

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

1. CORPORATE INFORMATION

During the year, the Group was engaged in the following activities:

- Manufacture and sale of electronic components and products
- Manufacture and sale of contact and contactless smart card readers and related products
- Design, manufacture, sale and marketing home furniture
- Trading of building materials and sundry products
- Property holding
- Investment holding

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

They have been prepared under the historical cost convention, modified with respect to the measurement of investment properties, certain properties, plant and equipment and other investments, as explained in the respective accounting policies below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill on consolidation

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisitions of subsidiaries:

- (i) before 1 January 2001, positive goodwill is eliminated against reserves; and
- (ii) since 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in consolidated balance sheet at cost less accumulated amortisation and impairment losses, if any.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. Interests in subsidiaries are stated in the Company's balance sheet at cost less provisions, for any impairment, as determined by the Directors. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is a company, not being a subsidiary, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant management influence.

The consolidated profit and loss account includes the Group's share of results of associates for the year, and amortisation and impairment losses of goodwill, if any. The consolidated balance sheet includes the Group's share of net assets, after attributing fair values to the net assets at the date of acquisition.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Properties, plant and equipment

Properties, plant and equipment, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment.

The cost of an item of property, plant and equipment (an "Item") comprises its purchase price and any directly attributable costs of bringing the item to its working condition and location for its intended use. Expenditure incurred after the Item has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the Item, the expenditure is capitalised as an additional cost of the Item.

When, in the opinion of the Directors, the recoverable amounts of properties, plant and equipment have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of the carrying value are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

The gain or loss on disposal or retirement of an Item recognised in the profit and loss account is the difference between the sale proceeds and the carrying amount of the relevant Item, and is recognised in the profit and loss account. On disposal of a revalued Item, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	2.5%
Buildings	2% – 5%
Leasehold improvements	18% – 20% or over the lease terms whichever is shorter
Plant and machinery	9% – 25%
Furniture and equipment	12.5% – 30%
Motor vehicles	18% – 33%

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are those properties which are held for their investment potential, are income producing and are intended to be held on a long term basis. They are stated at their open market values on the basis of annual valuations. Any surplus or deficit on revaluation is taken to the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset, is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset being sold is transferred to retained profits upon disposal of the asset.

Long term investments

Long term investments are stated in the balance sheet at cost less any provision for impairment, as determined by the Directors.

Impairment of assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost includes direct materials, direct labour, subcontracting charges and, where applicable, production overheads. Net realisable value is determined by reference to estimated selling prices less all further costs to be incurred in selling and distribution.

Listed investments

Listed investments are investments in equity securities and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investments basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;
- (b) proceeds on disposals of investments, including interests in subsidiaries, associates, investments in listed and unlisted shares and disposals of investment properties and fixed assets, when all conditions for disposal have been met and the risks and rewards of ownership have been transferred to the buyer;
- (c) rental income, on the straight-line basis over the lease terms;
- (d) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

Segment reporting

For reporting purposes, segment assets include those operating assets that are employed by a segment and segment liabilities include those operating liabilities that result from the operating activities by a segment, excluding tax assets and liabilities. Capital expenditure comprises additions to properties, plant and equipment. Business segments have been used as the primary reporting format.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the relevant lease term.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Retirement costs

The Group operates two approved defined contribution retirement benefits schemes for employees: a Mandatory Provident Fund (“MPF”) Exempted Occupational Retirement (“ORSO”) Scheme and a MPF Scheme under the Mandatory Provident Fund Schemes Ordinance within the Group. The ORSO Scheme requires the Group to contribute 5% to 10% of the employees’ monthly basic salaries and requires the employees to contribute 5% of their monthly basic salaries, whilst the MPF Scheme requires both the Group and the employees to contribute 5% of the employees’ monthly gross earnings with a ceiling of HK\$1,000 per month. Under the ORSO Scheme, the unvested portion of the benefits in respect of employees on termination of employment can be utilised by the Group to reduce its future levels of contributions. The assets of both the ORSO Scheme and the MPF Scheme are held separately from those of the Group in independently administered funds. The contributions payable to these schemes are charged to the profit and loss account as incurred.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All foreign currency transactions during the year are converted at the exchange rates existing on the respective transaction dates. All exchange differences are credited or charged, respectively, to the consolidated profit and loss account.

