days	56,643	20,198
61-90 days	5,098	300
Over 90 days	30,476	3,984
	<b>92,217</b>	<b>24,482</b>
Less: Allowances for bad and doubtful debts	(1,960)	(1,960)
	<b>90,257</b>	<b>22,522</b>

- (b) The amount will be repayable on or before 30th June, 2005 and is secured by the entire issued shares of disposed subsidiaries.
- (c) As at 31st December, 2003, included in the balance were amounts of approximately HK\$14,000,000 and HK\$3,000,000 which were consideration receivable for the disposal of technical know-how and an associate respectively.

## 19. LOANS AND INTEREST RECEIVABLE

### THE GROUP

The amounts are unsecured, bearing interest at 2% to 8% per annum and are repayable within one year.

## 20. AMOUNT DUE FROM (TO) A MINORITY SHAREHOLDER

### THE GROUP

The amount is unsecured, non-interest bearing and is repayable on demand. The maximum debit balance outstanding during the year ended 31st December, 2004 was approximately HK\$982,000.

## 21. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other investments		
Listed equity investments, at market value:		
Hong Kong	14,630	7,920

## 22. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade payables	8,891	29,352
Accruals and other payables	12,202	20,775
	21,093	50,127



## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 22. TRADE AND OTHER PAYABLES *(Continued)*

An aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0-60 days	21	11,288
61-90 days	13	4,074
Over 90 days	8,857	13,990
	<b>8,891</b>	<b>29,352</b>

### 23. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
上海銘源實業集團有限公司 (“上海銘源實業”)	2,934	–
上海銘源數碼股份有限公司 (“上海銘源數碼”)	1,575	454
上海銘源物業管理有限公司 (“上海銘源物業”)	–	16
	<b>4,509</b>	<b>470</b>

The amounts are unsecured, non-interest bearing and are repayable on demand.

上海銘源實業, 上海銘源數碼 and 上海銘源物業 are companies in which Mr. Yao Yuan has a beneficial interest.

### 24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

#### THE GROUP AND THE COMPANY

The amount is unsecured, non-interest being and is repayable on demand.

## 25. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank borrowings repayable:		
– within one year or on demand	31,102	61,943
– after one year but within two years	1,195	1,195
– after two years but within five years	840	1,238
	<b>33,137</b>	64,376
Less: Amount due within one year included under current liabilities	<b>(31,102)</b>	(61,943)
Amount due after one year	<b>2,035</b>	2,433
Analysed as:		
Secured	<b>3,230</b>	64,376
Unsecured	<b>29,907</b>	–
	<b>33,137</b>	64,376

The bank borrowings bear interest at market rates and are repayable within a period of 5 years. The proceeds were used for general working capital purpose. The bank borrowings are secured by certain properties of the Group held for sale, corporate guarantee given by a related company and third parties and personal guarantee given by a director of the Company. Details of the corporate guarantee given by the related company and personal guarantee given by a director of the Company are set out in note 36.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 26. SHARE CAPITAL

	<i>Notes</i>	<b>Number of shares</b>	<b>Value HK\$'000</b>
Authorised:			
Ordinary shares of HK\$0.25 each			
At 1st January, 2003		600,000,000	150,000
Subdivision of shares		2,400,000,000	–
Ordinary shares of HK\$0.05 each			
at 31st December, 2003		3,000,000,000	150,000
Increase in authorised share capital	<i>(a)</i>	1,000,000,000	50,000
		4,000,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$0.25 each			
At 1st January, 2003		419,619,246	104,905
Issue of shares		13,000,000	3,250
		432,619,246	108,155
Subdivision of shares		1,730,476,984	–
		2,163,096,230	108,155
Issue of shares		425,000,000	21,250
Ordinary shares of HK\$0.05 each			
at 31st December, 2003		2,588,096,230	129,405
Issue of shares	<i>(b)</i>	100,000,000	5,000
Ordinary shares of HK\$0.05 each			
at 31st December, 2004		2,688,096,230	134,405

*Notes:*

- (a) Pursuant to resolutions passed in a special general meeting of the Company held on 31st May, 2004, the authorised share capital was increased from HK\$150,000,000 to HK\$200,000,000 by the creation of an additional 1,000,000,000 ordinary shares of HK\$0.05 each.
- (b) On 12th January, 2004, 100,000,000 ordinary shares of HK\$0.01 each held by Ming Yuan Investments Group Limited ("MYGL"), one of the Company's substantial shareholders, were placed to the independent third parties. On the same date, 100,000,000 ordinary shares of HK\$0.01 each of the Company were issued and allotted to MYGL for cash at HK\$0.55 each to raise additional working capital. All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

## 27. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st January, 2003	–	12,804	(17,377)	(4,573)
Issue of shares	100,345	–	–	100,345
Net loss for the year	–	–	(8,129)	(8,129)
At 31st December, 2003	100,345	12,804	(25,506)	87,643
Issue of shares ( <i>Note 26(b)</i> )	50,000	–	–	50,000
Net loss for the year	–	–	(10,825)	(10,825)
At 31st December, 2004	150,345	12,804	(36,331)	126,818

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31st December, 2004 and 31st December, 2003, the Company had no reserves available for distribution to its shareholders.

