

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The activities of its principal subsidiaries, associate and jointly controlled entity are set out in notes 16, 17 and 18, respectively.

The major changes in the Company’s principal subsidiaries during the year are as follows:

Disposal

On 13th January, 2003, the Company entered into an agreement to dispose of the entire issued share capital in Grandace Investments Ltd. (“Grandace”), a wholly-owned subsidiary of the Company, and an unsecured, interest-free shareholder’s loan of HK\$74,621,000 due from Grandace to the Company for an aggregate cash consideration of HK\$49,057,000 (after adjustment). Grandace and its 55% owned subsidiary, Hangzhou B. P. Chemical Fibre Co., Ltd. (“Hangzhou B. P.”, collectively the “Grandace Group”) were major subsidiaries of the Company that were engaged in the manufacturing and trading of chemical fibers in the People’s Republic of China (the “PRC”). Completion of the aforesaid transaction took place in September 2003.

Acquisitions

- (1) On 27th September, 2003, the Group entered into an agreement (the “Agreement”) for the acquisition of the entire issued share capital of and the shareholder’s loans to Asian Wealth Group Limited (“AWG”) and China Group Limited (“CGL”) for a total consideration of HK\$160,000,000 (subject to adjustments as explained below). Each of AWG and CGL owns 80% equity interests in a sino-foreign equity joint venture established in the PRC. One of these two PRC joint ventures, Henan ADP Tian Yuan Power Company Limited (“ADP Tian Yuan”) operates a power plant in the PRC. The other PRC joint venture Henan CGL Tian Yuan Power Company Limited (“CGL Tian Yuan”) owns a power plant in the PRC that is under development.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

1. GENERAL (Continued)

Acquisitions (Continued)

The completion of the above acquisition took place in October 2003. The total consideration of HK\$160,000,000 was settled as follows:

- (a) cash consideration of HK\$60,000,000 was paid on the completion date;
- (b) cash consideration of HK\$20,000,000 was paid subsequent to the balance sheet date; and
- (c) remaining consideration of HK\$80,000,000 was satisfied by the issue of two convertible bonds:
 - (i) the first convertible bond of HK\$40,000,000 will mature on 15th October, 2004; and
 - (ii) the second convertible bond of HK\$40,000,000 will mature on 15th April, 2006.

Details of the convertible bonds are set out in note 24 to the financial statements.

Pursuant to the terms of the Agreement, the Group is granted the right to adjust cash or convertible bonds consideration if the amount of the pre-acquisition liabilities, excluding any sum due under the JV Share Agreements (as defined in the Agreement), inter-company liabilities or borrowings from banks or other financial institutions (the "Agreed Liabilities") exceeds RMB80,000,000 (equivalent to approximately HK\$74,766,000). The Group is entitled to reduce cash or convertible bond consideration by the portion of Agreed Liabilities exceeding RMB80,000,000.

- (2) On 27th August, 2003, the Company entered into an agreement to acquire 60% of the issued capital of Wah Tung International Leasing Co. Ltd. ("Wah Tung"), a sino-foreign equity joint venture established in the PRC for a cash consideration of HK\$2,072,000. Wah Tung owns a business license for the provision of finance lease to third parties in the PRC. The acquisition was completed on 5th December, 2003.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following revised Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS, is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) “*Income Taxes*” (“SSAP 12 (Revised)”). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of accumulated losses at 1st January, 2002 has been increased by HK\$10,705,000, representing the Group’s share of deferred tax liabilities recognised by a jointly controlled entity. The profit for the year has been increased by approximately HK\$526,000 (2002: a decrease of loss for the year of approximately HK\$332,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain 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 as follows:

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 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 inter-company transactions and balances within the Group are eliminated on consolidation.

Negative goodwill

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

Negative goodwill is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that 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 in income immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

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

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 subsidiaries and an 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 an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Interests in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in an associate are stated at the Group's share of the net assets of the associate plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Revenue recognition

Sales of electricity are recognised when electricity has been transmitted to the customer and the right to receive payment has been established.

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

Service revenue is recognised when services are rendered.

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, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 relevant leases.

Sales of investments in securities are recognised when the sales contract becomes unconditional.

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 based on independent professional valuations at each balance sheet date. 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 disposed of is transferred in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Property, plant and equipment

Construction in progress is stated at cost, which includes all related costs attributable to such projects less accumulated impairment losses. Construction in progress is not depreciated or amortised until completion of construction. Costs on completed construction works are transferred to the relevant category of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of 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	Over the term of the lease
Buildings	2% – 18%
Leasehold improvement	Over the period of the lease
Furniture and fixtures	20%
Motor vehicles	20%
Plant and machinery	5% – 23%

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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, but so 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds

Convertible bonds are regarded as liabilities unless conversion actually occurs.

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 and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, 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 profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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 such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at 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 under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

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

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of goods	389,391	346,207
Sales of electricity	15,907	–
Interest income from investments	–	5,074
Interest income from provision of finance	6,238	939
Sale proceeds from disposal of other investments	4,052	1,627
Rental income and property management	2,760	3,276
	418,348	357,123

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into six operating divisions - power generation other trading, provision of finance, property investment and management and investment in securities. These divisions are the basis on which the Group reports its primary segment information.