The exchange differences arising from the translation of the balance sheets of foreign subsidiaries using the closing rates of exchange prevailing on the balance sheet date are taken directly to reserves. Profit and loss accounts of foreign subsidiaries accounted for under the net investment method are translated into Hong Kong dollars using the average rate for the year. The differences between the profit and loss accounts translated at average rate and at closing rate are taken directly to exchange fluctuation reserve.

Taxation

Taxation 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 profit and loss account 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.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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 assets 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 realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash and also include time deposits and guarantee funds pledged.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

3. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold and rental income, but excludes intra-group transactions.

	Group	
	2004	2003
	HK\$'000	HK\$'000
Sales of electronic components and products	132,020	237,735
Sales of smart card readers and related products	6,761	9,295
Sales of home furniture	33,956	–
Trading of building materials and sundry products	2,446	248
Rental income	1,577	1,095
	176,760	248,373

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

4. SEGMENT INFORMATION

An analysis of the Group's revenue, results, assets, liabilities and capital expenditure for the year by business and geographical segments, as compared to the previous year, is as follows:

(a) Business segments

	Electronic Components and Products		Smart Card Technology		Property Investments		Home Furniture		Building Materials and Sundry Products		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
REVENUE	132,020	237,735	6,761	9,295	1,577	1,095	33,956	-	2,446	248	176,760	248,373
SEGMENT PROFIT/(LOSS)	5,957	9,945	(2,416)	38	1,048	552	2,025	-	205	163	6,819	10,698
Interest and other income											6,567	5,262
Profit on disposal of subsidiaries											468	2,157
Gain on deemed disposal of associates											8	3,404
Gain on long term investments											18,997	20,200
Profit on disposal of investment properties											-	2,477
Profit on disposal of long term investments											5,918	-
Write back of impairment of long term investments											-	5,000
Bad and doubtful debts											(2,440)	-
Amortisation on goodwill of subsidiaries											(763)	(695)
Amortisation and impairment on goodwill of associates											(767)	(10,984)
Impairment of investment properties											(6,000)	(4,000)
Impairment of long term investments											(25)	-
Unallocated administrative and other operating expenses											(17,412)	(16,899)
Finance costs											(4,249)	(2,299)
Share of results of associates											1,862	(1,374)
PROFIT BEFORE TAXATION											8,983	12,947
TAXATION											(340)	2,341
PROFIT BEFORE MINORITY INTERESTS											8,643	15,288

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Electronic Components and Products		Smart Card Technology		Property Investments		Home Furniture		Building Materials and Sundry Products		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
ASSETS												
Segmented assets	109,650	111,245	3,371	4,138	12,000	18,000	103,105	-	1,864	4,683	229,990	138,066
Unallocated assets											186,972	132,454
											416,962	270,520
LIABILITIES												
Segment liabilities	53,927	54,435	5,973	3,099	263	263	88,269	-	1,316	1,669	149,748	59,466
Unallocated liabilities											6,661	3,971
											156,409	63,437
CAPITAL EXPENDITURE												
Segment	5,114	7,914	125	54	-	-	20,050	-	-	9	25,289	7,977
Other											715	476
											26,004	8,453
DEPRECIATION AND AMORTISATION												
Segment	2,994	2,571	164	189	-	-	400	-	-	474	3,558	3,234
Other											1,710	2,575
											5,268	5,809
IMPAIRMENT LOSS												
Segment	-	-	-	-	6,000	4,000	-	-	-	-	6,000	4,000
Other											-	8,945
											6,000	12,945

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical area

	Asia		Europe		United States of America		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
REVENUE	166,772	246,031	6,759	983	3,229	1,359	176,760	248,373
SEGMENT PROFIT/(LOSS)	7,406	10,558	(688)	56	101	84	6,819	10,698
Interest and other income							6,567	5,262
Profit on disposal of subsidiaries							468	2,157
Gain on deemed disposal of associates							8	3,404
Gain on long term investments							18,997	20,200
Profit on disposal of investment properties							-	2,477
Profit on disposal of long term investments							5,918	-
Write back of impairment of long term investments							-	5,000
Bad and doubtful debts							(2,440)	-
Amortisation on goodwill of subsidiaries							(763)	(695)
Amortisation and impairment on goodwill of associates							(767)	(10,984)
Impairment of investment properties							(6,000)	(4,000)
Impairment of long term investments							(25)	-
Unallocated administrative and other operating expenses							(17,412)	(16,899)
Finance costs							(4,249)	(2,299)
Share of results of associates							1,862	(1,374)
PROFIT BEFORE TAXATION							8,983	12,947
TAXATION							(340)	2,341
PROFIT BEFORE MINORITY INTERESTS							8,643	15,288

