1. Corporate Information

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. Basis of Presentation and Summary of Significant Accounting Policies

(a) Basis of Preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In 2004, the HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are generally 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 year ended 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.

The financial statements are prepared under the historical cost modified by the revaluation of investment properties and the marking to market of marketable securities as explained in the accounting policies set out below.

2. Basis of Presentation and Summary of Significant Accounting Policies *(continued)*

(b) Basis of Presentation and Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associate

An associate is a company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The interest in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate. The results of associate are accounted for in the consolidated income statement to the extent of the Group's share of the associate's results of operations.

(e) Jointly-Controlled Entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(e) Jointly-Controlled Entities *(continued)*

Jointly-controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

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 interest in jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

(f) Goodwill

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 controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates and jointly-controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates or jointly controlled entities.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(f) **Goodwill** *(continued)*

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/ amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly-controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly-controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly-controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement 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.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(g) Fixed Assets and Depreciation

Fixed assets other than investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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

Long term leasehold land	Over the unexpired lease terms
Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	20%

(h) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Estimated recoverable amount of an asset is the greater of the estimated value from its future use and ultimate disposal, and its net selling price.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(h) **Impairment** *(continued)*

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

(i) **Marketable Securities**

Marketable 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 a security are credited or charged to the income statement in the period in which they arise.

(j) **Golf Club**

Golf club memberships are stated at cost less any impairment losses.

(k) **Provisions**

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(l) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Revenue Recognition

i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

iii) Rental income is recognised on a time proportion basis over the lease terms.

iv) Disposal of marketable securities is recognised on the transaction dates.

v) Dividend income is recognised when the shareholders' right to receive payment has been established.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(n) Foreign Currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries, jointly-controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(o) Retirement Scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. 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 Hong Kong Scheme. The assets of the Hong Kong 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 Hong Kong Scheme.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(q) Trade Receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(r) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(s) Taxation

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

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

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

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

2. *Basis of Presentation and Summary of Significant Accounting Policies (continued)*

(t) Operating Leases

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessees, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(u) Investment Properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease term of more than 20 years are not depreciated and are stated at their open market value on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of the previous valuations is released to the income statement.

(v) Long Term Investments

Long term investments in non-trading investments, unlisted equity securities, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment losses.

When impairment in value has occurred, the carrying amount of the security is reduced to their fair values, as estimated by the directors, and the amounts of the impairment is charged to the income statement for the period in which it arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

(w) Employee Benefits

i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

(x) Related Parties

Two 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.

(y) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

2. Basis of Presentation and Summary of Significant Accounting Policies *(continued)*

(y) Segment Reporting *(continued)*

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. Turnover and Revenue

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the year.

The Group's turnover and revenue for the year arose from the following activities:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**140,523**	295,242
Gross rental income	**430**	909
	140,953	296,151
Other revenue		
Agency and commission income	**178**	–
Bad debts recovered	**748**	–
Dividend income from long term unlisted investment	**–**	468
Dividend income from investments in marketable securities	**27**	152
Interest income from:		
Bank deposits	**1,101**	948
Others	**273**	–
Gain on disposal of fixed assets	**38**	35
Gain on disposal of marketable securities	**1,944**	1,432
Unrealised gain on changes in fair values of marketable securities, net	**104**	28
Exchange gains, net	**15**	25
Others	**3,941**	536
Total revenue	**8,369**	3,624

4. Segment Information

a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'property investment' and 'corporate and others' is as follows:

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**140,510**	295,242	**169**	589	**274**	320	**140,953**	296,151
Other revenue	**–**	224	**–**	–	**3,941**	312	**3,941**	536
Total	**140,510**	295,466	**169**	589	**4,215**	632	**144,894**	296,687
Segment results	**474**	1,792	**126**	526	**(7,102)**	(13,143)	**(6,502)**	(10,825)
Gain on disposal of								
– subsidiaries							**–**	37,003
– jointly-controlled entities							**7,333**	–
Surplus on revaluation of investment properties							**3,600**	–
Interest and dividend income and unallocated gains							**4,428**	3,088
Unallocated expenses							**(566)**	(1,025)
Profit from operating activities							**8,293**	28,241
Finance costs							**(218)**	(116)
Written-off of interest in an associate							**–**	(3,798)
Share of results of jointly-controlled entities							**3,256**	(10,968)
Profit from ordinary activities before taxation							**11,331**	13,359
Taxation							**511**	(3,022)
Net profit from ordinary activities after taxation attributable to shareholders							**11,842**	10,337