In prior years, the Group was also involved in the manufacturing and trading of chemical fibers. This operation was discontinued with effect from 26th September, 2003 (see note 10).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

INCOME STATEMENT

For the year ended 31st December, 2003

	Continuing operations					Discontinued operation		Consolidated HK\$'000	
	Power generation HK\$'000	Other trading HK\$'000	Provision of finance HK\$'000	Property investment and management HK\$'000	Investment in securities HK\$'000	Others HK\$'000	Manufacturing and trading of chemical fibers HK\$'000		Eliminations HK\$'000
TURNOVER									
External sales	15,907	117,307	6,238	2,760	4,052	-	272,084	-	418,348
Inter-segment sales*	-	-	-	501	-	-	-	(501)	-
Total	15,907	117,307	6,238	3,261	4,052	-	272,084	(501)	418,348
RESULTS									
Segment results	3,585	3,266	6,138	3,150	3,656	-	8,294	-	28,089
Unallocated corporate expenses									(8,528)
Profit from operations									19,561
Finance costs									(13,066)
Share of loss of an associate						(1,989)			(1,989)
Amortisation of goodwill of an associate						(1,156)			(1,156)
Share of profit of a jointly controlled entity						4,964			4,964
Profit on disposal of a discontinued operation							6,044		6,044
Profit before taxation									14,358
Taxation									(1,424)
Profit before minority interests									12,934
Minority interests									710
Net profit for the year									13,644

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET

At 31st December, 2003

	Continuing operations					Discontinued operation		Consolidated
	Power generation	Other trading	Provision of finance	Property investment and management	Investment in securities	Others	Manufacturing and trading of chemical fibers	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS								
Segment assets	308,700	6,139	64,031	53,074	26,871	-	-	458,815
Interests in an associate						316,787		316,787
Interests in a jointly controlled entity						37,984		37,984
Unallocated corporate assets								76,380
Consolidated total assets								889,966
LIABILITIES								
Segment liabilities	88,601	12,513	150	1,518	10	-	-	102,792
Unallocated corporate liabilities								240,642
Consolidated total liabilities								343,434

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

OTHER INFORMATION

For the year ended 31st December, 2003

	Continuing operations						Discontinued operation		Consolidated HK\$'000
	Power generation HK\$'000	Other trading HK\$'000	Provision of finance HK\$'000	Property investment and management HK\$'000	Investment in securities HK\$'000	Others HK\$'000	Corporate HK\$'000	Manufacturing and trading of chemical fibers HK\$'000	
Amortisation of goodwill of an associate	-	-	-	-	-	1,156	-	-	1,156
Surplus on revaluation of investment properties	-	-	-	(2,000)	-	-	-	-	(2,000)
Depreciation and amortisation	2,566	-	-	-	-	-	391	20,252	23,209
Impairment loss on property, plant and equipment	-	-	-	-	-	-	-	4,750	4,750
Release of negative goodwill	(348)	-	-	-	-	-	(432)	-	(780)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

INCOME STATEMENT

For the year ended 31st December, 2002

	Continuing operation				Discontinued operation	Eliminations	Consolidated
	Provision of finance	Property investment and management	Investment in securities	Others	Manufacturing and trading of chemical fibers		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER							
External sales	939	3,276	1,627	5,074	346,207	-	357,123
Inter-segment sales*	-	434	-	-	-	(434)	-
Total	939	3,710	1,627	5,074	346,207	(434)	357,123
RESULTS							
Segment results	(4,004)	(3,875)	(130)	4,767	(30,514)	-	(33,756)
Unallocated corporate expenses							(10,089)
Loss from operations							(43,845)
Finance costs							(13,139)
Share of loss of an associate				(291)			(291)
Amortisation of goodwill of an associate				(145)			(145)
Share of profit of a jointly controlled entity				2,464			2,464
Loss before taxation							(54,956)
Taxation							(770)
Loss before minority interests							(55,726)
Minority interests							19,678
Net loss for the year							(36,048)

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET

At 31st December, 2002

	Continuing operations				Discontinued operation	Consolidated HK\$'000
	Provision of finance HK\$'000	Property investment and management HK\$'000	Investment in securities HK\$'000	Others HK\$'000	Manufacturing and trading of chemical fibers HK\$'000	
ASSETS						
Segment assets	7,340	55,825	14,729	–	385,448	463,342
Interests in an associate				319,933		319,933
Interests in a jointly controlled entity				36,894		36,894
Unallocated corporate assets						100,464
Consolidated total assets						920,633
LIABILITIES						
Segment liabilities	–	1,255	82	–	124,715	126,052
Unallocated corporate liabilities						254,973
Consolidated total liabilities						381,025

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

OTHER INFORMATION

For the year ended 31st December, 2002

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Provision of finance HK\$'000	Property investment and management HK\$'000	Investment in securities HK\$'000	Others HK\$'000	Corporate HK\$'000	Manufacturing and trading of chemical fibers HK\$'000	
Allowance for short-term loans receivable	5,000	-	-	-	-	-	5,000
Amortisation of goodwill of an associate	-	-	-	-	145	-	145
Deficit on revaluation of investment properties	-	4,216	-	-	-	-	4,216
Depreciation and amortisation	-	-	-	277	-	28,754	29,031
Impairment loss on property, plant and equipment	-	-	-	-	-	25,042	25,042
Impairment loss on investment securities	-	-	1,431	-	-	-	1,431
Impairment loss on trademark	-	-	-	-	-	374	374
Loss on disposal of property, plant and equipment	-	-	-	307	-	13,287	13,594
Release of negative goodwill	-	-	-	(54)	-	-	(54)

Geographical segments

Most of the activities of the Group are based in the PRC and most of the Group's turnover, profit (loss) before taxation, assets and liabilities are derived from the PRC.

