

# Notes to Financial Statements

31 December 2004

## 1. CORPORATE INFORMATION

The principal place of business of Polytec Asset Holdings Limited is located at 23/F, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

During the period, the Company's principal activity was investment holding. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. During the period, the Group has expanded its business into property investment, trading and development and ice manufacturing and provision of cold storage.

The Company is a subsidiary of Marble King International Limited (the "Ultimate Holding Company"), a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of short term investments as further explained below.

The financial statements for the current period cover the 13 months period from 1 December 2003 to 31 December 2004. The corresponding amounts shown for the income statement, statement of changes in equity, cash flows and related notes cover a 12 months period from 1 December 2002 to 30 November 2003 and therefore may not be comparable with the amounts shown for the current period.

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 has not early adopted these new HKFRSs in the financial statements for the period from 1 December 2003 to 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 December 2003 to 31 December 2004 in the current period and for the period from 1 December 2002 to 30 November 2003 for the prior period. The results of subsidiaries acquired or disposed of during the period 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity 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 associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

### **Subsidiaries**

A subsidiary is a company in which the Company controls, directly or indirectly, the financial and operating policies of such company so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

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

### **Joint venture companies** *(continued)*

The joint venture agreement between the venturers stipulates the activities of the joint venture company, the capital contributions of the joint venture parties, the duration of the joint venture, the basis on which the assets are to be realised upon its dissolution and details regarding the appointment of the board of directors or equivalent governing body of the joint venture company. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control with other joint venture parties, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's share/registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's share/registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over its estimated useful life.

Leasehold land and buildings	Over the lease terms
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4 to 5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

# Notes to Financial Statements

31 December 2004

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

### **Impairment of assets**

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior periods may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### **Inventories**

Properties held for sale and land held for development for sale are stated at the lower of cost and net realisable value. Net realisable value of properties held for sale represents the estimated selling price less costs to be incurred in selling the properties. Net realisable value of land held for development for sale represents the estimated selling price less costs to be incurred in development and selling of the properties.

### **Short term investments**

Trading securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of securities are credited or charged to the income statement for the period in which they arise.

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

### **Short term investments** *(continued)*

Equity-linked notes are debt securities with a maturity of usually less than one year, whose return is linked to the share price performance of a particular listed reference equity. The Group purchases such equity-linked notes at a discount and receives the full nominal amount of the notes (the "Nominal Value") at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above a predetermined strike price (the "Strike Price"). If the closing price of the reference equity on the maturity date is at or below the Strike Price, the Group is obliged to redeem the equity-linked notes in exchange for shares in the underlying reference equity.

The equity-linked notes are stated at the lower of the cost of the notes plus cumulative amortisation of the difference between their purchase price and the Nominal Value at the maturity date, and the fair value of the particular reference equity on the basis of its quoted market price at the balance sheet date. The net gains or losses so arising are credited or charged to the income statement for the period in which they arise.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

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

### **Deferred tax**

In prior years, deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

With effect from 1 December 2003, the Group adopted a new accounting policy for deferred tax in order to comply with the revised SSAP 12 "Income Taxes" issued by the HKICPA. Deferred tax is provided using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carry amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against with the temporary difference can be utilized. The adoption of the revised SSAP 12 had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

# Notes to Financial Statements

31 December 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Deferred tax** (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liabilities is settled or the asset is realized. Deferred tax is recognized in the income statement except when it relates to items recognized directly in equity, in which case the deferred tax is also recognized in equity.

### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### **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.

### **Employee benefits**

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Employee benefits** (continued)

#### *Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time when the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The incomes and expenses of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the period, and their assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.



# Notes to Financial Statements

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

### Revenue recognition

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:

- from the 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 to the degree usually associated with ownership, nor effective control over the goods sold;
- from the sale of properties, upon the execution of a binding sale agreement;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- consultancy service fee income, when the services are rendered;
- from the sale of investments, on a trade date basis or on the date on which the relevant sales contracts become or are deemed unconditional, where appropriate;
- service income, when the services are rendered to the customers;
- dividends, when the shareholders' right to receive payment has been established; and
- rental income, on straight-line basis over the lease term.

## 3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment. For the period from 1 December 2003 to 31 December 2004, the Group had three business segments which related to properties investment, trading and development related activities ("Properties"), manufacturing of ice and provision of cold storage and related services ("Ice and Cold Storage") and financial investment and other miscellaneous activities ("Investment and others"). As the Group has only one business segment, namely Investments and Others, during the period from 1 December 2002 to 30 November 2003, except that the interest in a jointly-controlled entity amounted to HK\$4,450,000 was related to the Properties segment, no business segment analysis is presented for that period. As over 90% of the Group's revenue, results, assets and liabilities were derived from operations in the People's Republic of China, including Hong Kong and Macao, further segment information has not been disclosed in respect of the Group's geographical segments.