The Group's assets and liabilities are principally located in Asia. Accordingly, segment assets, segment liabilities and other information by geographical area are not separately shown.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

5. RELATED PARTY TRANSACTIONS

In addition to the related party transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	<i>Notes</i>	Group	
		2004 HK\$'000	2003 HK\$'000
Consultancy fee paid by the Company to Princeton Venture Partners Limited	(a)	–	750
Interest income charged to Princeton Venture Partners Limited	(b)	363	302
Rental income charged to Princeton Venture Partners Limited	(a)	165	–
Disposal of long term investments to Princeton Venture Partners Limited	(a)	–	22,000
Consultancy fee paid to the Company by Bizipoint Company Limited	(a)	–	90
Interest income charged to Bizipoint Company Limited	(c)	75	18
Rental income charged to Bizipoint Company Limited	(a)	24	200

Notes:

- (a) The considerations were determined through negotiations between the respective parties.
- (b) Interest income was calculated at 5% per annum (2003: 3%).
- (c) Interest income was calculated at 5% per annum (2003: 7%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

6. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after crediting:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Gross rental income	1,577	1,095
Less: outgoings	(529)	(543)
Net rental income	1,048	552
Interest income	2,575	816
Profit on disposal of subsidiaries	468	2,157
Gain on deemed disposal of associates	8	3,404
Gain on long term investments	18,997	20,200
Profit on disposal of investment properties	–	2,477
Profit on disposal of long term investments	5,918	–
Write back of impairment of long term investments	–	5,000
Write back of provisions	2,346	–
and after charging:		
Amortisation on goodwill of subsidiaries	763	695
Amortisation and impairment on goodwill of associates	767	10,984
Auditors' remuneration:		
Hong Kong	937	1,230
Overseas	–	–
Bad and doubtful debts	4,270	1,050
Cost of inventories sold	147,147	219,920
Depreciation on properties, plant and equipment	3,738	3,075
Impairment of investment properties	6,000	4,000
Impairment of long term investments	25	–
Loss on disposal of properties, plant and equipment	21	892
Operating lease rentals for land and buildings	3,026	2,436
Staff costs:		
Wages and salaries (including Directors' emoluments)	19,522	19,208
Retirement fund contributions	479	92

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	2,537	1,986
Finance lease	–	5
Other loan	1,063	–
Other	649	308
	4,249	2,299

8. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	225	200
Salaries and other benefits	6,820	7,470
Contributions to retirement schemes	57	46
	7,102	7,716
Less: Prior year bonus waived by a Director	(310)	–
	6,792	7,716

Emoluments paid to Independent non-executive Directors during the year were HK\$225,000 (2003: HK\$200,000).

Except as disclosed above, there are no arrangements under which a Director waived or agreed to waive any emolument during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

8. DIRECTORS' EMOLUMENTS (*Continued*)

Emoluments of the Directors fell within the following bands:

	Group	
	2004	2003
	Number of Directors	Number of Directors
HK\$Nil to HK\$1,000,000	6	8
HK\$1,000,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	1
	9	10

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2003: five) were Directors of the Company whose emoluments have been included in note 8(a) above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

9. TAXATION

Provision for Hong Kong profits tax has been made at the current rate of taxation of 17.5% on the estimated assessable profit for the year (2003: 17.5%). Taxes on income earned outside Hong Kong have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing law, practice and interpretation thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	278	208
Outside Hong Kong	59	–
	337	208
Prior year under/(over) provision:		
Hong Kong	–	77
Outside Hong Kong	44	(2,711)
	44	(2,634)
	381	(2,426)
Share of tax in associates	–	–
Deferred tax – note 26	(41)	85
Taxation	340	(2,341)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