Revenue from the Group's discontinued operation was derived principally from the PRC of approximately HK\$272,084,000 (2002: HK\$346,207,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

6. OTHER OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Loss on disposal of property, plant and equipment	–	13,594
Allowance for short-term loans receivable	–	5,000
Deficit arising on revaluation of investment properties	–	4,216
Impairment loss on investment securities	–	1,431
Impairment loss on trademark	–	374
	–	24,615

7. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs including directors' remuneration	11,630	32,637
– Retirement benefits scheme contributions	140	6,388
Total staff costs	11,770	39,025
Amortisation of trademarks (included in administrative expenses)	–	374
Auditors' remuneration		
– current year	720	650
– underprovision in a prior year	70	244
Depreciation and amortisation of property, plant and equipment	23,209	29,031
Management fee paid to a subsidiary of a former controlling shareholder	–	7,500
and after crediting:		
Property rental income, net of outgoings of HK\$185,000 (2002: HK\$138,000)	2,310	2,728
Interest income, other than from investments	54	751
Release of negative goodwill to other operating income	780	54

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS

	2003	2002
	HK\$'000	HK\$'000
Directors' fees:		
Executive	–	1,073
Independent non-executive	163	73
	163	1,146
Other emoluments of executive directors:		
Salaries and other benefits	2,838	745
Retirement benefits schemes contributions	71	26
	2,909	771
	3,072	1,917

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

The number of directors whose remuneration falls within the following bands are set out below:

	No. of directors	
	2003	2002
Nil to HK\$1,000,000	7	17
HK\$1,000,001 to HK\$2,000,000	1	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

EMPLOYEES

The five highest paid individuals in the Group included four directors (2002: two directors) of the Company, details of whose remuneration are set out above. The remuneration of the remaining one highest paid individual (2002: three) who is employee of the Group is as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	909	427
Retirement benefits scheme contributions	31	6
	940	433

9. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans wholly repayable within five years	7,920	13,139
Other loans wholly repayable within five years	4,890	–
Convertible bonds (note 24)	256	–
	13,066	13,139

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

10. DISCONTINUED OPERATION

On 13th January, 2003, the Company entered into an agreement to dispose of the entire issued share capital in Grandace, a wholly-owned subsidiary of the Company, and an unsecured, interest-free shareholder's loan of approximately HK\$74,621,000 due from Grandace to the Company for an aggregate cash consideration of HK\$49,057,000 (after adjustment). The Grandace Group are engaged in the manufacturing and trading of chemical fibers in the PRC. Completion of the aforesaid transaction took place on 26th September, 2003.

The results of the manufacturing and trading of chemical fibers operation, which have been included in the consolidated financial statements, were as follows:

	1.1.2003 to 26.9.2003 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Turnover	272,084	346,207
Operating costs	(242,903)	(307,095)
Other operating income	973	1,146
Administrative expenses	(17,110)	(70,772)
Impairment loss on property, plant and equipment	(4,750)	–
Finance costs	(9,196)	(13,139)
Loss before taxation	(902)	(43,653)
Taxation	75	114
Net loss for the period/year	(827)	(43,539)

During the year, the Grandace Group contributed HK\$6,061,000 (2002: HK\$30,908,022) to the Group's net operating cash flows, generated HK\$14,904,000 (2002: HK\$3,873,000) in respect of investing activities, and paid HK\$40,365,000 (2002: HK\$12,457,000) in respect of financing activities.

The carrying amounts of the total assets and total liabilities of the Grandace Group at the date of disposal are HK\$347,909,000 and HK\$275,493,000, respectively (at 31.12.2002: total assets of HK\$385,448,000 and total liabilities of HK\$386,831,000).