# Notes to Financial Statements

31 December 2004

## 3. SEGMENT INFORMATION (Continued)

### Business segments

	From 1 December 2003 to 31 December 2004			From 1 December 2002 to 30 November 2003	Consolidated
	Properties	Ice and Cold Storage	Investments and Others	Consolidated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	38,270	5,043	109,569	152,882	17,672
Segment result	14,072	2,006	16,437	32,515	(445)
Unallocated group expenses				(7,460)	—
Profit/(loss) from operating activities				25,055	(445)
Finance costs				(249)	(2,362)
Gain on disposal of subsidiaries				—	18,397
Share of results of jointly-controlled entities	(12)			(12)	—
Profit before tax				24,794	15,590
Tax				(4,213)	—
Profit before minority interests				20,581	15,590
Minority interests				(3,462)	—
Net profit attributable to shareholders				17,119	15,590
Depreciation and amortisation	—	604	—	623	328
Capital expenditure incurred					
— through acquisition of subsidiaries	—	172,062	—	172,062	—
— others	11	—	—	38	6

# Notes to Financial Statements

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## 3. SEGMENT INFORMATION (Continued)

### Business segments (continued)

	At 31 December 2004			At 30 November 2003	
	Properties	Ice and Cold Storage	Investments and Others	Consolidated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	302,437	176,914	76,068	555,419	48,345
Interests in jointly-controlled entities	298,067			298,067	4,450
Unallocated group assets				9,713	—
				<b>863,199</b>	52,795
Segment liabilities	2,805	6,563	605	9,973	1,612
Unallocated group liabilities				196,669	—
				<b>206,642</b>	1,612

**4. TURNOVER AND OTHER REVENUE AND GAINS**

An analysis of the Group's turnover, other revenue and gains is as follows:

	<b>From 1 December 2003 to 31 December 2004 HK\$'000</b>	<b>From 1 December 2002 to 30 November 2003 HK\$'000</b>
<b>Turnover</b>		
Sale of goods	2,458	475
Sale of properties	38,270	—
Service income	2,585	—
Proceeds from sale of trading securities	109,569	17,197
	<b>152,882</b>	<b>17,672</b>
<b>Other revenue and gains</b>		
Unrealised holding gain on trading securities	7,622	5,754
Rental income, net of outgoings	1,514	—
Dividend income from listed securities	1,498	397
Interest income	—	69
Consultancy service fee income	553	240
Gain on equity-linked notes, net	—	2,607
Others	110	7
	<b>11,297</b>	<b>9,074</b>
	<b>164,179</b>	<b>26,746</b>

# Notes to Financial Statements

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## 5. PROFIT/LOSS FROM OPERATING ACTIVITIES

The Group's profit/loss from operating activities is arrived at after charging/(crediting):

	From 1 December 2003 to 31 December 2004 <i>HK\$'000</i>	From 1 December 2002 to 30 November 2003 <i>HK\$'000</i>
Staff costs (excluding directors' remuneration):		
Wages and salaries	2,868	1,774
Provident fund contributions	272	57
	<b>3,140</b>	1,831
Depreciation	516	328
Minimum lease payments under operating leases		
in respect of land and buildings	706	809
Auditors' remuneration	640	318
Provision for other receivables	—	1,051
Write back of provision for an other receivable	—	(1,500)
Amortisation of goodwill (included in administrative expenses)	107	—
Cost of inventories recognised as expenses	21,803	437

# Notes to Financial Statements

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## 6. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>The Group</b>	
	<b>From 1 December 2003 to 31 December 2004 HK\$'000</b>	<b>From 1 December 2002 to 30 November 2003 HK\$'000</b>
Fees:		
Executive directors	—	—
Non-executive directors	40	20
Independent non-executive directors	120	40
	<b>160</b>	<b>60</b>
Other emoluments to executive directors:		
Salaries and allowances	2,430	3,558
Provident fund contributions	165	162
	<b>2,595</b>	<b>3,720</b>
	<b>2,755</b>	<b>3,780</b>

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

	<b>The Group</b>	
	<b>Number of directors From 1 December 2003 to 31 December 2004</b>	<b>Number of directors From 1 December 2002 to 30 November 2003</b>
Nil to HK\$1,000,000	6	5
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,000,001 to HK\$2,500,000	1	—
	<b>7</b>	<b>7</b>

# Notes to Financial Statements

31 December 2004

## 6. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

(Continued)

The five highest paid individuals during the period from 1 December 2003 to 31 December 2004 included two (01/12/2002 – 30/11/2003: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (01/12/2002 – 30/11/2003: three) non-director, highest paid individuals are as follows:

	The Group	
	From 1 December 2003 to 31 December 2004 <i>HK\$'000</i>	From 1 December 2002 to 30 November 2003 <i>HK\$'000</i>
Salaries and allowances	1,507	959
Provident fund contributions	36	33
	<b>1,543</b>	<b>992</b>

The remuneration of each of the remaining three non-director, highest paid individuals fell within the nil – HK\$1,000,000 band for the current and prior periods.