9. TAXATION (Continued)

Taxation is reconciled to the profit before taxation per profit and loss account as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	8,983	12,947
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	1,572	2,267
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(1,863)	(1,710)
Tax effect of expenses that are not deductible in determining taxable profit	925	7,154
Tax effect of tax depreciation not recognised	–	104
Tax effect of income that are not taxable in determining taxable profit	(2,142)	(13,130)
Tax effect of unused tax losses not recognised	1,804	5,608
Prior year underprovision/(overprovision)	44	(2,634)
Taxation	340	(2,341)

10. NET LOSS/(PROFIT) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$2,320,000 (2003: net profit attributable to shareholders of HK\$11,235,000).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$7,175,000 (2003: HK\$10,859,000) and the weighted average of 76,055,107 shares (2003: 61,456,891 shares) in issue during the year.

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed as the share options outstanding as of 31 December 2004 had an anti-dilutive effect on the basic earning per share for this year (2003: HK\$0.18).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

12. PROPERTIES, PLANT AND EQUIPMENT

Group

	Land and buildings situated overseas	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
1 January 2004	–	3,979	15,446	8,155	1,320	28,900
Additions	–	2,716	2,757	361	133	5,967
Disposals	–	–	(14)	(116)	(185)	(315)
Acquisitions of subsidiaries	4,255	1,835	21,101	1,461	2,768	31,420
Disposal of subsidiaries	–	–	–	(31)	–	(31)
31 December 2004	4,255	8,530	39,290	9,830	4,036	65,941
Accumulated depreciation						
1 January 2004	–	783	10,226	6,854	1,178	19,041
Additions	33	1,036	2,018	532	119	3,738
Disposals	–	–	(5)	(104)	(185)	(294)
Acquisitions of subsidiaries	–	153	9,323	705	1,202	11,383
Disposal of subsidiaries	–	–	–	(4)	–	(4)
31 December 2004	33	1,972	21,562	7,983	2,314	33,864
Net book value						
31 December 2004	4,222	6,558	17,728	1,847	1,722	32,077
31 December 2003	–	3,196	5,220	1,301	142	9,859

The Group's land and buildings situated overseas are held under medium term lease.

At 31 December 2004, the Group's land and buildings situated overseas with a net book value of HK\$4,222,000 (2003: Nil) were pledged to secure general banking facilities granted to the Group (See note 24 below).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

13. INVESTMENT PROPERTY

	Group	
	2004 HK\$'000	2003 HK\$'000
1 January, at valuation	18,000	31,200
Disposals	–	(9,200)
Impairment	(6,000)	(4,000)
31 December, at valuation	12,000	18,000
Analysed by lease term and geographical location: Medium term leasehold properties situated outside Hong Kong	12,000	18,000

The investment property was revalued by reference to appraisals made by Dudley Surveyors Limited, chartered surveyors, on an open market value basis based on its existing use on 31 December 2004.

Details of the investment property of the Group as at 31 December 2004 are as follows:

Location	Lease	Term Use
No. 15, Lane 2, Bao An County, Gong Yuan Road East, Shenzhen, PRC	Medium term lease	Industrial

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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14. LONG TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments, at cost	23,700	66,147
Listed investments (Hong Kong Stock Exchange) at cost	–	144
	23,700	66,291
Less: provision for impairment	–	(9,579)
Net carrying value	23,700	56,712
Listed investments, at market value	N/A	65

In the opinion of the Directors, the underlying values of the long term investments were not less than their carrying values at the balance sheet date.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1	1
Due from subsidiaries	418,281	404,875
Due to subsidiaries	(1)	(1)
	418,281	404,875
Less: provision	(224,129)	(224,129)
	194,152	180,746

Except for HK\$16,878,000 due from a subsidiary which is interest bearing, the amounts due from/to subsidiaries are unsecured, interest-free and there are no fixed terms for repayment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of Incorporation/ registration and operation	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2004	2003	
<i>Directly held:</i>					
Clever Able Investments Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Clever United Holdings Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Crown Tech Holdings Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
E-opportunity Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Treasure Chance Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Olympic Glory Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Proven Sino Investments Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Touchstone Trading Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Talent Sino Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holding
<i>Indirectly held:</i>					
Asia eMarket Limited	British Virgin Islands	US\$152	A-share 96.2%	A-share 96.2%	Investment holding
Prosperous Returns Limited	Hong Kong	HK\$2	100%	100%	Corporate services
Super Intellect Limited	Hong Kong	HK\$2	100%	100%	Corporate services
Grade Honor Limited	Hong Kong	HK\$2	100%	–	Corporate services