A profit of HK\$6,044,000 arose on the disposal of the Grandace Group (see note 29).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

11. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
– current year	63	6
– overprovision in prior years	–	(2)
	63	4
PRC income tax		
– current year	22	108
– overprovision in prior years	(97)	(222)
	(75)	(114)
Deferred tax (<i>note 30</i>)		
– current year	(194)	–
Share of PRC income tax of a jointly controlled entity	1,630	880
	1,424	770

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

11. TAXATION (Continued)

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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit (loss) before taxation	14,358		(54,956)	
Tax at the applicable rate (<i>note</i>)	2,154	15.0	(14,508)	(26.4)
Tax effect of expenses not deductible for tax purpose	98	0.7	11,245	20.5
Tax effect of income not taxable for tax purpose	(2,455)	(17.1)	(2,586)	(4.7)
Tax effect of tax losses not recognised	1,081	7.5	5,492	10.0
Utilisation of tax losses previously not recognised	(325)	(2.3)	(2)	–
Overprovision in respect of prior year	(97)	(0.7)	(224)	(0.4)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	13	0.1	–	–
Effect of different tax rates of subsidiaries, an associate and a jointly controlled entity operating in other jurisdictions	955	6.7	1,353	2.5
Tax effect and effective tax rate for the year	1,424	9.9	770	1.5

Note: The applicable rate for the year ended 31st December, 2003 represents relevant tax rate applicable to the Group's major subsidiaries in the PRC that were acquired during the year. The applicable rate for the year ended 31st December, 2002 represents the relevant tax rate applicable to the Group's former major subsidiary in the PRC, which was disposed of during the year.

Details of deferred taxation are set out in note 30.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of HK\$13,644,000 (2002: restated net loss for the year of HK\$36,048,000) and on the 1,214,115,987 shares in issue during both years.

No diluted earnings per share has been presented for the year ended 31st December, 2003 as the Company had no outstanding share options during the year.

No diluted loss per share was presented for the year ended 31st December, 2002 as the exercise prices of the Company's outstanding share options were higher than the average price of the shares of the Company during that year.

The adjustment to comparative basic loss per share, arising from the changes of accounting policies shown in note 2 above, is as follows:

HK cents

Reconciliation of 2002 basic loss per share:

Reported figures before adjustments	(3.00)
Adjustments arising from the adoption of SSAP 12 (Revised)	0.03
<hr/>	
Restated	(2.97)
<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

13. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

VALUATION

At 1st January, 2003	50,000
Surplus arising on revaluation	2,000
<hr/>	
At 31st December, 2003	52,000

Investment properties were revalued at 31st December, 2003 on an open market value basis by A A Property Services Ltd., an independent firm of professional property valuers. The surplus arising on revaluation has been credited to the consolidated income statement.

The Group's investment properties are held under medium-term leases in Hong Kong and are leased out under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st January, 2003	161,697	609	576	742	370,965	–	534,589
Acquired on acquisition of subsidiaries	142,991	–	350	308	123,542	32,029	299,220
Additions	59	–	90	691	3,600	–	4,440
Transfers	72	–	–	–	–	(72)	–
Disposal of subsidiaries	(161,697)	–	–	–	(365,617)	–	(527,314)
Disposals	(3,524)	–	(143)	–	(1,013)	–	(4,680)
At 31st December, 2003	139,598	609	873	1,741	131,477	31,957	306,255
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st January, 2003	45,416	50	43	37	232,023	–	277,569
Provided for the year	6,828	122	130	198	15,931	–	23,209
Impairment loss recognised in the income statement	–	–	–	–	4,750	–	4,750
Eliminated on disposal of subsidiaries	(51,299)	–	–	–	(245,706)	–	(297,005)
Eliminated on disposals	(57)	–	–	–	(685)	–	(742)
At 31st December, 2003	888	172	173	235	6,313	–	7,781
NET BOOK VALUES							
At 31st December, 2003	138,710	437	700	1,506	125,164	31,957	298,474
At 31st December, 2002	116,281	559	533	705	138,942	–	257,020

During the year, the directors of the Company have reviewed the carrying value of the Group's plant and machinery with reference to the estimated selling price of these assets. An impairment loss of HK\$4,750,000 has been recognised and charged to the consolidated income statement.

At the balance sheet date, the Group's land and buildings are situated in the PRC and are held under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

15. NEGATIVE GOODWILL

THE GROUP

HK\$'000

GROSS AMOUNT

At 1st January, 2003 and 31st December, 2003 4,329

Arising on acquisition during the year 16,682

At 31st December, 2003 21,011

RELEASE TO INCOME

At 1st January, 2003 54

Released during the year 780

At 31st December, 2003 834

CARRYING AMOUNT

At 31st December, 2003 20,177

At 31st December, 2002 4,275

The negative goodwill is released to income on a straight-line basis over the period of ten years, the estimated useful life of the major assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	41,059	98,906
Less: Impairment losses recognised	(19)	(12,819)
	41,040	86,087
Amounts due from subsidiaries	702,000	531,580
Less: allowances recognised	(121,313)	(189,822)
	580,687	341,758
	621,727	427,845
Amounts due to subsidiaries	(10,120)	(634)

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries, at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable proportion of nominal value of issued capital held by Company		Principal activity
			Directly	Indirectly	
Asian Wealth Group Limited	British Virgin Islands ("BVI")	US\$1	–	100%	Investment holding
China Group Limited	BVI	US\$1	–	100%	Investment holding
Citi Merit Limited	BVI	US\$100	–	100%	Investment holding
Eastern Prosper Developments Ltd.	BVI	US\$1	100%	–	Securities investment
Equal Link Investments Limited	Hong Kong	HK\$2	–	100%	Investment holding
Henan APD Tian Yuen Power Company Limited (Note 1)	PRC	RMB90,620,000	–	80%	Power generation
Henan CGL Tian Yuen Power Company Limited (Note 2)	PRC	RMB92,000,000	–	80%	Power generation
Lolliman Finance Limited	Hong Kong	HK\$1,000,000	100%	–	Financial services
Lolliman Property Nominees Limited	Hong Kong	HK\$2	100%	–	Property management
Marvellous Development Limited	Hong Kong	HK\$100	100%	–	Property investment