## 28. SHARE OPTIONS

### 1999 Scheme

In accordance with the terms of the Company's Executive Share Option Scheme adopted on 3rd September, 1999 ("1999 Scheme"), and effective for a period of ten years after the date of adoption of the scheme, the Company could grant to directors and employees of the Company and its subsidiaries share options to subscribe for its ordinary shares for a consideration of HK\$1 for the primary purpose of providing incentives to directors and eligible employees. No options could be exercised within 3 months from the date of grant.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 28. SHARE OPTIONS *(Continued)*

#### 1999 Scheme *(Continued)*

The maximum number of shares in the Company in respect of which options could be granted under the 1999 Scheme could not exceed 10% of the issued share capital of the Company from time to time. The subscription price of shares in respect of which options could be granted under the 1999 Scheme would be a price determined by the board of the directors of the Company and notified to each grantee and would not be less than 80% of the average of the closing prices of the shares in the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of the grant of the options or the nominal value of a share, whichever was higher.

No option could be granted to any employees which if exercised in full would result in such employee becoming entitled to subscribe for such number of shares which, when aggregated with the total number of shares already issued and issuable to him or her under the 1999 Scheme, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1999 Scheme.

The shares allotted upon the exercise of an option would be subject to all provisions of the Bye-laws of the Company for the time being in force and would rank *pari passu* in all respects with the fully paid shares in issue on the date of exercise of the option and accordingly would entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore was before the date of exercise of the option.

The 1999 scheme was terminated pursuant to an ordinary resolution passed in a special general meeting of the Company held on 31st May, 2004.

#### 2004 Scheme

On 31st May, 2004 (the "Adoption Date"), the Company adopted a new share option scheme ("2004 Scheme") for the primary purpose of providing incentives to any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries (the "Group") and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group ("Participants") who the board of directors considers, in its sole discretion, have contributed or shall have contributed to the Group. The 2004 Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Under the 2004 Scheme, the board of directors of the Company may grant options to the Participants, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all outstanding options under the 2004 Scheme shall not exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

## 28. SHARE OPTIONS *(Continued)*

### 2004 Scheme *(Continued)*

Option granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at its discretion determines the specific exercise period. The exercise price is determined by the board of directors of the Company, and will not be less than the higher of (i) the closing price; (ii) the average closing price of the Company's shares of the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No options was granted since the Adoption Date.

## 29. ACQUISITION OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Investment properties	–	72,220
Property, plant and equipment	–	30,610
Technical know-how	–	5,545
Inventories	–	16,130
Trade and other receivables <i>(note)</i>	–	83,193
Bank balances and cash	–	5,806
Trade and other payables	–	(45,373)
Bank borrowings – due within one year	–	(58,878)
Taxation payable	–	(24)
Minority interests	–	(7,426)
	–	101,803
Goodwill arising on acquisition	–	54,892
Negative goodwill arising on acquisition	–	(2,050)
Consideration	–	154,645
Satisfied by:		
Cash	–	20,800
Deposits paid for acquisition of subsidiaries	–	9,000
Issue of shares	–	124,845
	–	154,645

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 29. ACQUISITION OF SUBSIDIARIES *(Continued)*

*Note:* Included in the balance was an amount of HK\$10,268,000 which represented a purchase price adjustment due from the vendor pursuant to the relevant sale and purchase agreement entered into by the Group during the year ended 31st December, 2003.

An analysis of the net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash consideration paid	–	(20,800)
Bank balances and cash acquired	–	5,806
Net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries	–	(14,994)

During the year ended 31st December, 2003, the above subsidiaries contributed approximately HK\$3,000,000 to the Group's net operating cash outflow, cash outflow of approximately HK\$3,000,000 in respect of investing activities and cash outflow of approximately HK\$3,000,000 in respect of financing activities.

### 30. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its 100% interest in Giant Power International Limited, 上海漢中皇國際物業管理有限公司 and Fieldcrown Investments Limited for a total consideration of approximately HK\$92,443,000. These disposed subsidiaries were engaged in the business of property investment. Details of the assets and liabilities of the subsidiaries disposed of are as follows:

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Investment properties	102,000	–
Trade and other receivables	9,437	–
Bank balances and cash	5,783	–
Trade and other payables	(2,027)	–
Amount due to a related company	(10)	–
Taxation payable	(1,542)	–
Investment property revaluation reserve realised	(29,538)	–
Negative goodwill realised	(1,333)	–
	82,770	–
Gain on disposal of subsidiaries	9,673	–
Consideration	92,443	–
Satisfied by:		
Cash	17,443	–
Other receivables	75,000	–
	92,443	–



## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 30. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net cash inflow of cash and cash equivalents in connection with the disposal of subsidiaries is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash consideration received	<b>17,443</b>	–
Bank balances and cash disposed of	<b>(5,783)</b>	–
Net inflow of cash and cash equivalents in connection with the disposed of subsidiaries	<b>11,660</b>	–

The subsidiaries disposed of during the year contributed approximately HK\$510,000 to the Group's net operating cash inflow and no significant contribution to the Group's cashflow in respect of investing and financing activities.