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2004	2003	
<i>Indirectly held: (Continued)</i>					
Vandyke Limited	British Virgin Islands/ The People's Republic of China ("PRC")	US\$1,000	100%	100%	Property holding
Omnitech Holdings Limited	Bermuda	AUD2,345,635	51.6%	51.6%	Investment holding
Lik Hang Holdings Limited	British Virgin Islands	US\$1,166,800	51.6%	51.6%	Investment holding
VFJ Technology Holdings Limited	British Virgin Islands	US\$2,594,724	35.6%	35.6%	Manufacture and sale of contact and contactless smart card readers
Unicom Group Limited	British Virgin Islands	US\$100	63%	63%	Investment holding
Emerald Capital Limited	British Virgin Islands	US\$30	63%	63%	General trading
Windsor Treasure Group Holdings Limited	British Virgin Islands	US\$30,001	51.5%	–	Investment holding
Great Ample Holdings Limited	British Virgin Islands	US\$20,001	51.5%	–	Investment holding
Glory Skill Investments Limited	British Virgin Islands	US\$2,901	51.5%	–	Investment holding
Success Profit International Limited	British Virgin Islands	US\$10,001	51.5%	–	Investment holding
Hing Lee (China) Company Limited	Hong Kong	HK\$18,010,000	51.5%	–	Investment holding
Sharp Motion Worldwide Limited	British Virgin Islands	US\$4	51.5%	–	Trademark holding

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of Incorporation/ registration and operation	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2004	2003	
<i>Indirectly held: (Continued)</i>					
深圳大豪興利家具實業有限公司	PRC	RMB10,000,000	33.5%	–	Design, manufacture, sale and marketing of home furniture
深圳興利家具有限公司	PRC	RMB8,000,000	51.5%	–	Design, manufacture, sale and marketing of home furniture
東莞富豪家具有限公司	PRC	HK\$8,080,000	40.2%	–	Manufacture and sale of bed mattresses

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

In the opinion of the Directors, the underlying values of interests in subsidiaries were not less than their carrying values at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

16. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	44,134	5,265
Net book value of goodwill – see below	9,608	10,375
	53,742	15,640
Loans to associates	9,114	30,800
Amount due from an associate	–	295
Interest receivable on loans to associates	1,972	1,665
	64,828	48,400

The loans to associates as at 31 December 2004 are unsecured, interest bearing (except for HK\$364,000 which is non interest bearing) and there are no fixed terms for repayment.

Movements in goodwill:

	HK\$'000
Cost	
1 January 2004	220,000
Additions	–
Disposals	–
31 December 2004	220,000
Accumulated amortisation	
1 January 2004	209,625
Amortisation	767
31 December 2004	210,392
Net book value	
31 December 2004	9,608
31 December 2003	10,375

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

16. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the Group's principal associates are as follows:

Name of associate	Class of shares held	Place of incorporation/ registration and operation	Equity interest owned by the Group		Principal activities
			2004	2003	
Bizipoint Group Limited	Ordinary	British Virgin Islands	41.0%	41.0%	Investment holding
Bizipoint Company Limited	Ordinary	Hong Kong	41.0%	41.0%	E-business consulting services
Beijing Zhong Shang Hui Xin Network Technology Development Company Limited	Registered Capital	PRC	36.9%	36.9%	E-business consulting services
PVP Limited	Ordinary	British Virgin Islands	A-share 37.2% B-share 37.2%	A-share 37.2%	Investment holding
Princeton Venture Partners Limited	Ordinary	British Virgin Islands	37.2%	37.2%	Investment holding and consultancy

The above table lists the principal associates of the Group which, in the opinion of the Directors, principally affected the results of the year, or formed a substantial portion of the net assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

16. INTERESTS IN ASSOCIATES *(Continued)*

Information relating to Bizipoint Group Limited and its subsidiaries ("Bizipoint Group") and PVP Limited and its subsidiaries ("PVP Group") as required by SSAP 10 (revised) "Accounting for investments in associates" is as follows:

Bizipoint Group

	2004	2003
	HK\$'000	HK\$'000
Turnover	4,117	4,441
Profit for the year	3,255	493
Non-current assets	62	178
Current assets	441	575
Current liabilities	(2,558)	(2,034)
Non-current liabilities, including deferred income	(993)	(4,993)

PVP Group

	2004	2003
	HK\$'000	HK\$'000
Turnover	4,439	9,700
Profit for the year	639	1,124
Non-current assets	117,736	48,826
Current assets	15,803	6,828
Current liabilities	(2,638)	(1,911)
Non-current liabilities	(7,917)	(30,897)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

17. GOODWILL

	Group HK\$'000
Cost	
1 January 2004	10,892
Additions	<u>12,333</u>
31 December 2004	<u>23,225</u>
Accumulated amortisation	
1 January 2004	695
Amortisation	<u>763</u>
31 December 2004	<u>1,458</u>
Net book value	
31 December 2004	<u>21,767</u>
31 December 2003	<u>10,197</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

18. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	35,137	26,008
Work in progress	12,854	–
Finished goods	28,455	4,637
	76,446	30,645

There is no inventory stated at net realisable value (2003: HK\$93,000). Included in the Group's inventories were finished goods of approximately HK\$8,342,000 (2003: Nil) which have been pledged against trade payables totalling approximately HK\$7,071,000 (2003: Nil).

19. TRADE AND OTHER RECEIVABLES

The aging analysis of trade and other receivables (net of provision for doubtful debts) is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	58,204	38,804
One to three months	19,362	7,859
More than three months	21,445	17,145
	99,011	63,808

The Group allows an average credit period of 30 to 45 days to its trade customers.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

20. LISTED INVESTMENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	49	–
Overseas	24,216	–
	24,265	–

21. CASH AND BANK BALANCES

Cash and bank balances represent cash on hand and at banks and include time deposits and guarantee funds of HK\$16,288,000 (2003: HK\$16,278,000) pledged as security for general banking facilities provided to certain subsidiaries.

22. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest free and there are no fixed terms for repayment.

23. TRADE AND OTHER PAYABLES

The aging analysis of trade and other payables is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	39,521	14,455
One to three months	21,881	4,597
More than three months	13,096	4,709
	74,498	23,761

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

24. INTEREST BEARING BANK BORROWINGS

The terms of the interest bearing bank borrowings are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Repayable on demand or within one year		
Bank overdrafts – secured	6,833	6,095
Bank import loans – secured	31,421	33,295
Bank loan – secured	1,887	–
– unsecured	9,891	–
	50,032	39,390
Repayable in the second year		
Bank import loans – secured	1,000	–
Repayable in the third to fifth years, inclusive		
Bank import loans – secured	2,834	–
	3,834	–
	53,866	39,390

The above secured bank borrowings are secured by:

- (a) charges over time deposits and guarantee funds of approximately HK\$16,288,000 (2003: HK\$16,278,000);
- (b) charges over the Group's land and buildings situated overseas, with net book value at the balance sheet date of HK\$4,220,000 (2003: Nil); and
- (c) against guarantees issued by certain subsidiaries and a Director of these subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

25. OTHER LOAN PAYABLE

The other loan is secured by a corporate guarantee issued by the Company, interest bearing at 1.5% per month and repayable in 2005.

26. DEFERRED TAX LIABILITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
1 January	85	–
Release to profit and loss account – note 9	(41)	85
31 December	44	85

The principal components of the Group's deferred tax liabilities provided for/(deferred tax assets recognised), and the amounts not provided/(not recognised) are as follows:

	Group			
	Provided		Not provided	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accelerated capital allowances	44	85	19	11
Tax losses	–	–	(35,253)	(37,057)
	44	85	(35,234)	(37,046)

No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams.

27. SHARE CAPITAL

Share

	Number of ordinary shares of HK\$0.01	Amount HK\$'000
Authorised:		
1 January 2004 and 31 December 2004	15,000,000,000	150,000
Issued and fully paid:		
1 January 2004	74,289,768	743
Issue of new shares	17,003,000	170
31 December 2004	91,292,768	913

During the year, on 24 November 2004, the Company issued 17,003,000 new shares at HK\$1.00 per share as part of considerations for the acquisition and subscription of approximately 51.5% interests in Windsor Treasure Group Holdings Limited ("Windsor Treasure").