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

## 7. FINANCE COSTS

	The Group	
	From 1 December 2003 to 31 December 2004 <i>HK\$'000</i>	From 1 December 2002 to 30 November 2003 <i>HK\$'000</i>
Interest expense on:		
Bank and other loans wholly repayable within five years	82	2,361
Advances from minority shareholders with no fixed repayment terms	167	—
Finance leases	—	1
	<b>249</b>	<b>2,362</b>

# Notes to Financial Statements

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## 8. TAX

	The Group	
	From 1 December 2003 to 31 December 2004 HK\$'000	From 1 December 2002 to 30 November 2003 HK\$'000
Current tax		
— Hong Kong Profits Tax	2,116	—
— Overseas income tax	2,194	—
	4,310	—
Deferred tax	(97)	—
	4,213	—

Hong Kong Profits Tax has been provided for at the rate of 17.5% (01/12/2002 – 30/11/2003: 17.5%) on the estimated assessable profits of the period. No provision for income tax in prior period had been made as the Group had no assessable profit arising. Overseas taxation has been provided for at the applicable rates ruling in the respective jurisdictions.

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

	The Group	
	From 1 December 2003 to 31 December 2004 HK\$'000	From 1 December 2002 to 30 November 2003 HK\$'000
Profit before tax	24,794	15,590
Tax charges at the average income tax rate	3,843	1,707
Tax effect of expenses not deductible in determining taxable profit	181	717
Tax effect of income not taxable in determining taxable profit	(320)	(3,748)
Utilisation of tax losses previously not recognised	(509)	—
Others	1,115	1,324
Tax expense for the period	4,310	—



# Notes to Financial Statements

31 December 2004

## 8. TAX (Continued)

The average income tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profit before tax and the relevant statutory rates.

## 9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the period from 1 December 2003 to 31 December 2004 dealt with in the financial statements of the Company was a net loss of HK\$5,831,000 (01/12/2002 – 30/11/2003: net profit of HK\$125,000) (note 22(b)).

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share for the period from 1 December 2003 to 31 December 2004 is based on the net profit attributable to shareholders for the period of HK\$17,119,000 (01/12/2002 – 30/11/2003: HK\$15,590,000) and the weighted average of 475,802,608 (01/12/2002 – 30/11/2003: 362,930,516) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period from 1 December 2003 to 31 December 2004 is based on the net profit attributable to shareholders for the period of HK\$17,119,000 (01/12/2002 – 30/11/2003: HK\$15,590,000). The weighted average number of ordinary shares used in the calculation is 651,168,204 (01/12/2002 – 30/11/2003: 397,251,366), being the weighted average of 475,802,608 (01/12/2002 – 30/11/2003: 362,930,516) ordinary shares in issue during the period as used in the basic earnings per share calculation and the effect of 175,365,596 (01/12/2002 – 30/11/2003: 34,320,850) dilutive potential ordinary shares in respect of 3,851,300,000 (01/12/2002 – 30/11/2003: 4,000,000,000) convertible preference shares in issue.

The comparative amount of earnings per share has been restated, as the number of ordinary shares in prior period has been adjusted for the consolidation of every 20 ordinary shares in issue into 1 ordinary share and for two rights issues effected during the current period.

**11. FIXED ASSETS****The Group**

	<b>Leasehold land and buildings</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:					
At beginning of period	—	—	267	—	267
Additions	—	—	38	—	38
Acquisition of subsidiaries	153,000	1,520	277	164	154,961
Written off	—	—	(48)	—	(48)
At 31 December 2004	153,000	1,520	534	164	155,218
Accumulated depreciation:					
At beginning of period	—	—	227	—	227
Depreciation provided during the period	449	38	25	4	516
Eliminated on written off	—	—	(48)	—	(48)
At 31 December 2004	449	38	204	4	695
Net book values:					
At 31 December 2004	152,551	1,482	330	160	154,523
At 30 November 2003	—	—	40	—	40

The leasehold land and buildings are held under medium-term lease in Hong Kong.

# Notes to Financial Statements

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## 12. INTERESTS IN SUBSIDIARIES

	The Company	
	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost	101,039	101,039
Provision for impairment of investments	(101,039)	(101,039)
	—	—
Amounts due from subsidiaries	619,871	114,999
Provision for amounts due from subsidiaries	(87,692)	(85,653)
	<b>532,179</b>	29,346

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, repayment will not be required in the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

Particulars of the subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
<b>Directly held:</b>				
City Power Services Limited	British Virgin Islands	US\$1	100	Investment holding
Newcott Limited	British Virgin Islands	US\$10,000	100	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	100	Investment holding
Sinocharm Trading Limited **	British Virgin Islands	US\$1	100	Investment holding

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held:</b>				
Glentech International Company Limited	Hong Kong	HK\$2	100	Investment holding, provision of consultancy services and trading of garment
Imperial Profit Investment Limited	British Virgin Islands/ Hong Kong	US\$1	100	Financial investment
Kam Yuen Property Investment Limited ##	Macao	MOP30,000	58	Property investment and development
New Cosmos Holdings Limited ##	British Virgin Islands	US\$100	58	Investment holding
Noble Gainer Limited	Hong Kong	HK\$2	100	Inactive
Power Giant Limited	British Virgin Islands/Macao	US\$1	100	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US\$1	100	Investment holding