4. *Segment Information (continued)*

a) **Business segments** *(continued)*

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**37,035**	61,820	**14,997**	11,458	**146,299**	104,912	**198,331**	178,190
Interests in jointly-controlled entities	**–**	–	**–**	–	**40,825**	30,979	**40,825**	30,979
Total assets	**37,035**	61,820	**14,997**	11,458	**187,124**	135,891	**239,156**	209,169
Segment liabilities	**36,493**	50,304	**–**	–	**10,008**	10,131	**46,501**	60,435
Other segment information:								
Depreciation and amortisation	**64**	49	**61**	74	**374**	389	**499**	512
Impairment losses recognised in income statement	**–**	–	**–**	419	**–**	460	**–**	879
Other non-cash expenses	**–**	–	**–**	–	**566**	565	**566**	565
Capital expenditure								
– through acquisition of subsidiaries	**–**	616	**–**	–	**–**	–	**–**	616
– other	**–**	110	**–**	–	**–**	788	**–**	898
Surplus on revaluation	**–**	–	**3,600**	–	**–**	–	**3,600**	–

4. *Segment Information (continued)*

b) Geographical segments

In determining the Group's geographical segment, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		PRC		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**430**	909	**140,523**	295,242	**140,953**	296,151
Other segment information:						
Segment assets	**157,042**	112,857	**82,114**	96,312	**239,156**	209,169
Capital expenditure						
– through acquisition of subsidiaries	**–**	–	**–**	616	**–**	616
– others	**–**	788	**–**	110	**–**	898

5. *Profit from Operating Activities*

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

	2004	2003
	HK$'000	*HK$'000*
Depreciation	**499**	512
Operating lease payments – land and buildings	**1,801**	2,106
Auditors' remuneration	**150**	170
Amortisation of goodwill	**566**	565
Bad debt recovered	**(748)**	–
Fixed assets written off	**–**	23
Impairment loss on fixed assets	**–**	419
Cost of inventories sold	**–**	303
Staff costs:		
Wages and salaries (including directors' remuneration – *note 7*)	**7,750**	7,785
Written off of interests in an associate	**–**	3,798
Surplus on revaluation of investment properties	**(3,600)**	–
Rental income from investment properties less direct outgoings of HK$49,000 (2003: HK$63,000)	**(120)**	(526)
Impairment losses on golf club memberships	**–**	460
Exchange gains, net	**(15)**	(25)
Unrealised gains on changes in fair values of marketable securities	**(104)**	(28)
Gain on disposal of fixed assets	**(38)**	(35)
Gain on disposal of marketable securities	**(1,944)**	(1,432)
Gain on disposal of subsidiaries	**–**	(37,003)
Gain on disposal of jointly-controlled entities	**(7,333)**	–

6. *Finance Costs*

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**26**	116
Other interest paid	**192**	–
	218	116

7. *Directors' and Five Highest Paid Individuals' Remuneration*

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees for executive directors	**–**	–
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**4,755**	4,755
Bonuses	**309**	309
	5,064	5,064

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**7**	6
HK$1,500,001 – HK$3,000,000	**1**	1
	8	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7. Directors' and Five Highest Paid Individuals' Remuneration *(continued)*

The five highest paid employees during the year included four (2003: three) executive directors, details of whose remuneration are set out as above. Details of the remuneration of the remaining one (2003: two) non-director of the highest paid employee are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**290**	641
Bonuses	**23**	23
	313	664

The remuneration of the one (2003: two) non-director of the highest paid employee fell within the band of nil to HK$1,000,000.

8. Taxation

a) The taxation in the consolidated income statement represents:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Provisions for the Hong Kong profits tax		
Tax for the year	**–**	–
Over/(under) provision in the prior years	**1,255**	(18)
	1,255	(18)
Provisions for PRC income tax		
Tax for the year	**(2)**	(5)
Deferred tax		
Reversal of temporary difference	**–**	150
Share of tax attributable to jointly-controlled entities	**(742)**	(3,149)
Tax credit/(charge) for the year	**511**	(3,022)

8. *Taxation (continued)*

a) The taxation in the consolidated income statement represents: *(continued)*

The tax (credit)/charge for the year can be reconciled to the profit from ordinary activities before taxation as per the consolidated income statement as follows:

	2004	2003
	HK$'000	*HK$'000*
Profit from ordinary activities before taxation	**11,331**	13,359
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**1,983**	2,337
Effect of different taxation rate in other countries	**174**	5,073
Income not subject to taxation	**(2,776)**	(5,850)
Expenses not deductible for taxation purposes	**364**	716
Utilisation of tax losses previously not recognised	**(581)**	(465)
Deferred tax assets not recognised	**1,580**	1,623
(Over)/under provision in prior years	**(1,255)**	18
Reversal of temporary difference	**–**	(150)
Others	**–**	(280)
Tax (credit)/charge	**(511)**	3,022

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the year (2003: Nil).

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

8. Taxation *(continued)*

b) Taxation in the consolidated balance sheet represents:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong provision for the year	**–**	–
PRC taxation provision for the year	**–**	–
Provisional tax paid	**–**	–
Refund of tax	**–**	484
Overprovision in prior years	**(1,255)**	–
	(1,255)	484
Balance of provision relating to prior years	**1,255**	771
	–	1,255

9. Profit from Ordinary Activities Attributable to Shareholders

The profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is net loss of HK$8,655,000 (2003: net loss of HK$36,482,000).

10. Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: Nil).

11. Earnings per share

(i) The calculation of basic earnings per share for the year is based on the net profit attributable to shareholders of HK$11,842,000 (2003: HK$10,337,000) and the weighted average number of 872,470,244 (2003: 733,689,187) shares in issue during the year.