Share options

At the Special General Meeting held on 22 March 2002, a new share option scheme in compliance with the new listing requirements was approved for adoption by the Company. Please refer to the Report of the Directors for details.

At the balance sheet date, there were 2,720,000 share options outstanding under the share option scheme adopted by the Company on 22 March 2002.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

28. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
1 January 2003	46,317	83,274	11,270	(9,344)	131,517
Issue of new shares	27,970	–	–	–	27,970
Share issue expenses	(901)	–	–	–	(901)
Currency translation differences	–	–	(998)	–	(998)
Profit for the year	–	–	–	10,859	10,859
31 December 2003 and 1 January 2004	73,386	83,274	10,272	1,515	168,447
Issue of new shares	16,833	–	–	–	16,833
Currency translation differences	–	–	(3)	–	(3)
Profit for the year	–	–	–	7,175	7,175
31 December 2004	90,219	83,274	10,269	8,690	192,452

Included in the Group's retained profits at 31 December 2004 were accumulated losses of HK\$8,642,000 (2003: HK\$10,504,000) relating to associates.

28. RESERVES (Continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
1 January 2003	46,317	125,376	(31,046)	140,647
Issue of new shares	27,970	–	–	27,970
Share issue expenses	(901)	–	–	(901)
Profit for the year	–	–	11,235	11,235
31 December 2003 and 1 January 2004	73,386	125,376	(19,811)	178,951
Issue of new shares	16,833	–	–	16,833
Loss for the year	–	–	(2,320)	(2,320)
31 December 2004	90,219	125,376	(22,131)	193,464

The Company's contributed surplus, which arose from the Group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the fair value of the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash used in operations

	Group	
	2004 HK\$'000	2003 HK\$'000
Profit before taxation	8,983	12,947
Adjustments for:		
Profit on disposal of subsidiaries	(468)	(2,157)
Exchange gain	–	(718)
Interest income	(2,575)	(816)
Interest expenses	4,249	2,299
Write back of provisions	(2,346)	–
Depreciation on properties, plant and equipment	3,738	3,075
Bad and doubtful debts	4,270	1,050
Amortisation and impairment on goodwill of associates	767	10,984
Amortisation on goodwill of subsidiaries	763	695
Impairment of investment properties	6,000	4,000
Impairment of long term investments	25	–
Loss on disposal of properties, plant and equipment	21	892
Profit on disposal of long term investments	(5,918)	–
Write back of impairment of long term investments	–	(5,000)
Gain on long term investments	(18,997)	(20,200)
Profit on disposal of investment properties	–	(2,477)
Gain on deemed disposal of associates	(8)	(3,404)
Share of results of associates	(1,862)	1,374
Operating (loss)/profit before working capital changes	(3,358)	2,544
Decrease in inventories	5,940	56
Increase in trade and other receivables	(9,319)	(31,254)
Decrease in prepayments and deposits	693	3,164
Decrease in trade and other payables	(10,372)	(2,058)
Decrease in amounts due to related parties	(4,142)	–
Increase/(decrease) in deposits received	10,446	(22)
Net cash used in operations	(10,112)	(27,570)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	Group	
	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Properties, plant and equipment	27	102
Inventories	17	–
Trade and other receivables	6,705	25,567
Cash and bank balances	20	15,861
Trade and other payables	(7,237)	(20,923)
Interest bearing bank borrowings	–	(16,038)
Current tax payable	–	(2,068)
Minority interests	–	(681)
	(468)	1,820
Represented by:		
Cash received	–	2,851
Trade and other receivables	–	1,126
Profit on disposal	(468)	(2,157)
	(468)	1,820

The subsidiaries disposed of during the year utilised HK\$16,000 from the Group's net cash used in operations.