# Notes to Financial Statements

31 December 2004

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held: (Continued)</b>				
Sheen Concord Enterprises Limited	Hong Kong	HK\$2	100	Securities investment and trading
Success Ever Limited *	British Virgin Islands	US\$1	100	Investment holding
The Hong Kong Ice & Cold Storage Company Limited **	Hong Kong	HK\$500,000	100	Ice manufacturing and provision of cold storage
Think Bright Limited #	British Virgin Islands/Macao	US\$200	70.5	Property trading and investment
Top Vision Assets Limited	British Virgin Islands	US\$1	100	Investment holding

\* The equity interests in the subsidiary was acquired on 16 June 2004.

# The equity interests in the subsidiary was acquired on 2 July 2004.

\*\* The equity interests in the subsidiaries was acquired on 16 November 2004.

## The equity interests in the subsidiaries was acquired on 23 December 2004.

## 13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	The Group	
	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	62,488	—
Loans to jointly-controlled entities	27,750	27,750
Due from jointly-controlled entities	233,579	2,450
	<b>323,817</b>	30,200
Provision against a loan to a jointly-controlled entity	<b>(25,750)</b>	(25,750)
	<b>298,067</b>	4,450

The loan advanced to a jointly-controlled entity of HK\$25,750,000 (30/11/2003: HK\$25,750,000) is unsecured, interest-free and will not be repaid until approval from all of the shareholders of the jointly-controlled entity is obtained. The other loan to a jointly-controlled entity of HK\$2,000,000 (30/11/2003: HK\$2,000,000) is unsecured, interest-free and has no fixed terms of repayment.

The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, repayment will not be required in the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

Particulars of the jointly-controlled entities at 31 December 2004 are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Li Yang Broadcasting & Advertising (HK) Limited	Corporate	Hong Kong	48	Television advertisement design and production, and the provision of advertising agency and advertisement publication services, including the export and import of advertising and related products

# Notes to Financial Statements

31 December 2004

## 13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Eastford Development Limited	Corporate	Hong Kong	48	Property development
South Bay Centre Company Limited	Corporate	Macao	50	Property investment and trading

All of the above investments in jointly-controlled entities are indirectly held by the Company.

The following is the financial information of the Group's significant jointly-controlled entity:

South Bay Centre Company Limited:

	From 7 June 2004 (date of incorporation) to 31 December 2004 HK\$'000
Income	716
Loss for the period	367
	At 31 December 2004
Non-current assets	600,126
Current assets	605
Current liabilities	(833)
Non-current liabilities	(474,922)
Net assets	124,976

# Notes to Financial Statements

31 December 2004

## 14. GOODWILL

	<b>The Group</b>
	<i>HK\$'000</i>
Cost:	
Arising on acquisitions of subsidiaries during the period and at 31 December 2004	17,101
Amortisation:	
Charge for the period and at 31 December 2004	107
Net book value	
At 31 December 2004	16,994

The amortisation period adopted for goodwill is 20 years.

## 15. SHORT TERM INVESTMENTS

	<b>The Group</b>	
	<b>31 December 2004</b>	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading securities listed in Hong Kong, at market value	75,563	24,865

## 16. INVENTORIES

	<b>The Group</b>	
	<b>31 December 2004</b>	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held for sale	148,883	—
Land held for development for sale	151,583	—
	300,466	—



# Notes to Financial Statements

31 December 2004

## 17. TRADE AND OTHER RECEIVABLES

	The Group	
	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Ageing analysis of trade receivables:		
Within 30 days	1,597	—
31 days to 60 days	918	—
61 days to 180 days	1,664	—
Over 180 days	20	—
Trade receivables	4,199	—
Other receivables	4,114	838
	<b>8,313</b>	<b>838</b>

The Group has established different credit policies for each of the Group's businesses and allows a credit period of not more than 90 days to its trade customers.

## 18. BANK LOANS

The secured bank loans were repayable as follows:

	The Group	
	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	12,050	—
In the second year	15,050	—
In the third to fifth years inclusive	72,700	—
	<b>99,800</b>	<b>—</b>
Less: Amounts repayable within one year shown under current liabilities	<b>(12,050)</b>	<b>—</b>
Amount due after one year	<b>87,750</b>	<b>—</b>

**19. DEFERRED TAXATION**

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior period:

**The Group**

	<b>Accelerated depreciation allowances</b> <i>HK\$'000</i>	<b>Revaluation of assets</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 December 2002	—	1,160	1,160
Release on disposal of subsidiaries	—	(1,160)	(1,160)
At 30 November 2003 and 1 December 2003	—	—	—
Acquisition of subsidiaries	2,994	30,710	33,704
Credit to the income statement	(97)	—	(97)
<b>At 31 December 2004</b>	<b>2,897</b>	<b>30,710</b>	<b>33,607</b>

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. At the balance sheet date, the Group has unrecognised tax losses of HK\$15,561,000 (30/11/2003: HK\$12,094,000) available for offset against future profits of which HK\$39,000 (30/11/2003: Nil) will be expired in 2008 and the remaining losses may be carried forward indefinitely.