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable proportion of nominal value of issued capital held by Company		Principal activity
			Directly	Indirectly	
Poly Power Group Limited	BVI	US\$1	–	100%	Investment holding
Silver & Rainbow International Trading Limited	Hong Kong	HK\$100,000	–	100%	Trading
Success Harbour International Limited	BVI	US\$100	–	80%	Investment holding
Sunstar Management Limited	Hong Kong	HK\$2	100%	–	Provision of management services
Time Profit Investments Limited	Hong Kong	HK\$100	100%	–	Property investment
Treasure Well Associates Limited	BVI	US\$1	100%	–	Investment holding

Notes:

1. This subsidiary is a sino-foreign equity joint venture established for a term of 20 years commencing from 25th September, 1997.
2. This subsidiary is a sino-foreign equity joint venture established for a term of 20 years commencing from 14th October, 1997.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

The above table only lists those 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.

All the above subsidiaries, except Eastern Prosper Developments Ltd. which operates principally in Hong Kong, operate in their respective places of incorporation/registration.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted		
Share of associate's net assets	306,958	308,948
Goodwill arising on acquisition (<i>note</i>)	9,829	10,985
	316,787	319,933

Note: Goodwill arising on acquisition is amortised on a straight-line basis over its estimated useful life of ten years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

17. INTEREST IN AN ASSOCIATE (Continued)

Goodwill arising on acquisition

THE GROUP

HK\$'000

COST

At 31st December, 2002 and 31st December, 2003 11,564

AMORTISATION

At 31st December, 2002 579

Provided for the year 1,156

At 31st December, 2003 1,735

NET BOOK VALUES

At 31st December, 2003 9,829

At 31st December, 2002 10,985

The Group's investment represents a 46.29% indirect equity interest in Xi'an Gaoxin Hospital Co., Ltd. ("Gaoxin Hospital") which is a sino-foreign equity joint venture established in the PRC for a term of twenty years, commencing on 29th September, 2002. Gaoxin Hospital is principally engaged in the provision of hospital services including medical consultation, health care and related consultation services in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

17. INTEREST IN AN ASSOCIATE (Continued)

The followings details have been extracted from the unaudited management accounts of Gaoxin Hospital.

Income statement

	1.1.2003 to 31.12.2003 HK\$'000	13.11.2002 (date of acquisition) to 31.12.2002 HK\$'000
Turnover	76,907	20,388
Loss before taxation	(4,297)	(629)
Taxation	–	–
Loss for the year/period	(4,297)	(629)
Group's share of loss for the year/period	(1,989)	(291)

Net assets

	31.12.2003 HK\$'000	31.12.2002 HK\$'000
Non-current assets	581,193	601,094
Current assets	299,645	256,230
Current liabilities	(147,624)	(146,961)
Non-current liabilities	(70,093)	(42,944)
Net assets	663,121	667,419
Net assets attributable to the Group	306,958	308,948

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets of a jointly controlled entity	37,984	36,894

The Group's investment represents a 30% indirect equity interest in Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") which is established in the PRC for a term of twenty years commencing on 30th March, 1993. Shanghai Hong Qiao is engaged in the business of retail sales of high end consumer goods and is currently operating two shopping centres in Shanghai and Suzhou, the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

19. INVESTMENTS IN SECURITIES

THE GROUP

	Held-to-		Other		Total	
	maturity security		investments			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities in Hong Kong	-	-	26,742	-	26,742	-
Debt securities						
- Unlisted	-	568	-	-	-	568
Total						
- Listed in Hong Kong	-	-	26,742	-	26,742	-
- Unlisted	-	568	-	-	-	568
	-	568	26,742	-	26,742	568
Market value of listed securities	-	-	26,742	-	26,742	-
Carrying amount analysed for reporting purposes as:						
Current	-	-	26,742	-	26,742	-
Non-current	-	568	-	-	-	568
	-	568	26,742	-	26,742	568

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

20. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	4,136	27,093
Work in progress	–	7,936
Finished goods	–	12,958
	4,136	47,987

At 31st December, 2003, all inventories were stated at cost.

At 31st December, 2002, finished goods of approximately HK\$6.4 million were carried at net realisable value.

21. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables		
0 – 60 days	13,884	14,072
61 – 90 days	1,762	1,716
Over 90 days	9	138
	15,655	15,926
Other receivables	15,148	13,200
	30,803	29,126

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade payables		
0 – 60 days	3,813	16,716
61 – 90 days	21	177
Over 90 days	5,247	344
	9,081	17,237
Other payables	91,948	50,907
Value added tax payables	1,137	306
	102,166	68,450

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans	56,536	187,495	–	–
Other loans	32,509	–	9,509	–
	89,045	187,495	9,509	–
Analysed as:				
Secured	79,536	170,673	–	–
Unsecured	9,509	16,822	9,509	–
	89,045	187,495	9,509	–

All bank and other loans are repayable on demand or within one year from the balance sheet date. Accordingly, they are shown in the balance sheet as current liabilities.