### 31. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Authorised but not contracted for in respect of an investment project	<b>210,600</b>	–
Contracted for but not provided for in the financial statements in respect of acquisition of land use right	<b>14,560</b>	–

At the balance sheet date, the Company did not have any significant capital commitment.

## 32. OPERATING LEASE COMMITMENTS

### The Group as lessor

During the year, the Group had property rental income of approximately HK\$3,000,000 (2003: HK\$8,039,000). Certain properties of the Group had committed tenants for the next 1 year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	<b>177</b>	9,734
In the second to fifth years inclusive	–	23,690
	<b>177</b>	33,424

### The Group as lessee

During the year, the Group made minimum lease payments under operating leases of approximately HK\$3,000,000 (2003: HK\$2,103,000) in respect of land and buildings, other equipment and staff quarter.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which would fall due as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	<b>1,773</b>	1,600
In the second to fifth years inclusive	<b>4,957</b>	544
	<b>6,730</b>	2,144

Leases entered into by the Group were negotiated for an average term of two years.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 33. CONTINGENT LIABILITIES

#### THE GROUP

As at 31st December, 2004, the Group did not have any significant contingent liabilities.

During the year ended 31st December, 2003, investment properties with carrying value of HK\$102,000,000 were pledged to banks to secure the banking facilities granted to a third party. As at 31st December, 2003, the amount of facilities utilised by the third party amounted to approximately HK\$59,000,000.

#### THE COMPANY

At the balance sheet date, the Company issued corporate guarantee to banks in respect of general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2004 amounted to approximately HK\$21,394,000 (2003: HK\$3,629,000).

### 34. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

### 35. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Investment properties	–	107,800
Land and buildings	–	12,653
Properties held for sale	<b>5,500</b>	–
	<b>5,500</b>	120,453

### 36. RELATED PARTY/CONNECTED PARTY TRANSACTIONS

上海銘源實業, a company in which Mr. Yao Yuan has a beneficial interest, has given a corporate guarantee to the extent of RMB32,000,000 (equivalent to approximately HK\$29,906,000) (2003: RMB12,000,000, equivalent to approximately HK\$11,215,000) to secure banking facility granted to a non-wholly owned subsidiary of the Company.

In addition, Mr. Yao Yuan has a given personal guarantee to the extent of US\$2,500,000 (equivalent to approximately HK\$19,500,000) (2003: Nil) to secure banking facility granted to a subsidiary of the Company. As at 31st December, 2004, the facility utilized by that subsidiary amounted to approximately HK\$18,164,000.

Details of the Group's balances with related parties at the balance sheet date are set out in notes 20, 23 and 24.

## Notes to the Financial Statements (For the year ended 31st December, 2004)

### 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fun Area Limited	British Virgin Islands	US\$1	–	100	Investment holding
Premier Asset Investment Limited	British Virgin Islands	US\$1	–	100	Investment holding
Sky Glory Investments Limited	Hong Kong	HK\$2	–	100	Property holding
Trans Ocean Developments Limited	Hong Kong	HK\$2	–	100	Property holding
Evergreen Gardens Project Inc.	Canada	C\$100	–	100	Property holding
Rosario Gardens Inc.	Canada	C\$100	–	100	Property holding
MY Technology Limited	British Virgin Islands	US\$1	–	100	Trading of computer products and related accessories
上海龍祥電腦有限公司 (Note b)	PRC	RMB10,000,000	–	51%	Trading of computer products and related accessories
HD Global Limited	British Virgin Islands	US\$2,000,000	–	100%	Investment holding
上海數康生物科技 有限公司 (Note a)	PRC	RMB40,000,000	–	100%	Research and development activities
湖洲數康生物科技 有限公司 (Note a)	PRC	RMB10,000,000	–	100%	Manufacturing and trading of protein chips and related equipments

### 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

*Notes:*

- (a) These companies are registered in the form of wholly-owned foreign investment enterprise.
- (b) These companies are registered in the form of an equity joint venture.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

### 38. POST BALANCE SHEET EVENT

On 6th January, 2005, the Group issued convertible bonds in the aggregate amount of HK\$200,000,000, which bear interest at 1% per annum and due for redemption on 6th January, 2010 ("Convertible Bonds").

The holders of the Convertible Bonds are entitled at any time during the period from the date of issue to 6th January, 2010 to convert the Convertible Bonds into shares of the Company at an initial conversion price of HK\$0.92 per share, subject to adjustment.