# Notes to Financial Statements

31 December 2004

## 20. SHARE CAPITAL

	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 (30/11/2003:100,000,000,000)		
ordinary shares of HK\$0.1 (30/11/2003: HK\$0.01) each	<b>1,000,000</b>	1,000,000
5,000,000,000 convertible preference		
shares of HK\$0.01 each	<b>50,000</b>	50,000
	<b>1,050,000</b>	1,050,000
Issued:		
1,219,814,484 (30/11/2003: 5,950,372,434)		
fully paid ordinary shares of HK\$0.1		
(30/11/2003: HK\$0.01) each	<b>121,982</b>	59,504
3,851,300,000 (30/11/2003: 4,000,000,000)		
partly paid convertible preference		
shares of HK\$0.01 each	<b>3,851</b>	4,000
	<b>125,833</b>	63,504

### (a) Capital reorganisation

During the period from 1 December 2003 to 31 December 2004, the Company implemented a capital reorganisation scheme (*note 22 (b)*), which involves:

- a reduction (the “Capital Reduction”) in the par value of each existing ordinary share of HK\$0.01 in issue to HK\$0.005 each (the “Reduced Share”) and the application of HK\$30,495,000 of the credit arising to eliminate the accumulated losses of the Company;
- a consolidation of (i) every 20 Reduced Shares into one consolidated share of which par value is HK\$0.1 each and (ii) every 10 unissued ordinary shares of HK\$0.01 each into one unissued consolidated ordinary share of which par value is HK\$0.1 each;
- the cancellation of the share premium of HK\$118,818,000 and the application of the same amount of the credit arising to eliminate the accumulated losses of the Company; and

## 20. SHARE CAPITAL *(Continued)*

### (a) Capital reorganisation *(continued)*

- the cancellation of the capital reserve amounting to HK\$59,789,000 and the application of the same amount of the credit arising to eliminate the accumulated losses of the Company.

### (b) Issue of capital

On 24 March 2004, the Ultimate Holding Company, which is also the holder of all convertible preference shares of HK\$0.01 each (“CPS”) of the Company in issue, contributed HK\$2,676,000 to the Company to pay up 148,700,000 10% partly paid CPS in full. On the same day, the Ultimate Holding Company exercised the conversion right of CPS to convert 148,700,000 fully paid CPS into 148,700,000 fully paid ordinary shares of HK\$0.01 each.

On 18 June 2004, the Company issued 304,953,621 ordinary shares of HK\$0.1 each (the “Consolidated Shares”) by way of a rights issue at a subscription price of HK\$0.5 each on the basis of one rights share for every one Consolidated Share held by the shareholders on 28 May 2004 (the “First Rights Issue”). The proceeds from the First Rights Issue of HK\$152,477,000, before related expenses, were received by the Company.

On 29 November 2004, the Company issued 609,907,242 Consolidated Shares by way of a rights issue at a subscription price of HK\$0.55 each on the basis of one rights share for every one Consolidated Share held by the shareholders on 9 November 2004 (the “Second Rights Issue”). The proceeds from the Second Rights Issue of HK\$335,449,000, before related expenses, were received by the Company.

### (c) CPS

In previous year, 4,000,000,000 CPS were issued partly paid as to 10% of the subscription price of HK\$0.02 per share pursuant to the subscription agreement entered into with the Ultimate Holding Company and were subscribed by the Ultimate Holding Company. There is no time restriction for the unpaid amount of HK\$72,000,000 of the CPS to be fully paid up. The Company has no right to make calls with respect to amounts unpaid on any partly paid convertible preference shares.

# Notes to Financial Statements

31 December 2004

## 20. SHARE CAPITAL (Continued)

### (c) CPS (continued)

The holder may convert fully paid CPS into new ordinary shares of the Company at any time during the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive. Since 14 September 2001, the conversion rate was every one fully paid CPS for one fully paid ordinary shares of HK\$0.01 each (subject to adjustment). During the period from 1 December 2003 to 31 December 2004, the Company consolidated every 20 ordinary shares in issue into one ordinary share in issue and effected the First Rights Issue which constituted events giving rise to adjustments to the conversion rate of the outstanding CPS. Accordingly, the conversion rate of the CPS has been adjusted to 14.771 fully paid CPS for one fully paid Consolidated Share.

During the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time, the holders of the CPS, whether partly paid or fully paid, may require the Company to redeem, to the extent that conversion has not been elected by the holders of the CPS, the outstanding convertible preference shares for the amount paid up. The holder of the CPS has informed the Company in writing that it has no intention to redeem the CPS. The Company does not have the right to redeem the CPS.