Analysis of net outflow of cash and cash equivalents in respect of the disposed subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash received	–	2,851
Cash and bank balances of disposed subsidiaries	(20)	(15,861)
	(20)	(13,010)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of subsidiaries

	Group	
	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Properties, plant and equipment	20,037	104
Inventories	51,758	–
Trade and other receivables	36,819	13,700
Prepayments and deposits	6,283	180
Cash and bank balances	24,583	175
Pledged time deposits	–	10,000
Due to related parties	(8,272)	–
Trade and other payables	(70,692)	(16,824)
Current tax payable	(1,228)	–
Interest bearing bank borrowings	(12,076)	(4,623)
Minority interests	(5,218)	(583)
	41,994	2,129
Less: Minority interests	(20,321)	(1,009)
	21,673	1,120
Goodwill on consolidation	12,333	10,892
	34,006	12,012
Represented by:		
Cash paid	17,003	12,012
Shares issued	17,003	–
	34,006	12,012

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

The subsidiaries acquired during the year utilised HK\$6,365,000 from the Group's net cash used in operations between the date of acquisition and the balance sheet date.

Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2004	2003
	HK\$'000	HK\$'000
Cash paid	(17,003)	(12,012)
Cash and bank balances of acquired subsidiaries	24,583	175
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	7,580	(11,837)

(d) Major non-cash transactions

On 24 November 2004, the Company issued 17,003,000 new shares at HK\$1.00 per share as part of the considerations for the acquisition and subscription of approximately 51.5% interests in Windsor Treasure.

30. CONTINGENT LIABILITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Corporate guarantees given to banks and others	49,950	73,043	15,450	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 December 2004

31. COMMITMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Capital commitments		
– contracted for	30,189	–
– authorised but not contracted for	–	–
	30,189	–
Total minimum commitments under non-cancellable operating leases for land and buildings due:		
As lessee		
Within one year	8,004	2,980
In the second to fifth years, inclusive	12,426	1,476
After five years	21,223	–
	41,653	4,456
As lessor		
Within one year	1,577	1,577
In the second to fifth years, inclusive	5,126	6,309
After five years	–	394
	6,703	8,280

The Company has no capital or operating lease commitments.

32. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”), which are effective for accounting periods beginning on or after 1 January 2005. The Group did not apply early adoption of these new HKFRSs to its financial statements for the year ended 31 December 2004. However, the Group has been carrying out an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the revised HKFRSs may have significant impact on the Group’s financial statements as briefly described below:

(a) **Hong Kong Accounting Standard 17 (“HKAS 17”): Leases**

By adoption of HKAS 17, for the leasehold properties held for own use where the land and buildings elements can be allocated reliably as at the inception of the lease, the land element is treated as an operating lease. Land premium or other costs of acquiring the leasehold land will be amortised over the term of the lease. Where the land and buildings cannot be allocated reliably as at the inception of the lease, the land and buildings elements will continue to be treated as finance leases and carried at cost or fair value depending on whether the cost model or fair value model is elected.

The Group will continue to adopt the cost model for leasehold properties. Upon adoption of HKAS 17, the cost of land premium paid will be reflected as a prepayment under current assets and amortised over the remaining lease term, and the 2004 figures will be restated to reflect the changes.

(b) **Hong Kong Accounting Standard 40 (“HKAS 40”): Investment Property**

The current accounting policy on investment properties is set out in Note 2 above. By adoption of HKAS 40, investment properties are carried at fair value with the changes in fair value reported directly in the profit and loss account.

The Group will continue to adopt the fair value model for investment properties.

(c) **Hong Kong Financial Reporting Standard 2 (“HKFRS 2”): Share-based Payment**

The adoption of HKFRS 2 would require all share options granted to employees or other parties to be recognised in the financial statements. Currently, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of the share options at grant date will be amortised over the relevant vesting periods to the profit and loss account.

32. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(d) Hong Kong Financial Reporting Standard 3 (“HKFRS 3”): Business Combinations

The adoption of HKFRS 3 would require goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Accordingly, goodwill is not amortised and instead must be tested annually for impairment.

The Group will continue to assess the impact of other new HKFRSs and other changes may be identified as a result. However, it is not expected that these will have significant financial and presentation effects on the Group’s financial statements.

33. SUBSEQUENT EVENTS

Subsequent to the balance sheet date on 28 February 2005, the Company issued 9,000,000 new shares at HK\$0.96 per share ranking pari passu with the existing shares to provide for additional working capital for the Company.

34. COMPARATIVE FIGURES

The comparative figures in the Segment Information have been reclassified to conform to the current year’s presentation. In the opinion of the Directors, the change in presentation better presents the financial characteristics of the Group.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15 March 2005.