The other loans of the Group and the Company bear interest at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

24. CONVERTIBLE BONDS

	THE GROUP AND THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
The maturity profile of the convertible bonds is as follows:		
Maturity dates		
15th October, 2004	40,000	—
15th April, 2006	40,000	—
<hr/>		
Total convertible bonds	80,000	—
Less: Amount due within one year shown under current liabilities	(40,000)	—
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	40,000	—
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The convertible bonds bear interest at 1.5% per annum and can be converted in whole into the shares of the Company at any time during the period of 14 days ending on the date immediately before and excluding the maturity date (the "Conversion Period"), at the options of the bondholder at the initial conversion price of HK\$0.5 per share (subject to adjustment but not less than the par value of the share of the Company).

The convertible bonds are redeemable by the Company at any time between the date of issue of the bonds and prior to the commencement of the Conversion Period. Any convertible bonds not converted or redeemed shall be repaid to the bondholder, together with interest accrued thereon on the respective maturity dates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

25. SHARE CAPITAL

	2003 & 2002
	<i>HK\$'000</i>
<i>Authorised:</i>	
1,800,000,000 ordinary shares of HK\$0.50 each	900,000
<i>Issued and fully paid:</i>	
1,214,115,987 ordinary shares of HK\$0.50 each	607,058

There were no movements in the share capital of the Company during both years.

26. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2002	2,252	3,547	(49,696)	(43,897)
Loss for the year	–	–	(38,000)	(38,000)
At 31st December, 2002	2,252	3,547	(87,696)	(81,897)
Loss for the year	–	–	(3,121)	(3,121)
At 31st December, 2003	2,252	3,547	(90,817)	(85,018)

The Company did not have any distributable profit as at the balance sheet date.

Capital reserve of the Company represents the amount of initial payment from certain shareholders to subscribe new shares in the Company and the amount was subsequently forfeited as a result of non-payment of the remaining committed contribution.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

26. RESERVES (Continued)

THE GROUP

The accumulated losses of the Group include HK\$1,570,000 (2002: HK\$2,660,000) attributable to its jointly controlled entity and HK\$3,581,000 (2002: HK\$436,000) attributable to its associate.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries of the Company are required to maintain two statutory reserves, being a statutory surplus reserve fund and enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund can be used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

27. SHARE OPTION SCHEMES

The Company's previous and existing share option schemes were adopted on 5th December, 1990 ("1990 Scheme") and on 19th June, 2001 (the "2001 Scheme"), respectively, for the primary purpose of providing incentives to directors and eligible employees.

Pursuant to the 1990 Scheme, which was expired on 4th December, 2000, the Company might grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a nil consideration.

Pursuant to the 2001 Scheme, which will expire on 18th June, 2011, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Options granted should be accepted within 21 days from the offer date. Options granted are exercisable during the period commencing on the date of grant and expiring on the date ten years after the date of grant. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2001 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

27. SHARE OPTION SCHEMES (Continued)

The exercise price per share is determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the shares for the five business days immediate preceding the offer date.

The total number of shares in respect of which may be granted to an eligible employee under the 2001 Scheme is not permit to exceed 25% of the aggregate number of shares for the time being issued and issuable under the 2001 Scheme.

There were no option granted during the year and there were no outstanding options as at 1st January, 2003 and 31st December, 2003.

The following table discloses movements in the Company's share options during the year end 31st December, 2002:

Date of grant	Exercisable period	Exercise price per share <i>HK\$</i>	Number of share options outstanding at 1.1.2002 <i>(note)</i>	Cancelled during the year	Number of share options outstanding at 31.12.2002
3.9.1997	3.9.1997 to 2.9.2007	1.27	47,400,000	(47,400,000)	–
5.6.1998	5.6.1998 to 4.6.2008	0.50	41,000,000	(41,000,000)	–
30.11.2000	30.11.2000 to 29.11.2010	0.50	31,300,000	(31,300,000)	–
			119,700,000	(119,700,000)	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

27. SHARE OPTION SCHEMES (Continued)

The following table discloses movements in the Company's share options held by former directors (and other former key management) included in the above table:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options outstanding at 1.1.2002 (note)	Cancelled during the year	Number of share options outstanding at 31.12.2002
3.9.1997	3.9.1997 to 2.9.2007	1.27	28,000,000	(28,000,000)	–
5.6.1998	5.6.1998 to 4.6.2008	0.50	28,000,000	(28,000,000)	–
30.11.2000	30.11.2000 to 29.11.2010	0.50	27,900,000	(27,900,000)	–
			83,900,000	(83,900,000)	–

Note: All share options were granted under the 1990 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