If the CPS are still in issue after five years commencing on 14 September 2001, the holders of the CPS will automatically forfeit all of their redemption/conversion rights under the CPS and the CPS will become preference shares without carrying any conversion or redemption features thereafter. Any paid-up capital of the CPS will continue to be retained in the accounts of the Company.

Any CPS which have been fully paid up will rank *pari passu* for dividends with the ordinary shares from time to time in issue. Partly paid convertible preference shares are not entitled to any dividends.

The holders of the CPS are entitled to receive notices of general meetings, but not to attend or vote.

## 20. SHARE CAPITAL (Continued)

A summary of the above movements in share capital of the Company is as follows:

### (i) Ordinary shares

	Number of ordinary shares of HK\$0.01 each	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
Authorised ordinary shares:			
At 1 December 2002, 30 November 2003 and 1 December 2003	100,000,000,000	—	1,000,000
Consolidation of 10 existing ordinary shares of HK\$0.01 each into 1 ordinary share of HK\$0.10 each	(100,000,000,000)	10,000,000,000	—
<b>At 31 December 2004</b>	<b>—</b>	<b>10,000,000,000</b>	<b>1,000,000</b>
Issued and fully paid ordinary shares:			
At 1 December 2002, 30 November 2003 and 1 December 2003	5,950,372,434	—	59,504
Conversion of CPS	148,700,000	—	1,487
The Capital Reduction and consolidation of 20 existing ordinary shares of HK\$0.005 each into 1 ordinary share of HK\$0.10 each	(6,099,072,434)	304,953,621	(30,495)
The First Rights Issue	—	304,953,621	30,495
The Second Rights Issue	—	609,907,242	60,991
<b>At 31 December 2004</b>	<b>—</b>	<b>1,219,814,484</b>	<b>121,982</b>

# Notes to Financial Statements

31 December 2004

## 20. SHARE CAPITAL (Continued)

### (ii) CPS

	Number of CPS	Amount <i>HK\$'000</i>
Authorised CPS:		
At 1 December 2002, 30 November 2003, 1 December 2003 and 31 December 2004	5,000,000,000	50,000
	<b>Number of CPS partly paid</b>	<b>Number of CPS fully paid</b>
		<b>Amount <i>HK\$'000</i></b>
Issued CPS:		
At 1 December 2002, 30 November 2003 and 1 December 2003	4,000,000,000	—
Fully paid up of the CPS	(148,700,000)	148,700,000
Conversion into ordinary shares	—	(148,700,000)
<b>At 31 December 2004</b>	<b>3,851,300,000</b>	<b>—</b>
		<b>3,851</b>

## 21. SHARE OPTIONS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the share option scheme adopted by the Company on 19 August 1998 (the "Old Scheme"), the directors of the Company were authorised, at their discretion to invite any employees, including the directors of the Company and any of its subsidiaries to take up options to subscribe for shares of the Company. The maximum number of unexercised share options permitted to be granted under the Old Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

## 21. SHARE OPTIONS *(Continued)*

No option may be granted under the Old Scheme to any eligible participant which, if exercised in full, would result in such eligible participant being entitled to subscribe for such number of the shares of the Company as, when aggregated with the total number of the Company's shares already issued and issuable to him/her under the Old Scheme, would exceed 25% of the aggregate number of the Company's shares in issue and issuable under the Old Scheme.

No consideration is payable by the grantee of an option upon acceptance of the grant of the option under the Old Scheme. The exercise period of the share options granted under the Old Scheme is determinable by the directors, and in any event is not later than 10 years commencing on the date on which the share options are granted.

The exercise price of the share options granted under the Old Scheme is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer of the option; and (ii) the nominal value of the shares.

In order to comply with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, which took effect on 1 September 2001, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to the ordinary resolutions passed by the shareholders at the extraordinary general meeting of the Company held on 9 January 2004.

Under the New Scheme, eligible participants include any employees (including full-time and part-time employee), directors (including executive, non-executive and independent non-executive director), suppliers of goods and services, customers, business partners or business associates of the Group, consultant or adviser providing consultancy or advisory services in relation to the businesses, trading agents or holders of any securities issued by any member of the Group or any entity in which the Group holds an equity interest. The New Scheme became effective on 9 January 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.



# Notes to Financial Statements

31 December 2004

## 21. SHARE OPTIONS *(Continued)*

Under the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences from the date the grantee accepts the share options and ends on the expiry date of the New Scheme.

The exercise price of the share options granted under the New Scheme is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There was no share option granted under the Old Scheme or the New Scheme during the current and prior periods or remaining outstanding as at 31 December 2004.

## 22. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity.

In accordance with the relevant regulations of Mainland China, two ex-subsiaries of the Group established in Mainland China which were disposed of during the period 1 December 2002 to 30 November 2003, were required to transfer a certain percentage of their respective profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant Mainland China regulations, the statutory reserve may be used to offset against the respective accumulated losses, if any, of these two ex-subsiaries.

**22. RESERVES****(b) Company**

	<b>Share premium account</b>	<b>Capital reserve<sup>#</sup></b>	<b>Retained profits/ (accumulated losses)</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 December 2002	122,818	59,789	(195,788)	(13,181)
Net profit for the period	—	—	125	125
At 30 November 2003 and 1 December 2003	122,818	59,789	(195,663)	(13,056)
Capital reduction	—	—	30,495	30,495
Cancellation of share premium and capital reserve	(118,818)	(59,789)	178,607	—
Paid up and conversion into ordinary shares of convertible preference shares	1,338	—	—	1,338
Issue of ordinary shares by way of rights issues	390,877	—	—	390,877
Net loss for the period	—	—	(5,831)	(5,831)
<b>At 31 December 2004</b>	<b>396,215</b>	<b>—</b>	<b>7,608</b>	<b>403,823</b>

# The capital reserve of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation completed in 1998 over the nominal value of the Company's shares issued in exchange therefor.

# Notes to Financial Statements

31 December 2004

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

	From 1 December 2003 to 31 December 2004 <i>HK\$'000</i>	From 1 December 2002 to 30 November 2003 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	154,961	—
Amount due from a jointly-controlled entity	63,750	—
Inventories	151,583	—
Trade and other receivables	24,949	—
Cash and bank balances	6,003	—
Other payables	(7,630)	—
Loans advanced	(288,024)	—
Taxation	(261)	—
Deferred taxation	(33,704)	—
	71,627	—
Goodwill	17,101	—
Minority interests	(37,266)	—
	51,462	—
Satisfied by cash:		
For the acquisition of net assets	51,462	—
For the acquisition of loans advanced	262,689	—
	314,151	—

**23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)***(a) Acquisition of subsidiaries** *(continued)*

An analysis of the net outflow of cash and bank balances in respect of the acquisition of subsidiaries is as follows:

	<b>From</b> <b>1 December 2003 to</b> <b>31 December 2004</b> <i>HK\$'000</i>	From 1 December 2002 to 30 November 2003 <i>HK\$'000</i>
Cash consideration	<b>(314,151)</b>	—
Cash and bank balances acquired	<b>6,003</b>	—
Net outflow of cash and bank balances in respect of the acquisition of subsidiaries	<b>(308,148)</b>	—

The subsidiaries acquired during the period from 1 December 2003 to 31 December 2004 contributed HK\$43,313,000 to the Group's turnover and a profit of HK\$8,660,000 to the net profit attributable to shareholders for the period.

# Notes to Financial Statements

31 December 2004

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Disposal of subsidiaries

	From 1 December 2003 to 31 December 2004 HK\$'000	From 1 December 2002 to 30 November 2003 HK\$'000
Net liabilities disposed of:		
Fixed assets	—	9,506
Other receivables	—	118
Cash and bank balances	—	63
Trade and other payables	—	(16,791)
Interest-bearing bank and other borrowings	—	(11,121)
Deferred taxation	—	(1,160)
	—	(19,385)
Release of reserves on disposal	—	1,008
Gain on disposal of subsidiaries	—	18,397
	—	20
Satisfied by:		
Cash	—	20

**23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)***(b) Disposal of subsidiaries** *(Continued)*

An analysis of the net outflow of cash and bank balances in respect of the disposal of subsidiaries is as follows:

	From 1 December 2003 to 31 December 2004 HK\$'000	From 1 December 2002 to 30 November 2003 HK\$'000
Cash consideration	—	20
Cash and bank balances disposed of	—	(63)
Net outflow of cash and bank balances in respect of the disposal of subsidiaries	—	(43)

The subsidiaries disposed of during the period from 1 December 2002 to 30 November 2003 made no contribution to the Group's turnover and contributed a loss of HK\$3,454,000 to the net profit attributable to shareholders for that period.

**(c) Major non-cash transactions**

During the period from 1 December 2003 to 31 December 2004, 350,689,349 Consolidated Shares were issued and allotted to the Ultimate Holding Company under the Second Rights Issue through a setting-off arrangement pursuant to the underwriting agreement for the Second Rights Issue. Under the setting-off arrangement, the subscription monies for the 350,689,349 Consolidated Shares of HK\$192,879,000 were set off against the loans due to the Ultimate Holding Company.

**24. RELATED PARTY TRANSACTIONS**

During the period from 1 December 2002 to 30 November 2003 and the period from 1 December 2003 to 31 December 2004, the Group had the following transactions with related parties:

- (i) As at 30 November 2003 the Group has guaranteed certain proposed banking facilities granted by a bank to a jointly-controlled entity of the Group, of up to HK\$4,800,000. As at 30 November 2003, the banking facilities were not taken up. The guarantee was terminated during the period from 1 December 2003 to 31 December 2004.