28. PURCHASE OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	299,220	–
Interest in an associate	–	320,369
Deferred tax assets	4,548	–
Inventories	2,658	–
Trade and other receivables	20,871	–
Bank balances and cash	7,311	–
Trade and other payables	(65,078)	(1)
Bank borrowings	(56,535)	–
Deferred tax liabilities	(2,391)	–
Amount due to a minority shareholder	(6,938)	(62,915)
Amount due to shareholders	(226,631)	–
Minority interests	(23,390)	(1,158)
	(46,355)	256,295
Net (liabilities) assets	(46,355)	256,295
Negative goodwill arising on acquisition	(16,682)	(4,329)
	(63,037)	251,966
Satisfied by:		
Convertible bonds	80,000	–
Cash consideration paid	62,072	251,966
Deferred cash consideration (<i>note</i>)	20,000	–
Related expenses paid on acquisition	1,522	–
Assignment of shareholders' loan	(226,631)	–
	(63,037)	251,966
Net cash outflow arising on acquisition:		
Cash paid on acquisition	63,594	251,966
Bank balances and cash acquired	(7,311)	–
	56,283	251,966

Note: The deferred cash consideration was paid subsequent to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

28. PURCHASE OF SUBSIDIARIES *(Continued)*

The subsidiaries acquired during the year contributed HK\$15,907,000 to the Group's turnover, and HK\$3,585,000 to the Group's profit from operations.

No significant turnover and results were contributed by the subsidiaries acquired in prior year for the period between the date of acquisition and 31st December, 2002.

During the period since acquisition, no significant operating, investing and financing cash flows were contributed by the subsidiaries acquired in the prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

29. DISPOSAL OF SUBSIDIARIES

As referred to in note 10, on 26th September, 2003 the Group discontinued its operations of manufacturing and trading of chemical fibers at the time of the disposal of the Grandace Group. The net assets of the Grandace Group at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	230,309
Investment in securities	568
Inventories	49,934
Trade and other receivables	46,518
Bank balances and cash	20,580
Trade and other payables	(63,196)
Amount due to a shareholder	(74,621)
Bank and other borrowings	(156,542)
Amounts due to minority shareholders	(55,755)
Minority interests released on disposal	(22,963)
	<hr/>
Group's share of net liabilities disposed of	(25,168)
Translation reserve released on disposal	(6,440)
Profit on disposal	6,044
	<hr/>
	(25,564)
	<hr/>
Satisfied by:	
Cash consideration	49,057
Assignment of a shareholder's loan	(74,621)
	<hr/>
	(25,564)
	<hr/>
Net cash inflow arising on disposal:	
Cash consideration	49,057
Bank balances and cash disposed of	(20,580)
	<hr/>
	28,477
	<hr/>

The contribution of the Grandace Group to the Group's turnover, results and cash flows in the current and prior periods is disclosed in note 10.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

30. DEFERRED TAXATION

THE GROUP

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK\$'000	Pre-operating expenses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January, 2002 and 1st January, 2003	–	–	–	–
Acquired on acquisition of subsidiaries	3,266	(4,333)	(1,090)	(2,157)
Charge (credit) to income	331	(30)	(495)	(194)
At 31st December, 2003	3,597	(4,363)	(1,585)	(2,351)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances not offset for financial reporting purposes:

	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities	2,307	–
Deferred tax assets	(4,658)	–
	(2,351)	–

At the balance sheet date, the Group had unused tax losses of HK\$89,749,000 (2002: HK\$85,426,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2003 HK\$'000	2002 HK\$'000
Operating lease rentals in respect of land and buildings	509	1,901

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	318	2,247
In the second to fifth year inclusive	–	7,272
Over five years	–	27,817
	318	37,336

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for a term of two years with fixed rentals.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

31. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor:

Property rental income earned during the year was approximately HK\$2.4 million (2002: HK\$4.7 million). The property held has committed tenants for a term ranging from six months to three years.

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	1,723	4,989
In the second to fifth year inclusive	491	785
	2,214	5,774

32. CAPITAL COMMITMENTS

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Capital expenditure authorised but not provided for in the financial statements in respect of acquisition of property, plant and equipment	52,027	–
Capital expenditure contracted but not provided for in respect of acquisition of additional equity interest in subsidiaries	18,350	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

33. PLEDGE OF ASSETS

At the balance sheet date, the credit facilities granted to subsidiaries were secured by pledge of certain of the Group's investment properties with an open market value of HK\$52,000,000 (2002: Nil) and property, plant and equipment of net book value of HK\$75,998,000 (2002: Nil).

At 31st December, 2002, bank deposits of HK\$21,048,000 and certain of the Group's land and buildings with an aggregate net book value of approximately HK\$91,271,000 were pledged for credit facilities granted by banks to a non-wholly owned subsidiary. These pledges were released upon the disposal of subsidiaries during the year.

34. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees in the subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is the required contributions under the scheme.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

- (A) During the year, the Group had significant transactions with related parties which are also deemed to be connected persons as defined by the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with the connected persons during the year, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transactions/balances	THE GROUP	
		2003 HK\$'000	2002 HK\$'000
Transactions:			
(a) Subsidiary of CMIC (<i>note i</i>)	Management fee paid by the Group (<i>note ii</i>)	–	7,500
(b) HCF Group and its affiliates (<i>note iii</i>)	Sales of chemical fibers (<i>note iv</i>) Interest expenses (<i>note v</i>)	– 1,276	7,207 2,029
Balances:			
(c) Current:			
HCF Group and its affiliates	Payable by the Group (<i>note vi</i>)	–	283
(d) Non-current:			
HCF Group and its affiliates	Payable by the Group (<i>note vii</i>)	–	61,882
Elegant Base (<i>note viii</i>)	Payable by the Group (<i>note ix</i>)	62,915	62,915
Sanmenxia Tian Yuan (<i>note x</i>)	Payable by the Group (<i>note xi</i>)	6,938	–
		69,853	124,797

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes:

CMIC

- (i) Continental Mariner Investment Company Limited ("CMIC") is a former substantial shareholder of the Company.
- (ii) The management fee was charged in accordance with the management agreements with CMIC Management Services Limited ("CMIC Management") for the provision of general corporate management and consultancy services to the Company for the period up to 30th September, 2002. CMIC Management is a wholly-owned subsidiary of CMIC, whose shares are listed on the Stock Exchange. The management fee charged was determined on the basis of expenses incurred by CMIC Management in connection with the said management agreements.

HCF Group

- (iii) Hangzhou Chemical Fibre Group Company ("HCF Group") is a 45% shareholder of Hangzhou B.P., a former non-wholly owned subsidiary of the Company.
- (iv) These transactions were carried out at market prices and were subject to a waiver granted by the Stock Exchange from making disclosure on each occasion when they arose as disclosed in the Company's announcement dated 5th August, 1999.
- (v) The interest was charged at the prevailing market rate on the outstanding advances from HCF Group.
- (vi) The balance was unsecured, interest-free and had no fixed repayment terms.
- (vii) The balance was unsecured and had no fixed repayment terms. In 2002, other than an amount of approximately HK\$34.8 million which carried interest at the prevailing market rates, the balance was interest-free. The amount would not be repayable within one year from the balance sheet date and accordingly, the amount was shown as non-current.

Such advance had been assigned to a third party upon the Group's disposal of the Grandace Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

Notes: (Continued)

Elegant Base

- (viii) Elegant Base Development Limited ("Elegant Base") is a 20% shareholder of Success Harbour International Limited ("Success Harbour"), a non-wholly owned subsidiary of the Company which holds a 46.29% equity interest in Gaoxin Hospital.
- (ix) The balance is unsecured, interest-free and has no fixed repayment terms. The amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.

Sanmenxia Tian Yuan

- (x) Sanmenxia Tian Yuan Aluminum Industries Group Company Limited ("Sanmenxia Tian Yuan") is a 20% shareholder of APD Tian Yuan and CGL Tian Yuan, non-wholly owned subsidiaries of the Company.
 - (xi) The balance is unsecured, interest-free and has no fixed repayment terms. The amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.
- (B) At the balance sheet date, the Group also had advances and guarantee to non-wholly owned subsidiaries as follows:
- (a) At 31st December, 2002, the Company had given a guarantee of approximately HK\$6.1 million to a bank in respect of credit facilities granted to Hangzhou B.P.. The guarantee was released during the year upon the Group's disposal of the Grandace Group.

In addition, at 31st December, 2002, the Group advanced approximately HK\$33 million to Hangzhou B.P. for financing its operations. The advance was unsecured, interest-free and had no fixed terms of repayment. The advance was assigned to a third party upon the Group's disposal of the Grandace Group.

The Group provided guarantee in favour of, and advance to, Hangzhou B.P. in amount not more than its proportionate interest in Hangzhou B.P.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

- (b) At 31st December, 2003, the Group had advanced approximately HK\$251.6 million to Success Harbour to finance the Group's investment in Gaoxin Hospital. The advance is unsecured, interest-free and has no fixed repayment terms.

The Group provided advances to Success Harbour in amount not more than its proportionate interests in Success Harbour.

- (c) At 31st December, 2003, the Group had advanced approximately HK\$91.8 million to ADP Tian Yuan. Included in these advances is an amount of approximately HK\$71.7 million which carries interest at prevailing market rate, the balance of approximately HK\$20.1 million is interest-free. The advances are unsecured and have no fixed repayment terms.

The Group provided interest-free advance to ADP Tian Yuan in amounts not more than its proportionate interests in ADP Tian Yuan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

36. POST BALANCE SHEET EVENTS

- (a) On 5th March, 2003, the Group entered into an agreement to acquire the entire issued share capital in Chun Yick Securities Limited (“Chun Yick”) for a cash consideration of approximately HK\$20 million.

Chun Yick is currently carrying on the business of securities brokerage and holding one exchange trading right of the Stock Exchange.

The transaction was completed in February 2004 and the consideration was reduced to approximately HK\$19 million.

- (b) Subsequent to the balance sheet date, the Group obtained a long-term bank loan of RMB100,000,000 (equivalent to approximately HK\$93,458,000), which bears interest at prevailing market rate. The loan is repayable by monthly installments and its maturity profile is as follows:

	<i>RMB'000</i>	<i>HK\$'000</i> Equivalents
Within one year	3,500	3,271
More than one year but not exceeding two years	15,800	14,766
More than two years but not exceeding five years	80,700	75,421
	<hr/> 100,000	<hr/> 93,458