# Notes to Financial Statements

31 December 2004

## 24. RELATED PARTY TRANSACTIONS *(Continued)*

- (ii) During the period from 1 December 2003 to 31 December 2004, the Group received consultancy service fee income of HK\$260,000 (01/12/2002 – 30/11/2003: HK\$240,000) from a jointly-controlled entity. The consultancy service fee income was charged on a monthly basis of HK\$20,000 as agreed by both parties.
- (iii) On 13 April 2004, Mr. Or Wai Shuen (the “Controlling Shareholder”), the beneficial owner of the Ultimate Holding Company, granted the right to the Group to acquire a substantial part of a commercial building at Rua do Dr. Pedro Jose Lobo, Av. Do Infante D. Henrique, and Av. Doutor Mario Soares in Macao together with an independent third party through the entering of a sale and purchase agreement by Polytec Holdings International Limited (the “Vendor”), a company beneficially owned by him with a subsidiary of the Group, Profit Sphere International Limited, to transfer of the entire interest in Success Ever Limited for the consideration of HK\$63,750,000 which represents the par value of the acquired share capital plus the face value of outstanding loans due from Success Ever Limited to the Vendor. The arrangement was to enable the Group to acquire, effectively, a 50% interest in such properties for a consideration of HK\$212,500,000.
- (iv) On 13 April 2004, the Company, the Ultimate Holding Company and a company (the “Underwriter”) beneficially owned by the Controlling Shareholder, entered into an underwriting agreement relating to the First Rights Issue. Pursuant to the underwriting agreement, an underwriting commission of HK\$1,380,000, being 2% of the total subscription price of the rights shares underwritten by the Underwriter, were paid to the Underwriter. The Ultimate Holding Company also undertook to subscribe 166,923,012 Consolidated Shares. As the Ultimate Holding Company also applied for excess rights shares, on completion of the rights issue, 181,363,013 Consolidated Shares were issued and allotted to the Ultimate Holding Company.
- (v) On 10 September 2004, the Company entered into a sale and purchase agreement with the Vendor for the acquisition of the entire interests in Sinocharm Trading Limited in turn to acquire the entire interests in The Hong Kong Ice & Cold Storage Company Limited, a leading crushed tube ice manufacturer in Hong Kong, for the consideration of HK\$158,000,000 which represents the par value of the acquired share capital plus the face value of outstanding loans due from Sinocharm Trading Limited to the Vendor.

## 24. RELATED PARTY TRANSACTIONS (Continued)

- (vi) On 10 September 2004, the Company, the Ultimate Holding Company and the Underwriter entered into an underwriting agreement relating to the Second Rights Issue. Pursuant to the underwriting agreement, an underwriting commission of HK\$2,878,000, being 2% of the total subscription price of the rights shares underwritten by the Underwriter, were payable to the Underwriter. As at 31 December 2004, the underwriting commission was not settled. The Ultimate Holding Company also undertook to subscribe 348,286,025 Consolidated Shares. As the Ultimate Holding Company also applied for excess rights shares, on completion of the rights issue, 350,689,349 Consolidated Shares were issued and allotted to the Ultimate Holding Company.
- (vii) The amounts due to minority shareholders of subsidiaries were unsecured and with no fixed repayment terms, of which HK\$27,806,000 (30/11/2003: Nil) was bearing interest at prevailing market rate and HK\$19,435,000 (30/11/2003: Nil) was interest free. During the period from 1 December 2003 to 31 December 2004, interest of HK\$167,000 (01/12/2002 – 30/11/2003: Nil) was payable to such shareholders.
- (viii) During the period from 1 December 2003 to 31 December 2004, the Group paid rental expenses and building management fees amounting to HK\$761,000 (01/12/2002 – 30/11/2003: HK\$754,000) in aggregate to a company beneficially owned by the Controlling Shareholder for the leasing of an administrative office in Hong Kong. The rental expenses were charged with reference to the then prevailing market price and conditions.

## 25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and vehicle parking spaces under operating lease arrangements. Leases for properties are negotiated for terms from three months to two years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	31 December 2004	30 November 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	662	152
In the second year	91	—
	<b>753</b>	152



# Notes to Financial Statements

31 December 2004

## 26. CAPITAL COMMITMENTS

As at 31 December 2004, the Group's capital commitments in respect of acquisition of fixed assets not provided for in the accounts were as follows:

	The Group	
	31 December 2004	30 November 2003
	HK\$'000	HK\$'000
Contracted for	951	—
Authorised but not contracted for	2,631	—
	<b>3,582</b>	—

## 27. PLEDGE OF ASSETS

As at 31 December 2004, certain assets of the Group were pledged to secure credit facilities granted to the Group, as follows:

- legal charges over all of the Group's medium term leasehold land and buildings with an aggregate net book value of HK\$152,551,000 (30/11/2003: Nil);
- the pledge of certain trading securities of the Group with net book value of HK\$75,563,000 (30/11/2003: HK\$3,856,000);
- floating charge over certain receivables of the Group of HK\$5,457,000 (30/11/2003: Nil); and
- floating charge over certain cash in bank of the Group of HK\$4,032,000 (30/11/2003: HK\$5,000).

## 28. COMPARATIVE AMOUNTS

Certain comparative amounts for the prior period have been reclassified to conform with current presentation.

## 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.