(ii) The calculation of basic earnings per share for the year 2003 has been restated to take into account the effect of rights issue during the year.

(iii) No diluted earnings per share for the year ended 31 December 2004 has been presented because the Company's share options did not have a dilutive effect during the year.

12. Fixed Assets

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2004	4,905	776	2,226	963	8,870
Disposals	–	–	–	(543)	(543)
At 31/12/2004	4,905	776	2,226	420	8,327
Accumulated depreciation					
At 1/1/2004	1,346	474	1,480	222	3,522
Provided during the year	61	76	271	91	499
Written back on disposal	–	–	–	(39)	(39)
At 31/12/2004	1,407	550	1,751	274	3,982
Net book value					
At 31/12/2004	3,498	226	475	146	4,345
At 31/12/2003	3,559	302	746	741	5,348

The cost of the Group's land and buildings, which are held under long term leases, is analysed as follows:

	2004 **HK$'000**	2003 HK$'000
Situated in:		
Hong Kong	**1,776**	1,776
PRC	**3,129**	3,129
	4,905	4,905

12. Fixed Assets *(continued)*

Company

	Leasehold improvements	Motor vehicle	Furniture and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2004 and at 31/12/2004	378	768	130	1,276
Accumulated depreciation				
At 1/1/2004	76	307	26	409
Provided during the year	75	154	26	255
At 31/12/2004	151	461	52	664
Net book value				
At 31/12/2004	227	307	78	612
At 31/12/2003	302	461	104	867

13. Investment Properties

	Group	
	2004	2003
	HK$'000	*HK$'000*
At valuation:		
Balance at beginning of year	**7,900**	7,900
Surplus on revaluation	**3,600**	–
Balance at end of year	**11,500**	7,900

The Group's investment properties are situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2004 by A.G. Wilkinson & Associates, an independent professionally qualified valuers, on an open market, existing use basis.

The investment properties are leased to a third party under operating lease, further summary details of which are included in note 28 to the financial statements.

The Group's investment properties were pledged to the Company's banker to secure banking facilities granted to the Group.

14. Interests in Subsidiaries

	Company 2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	**33,049**	33,049
Less: Impairment loss	**(19,250)**	(19,250)
	13,799	13,799
Amount due from subsidiaries	**145,866**	153,018
Less: Provision against amounts due from subsidiaries	**(112,439)**	(112,440)
	33,427	40,578
Amount due to subsidiaries	**(15,150)**	(11,525)
	32,076	42,852

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$12	100	–	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a golf club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a golf club membership

14. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of chemical fertilisers
K.P.B. Asset Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$6	–	100	Investment holding
K.P.B. Marketing Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	–	100	Investment holding
K.P.B. – T.C. Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100	Investment holding
K.P.B. Trading Limited	British Virgin Islands/ Hong Kong	Ordinary US$4	–	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100	Provision of internal financial services
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Investment holding and property investment

14. Interests in Subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of agricultural products
上海港佳倍盛經貿有限公司# *(Note 1)*	PRC	RMB2,000,000	–	100	General trading
上海綠葉生物高科技有限公司# *(Note 2)*	PRC	US$200,000	–	100	Processing and trading of chemical fertilisers
Wainwright International Limited	British Virgin Island/ Hong Kong	Ordinary US$2	–	100	Investment holding
South Asian Power Investment Limited	Hong Kong	Ordinary HK$2	–	100	Dormant

\# Not audited by CCIF CPA Limited

Notes:

1) 上海港佳倍盛經貿有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

2) 上海綠葉生物高科技有限公司 is a wholly foreign owned enterprise established in the PRC to be operated for 14 years up to October 2013.

15. Interest in an Associate

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	–	–
Less: Impairment loss	–	–
	–	–
Amount due from an associate	–	–
	–	–

Particulars of the associate, held indirectly through a subsidiary, is as follows:

Name	Business structure	Place of establishment and operations	Percentage of ownership interest 2004	Percentage of ownership interest 2003	Principal activities
Taicang Huifeng Chemical Fertilizer Company Limited	Corporate	PRC	30	30	Processing and trading of chemical fertilisers

Taicang Huifeng Chemical Fertilizer Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 11 years up to May 2006.

The associate is not audited by CCIF CPA Limited.

16. Interests in Jointly-controlled Entities

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**47,916**	38,071
Amount due from jointly-controlled entities	**3,291**	3,291
Amount due to jointly-controlled entities	**(10,382)**	(10,383)
	40,825	30,979

The amounts due (to)/from jointly-controlled entities are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal jointly-controlled entities, all held indirectly through subsidiaries, are as follows:

Name	**Business structure**	**Place of establishment and operations**	**Percentage of ownership interest**		**Principal activities**
			2004	**2003**	
Guangzhou Yue Xiu Beatrice Convenience Chain Stores Co., Ltd. (formerly known as Guangzhou Yue Xiu Supermarket Co., Ltd.) *(Note a)*	Corporate	PRC	20.5	20.5	Supermarket chain stores operation
海口港佳貿易有限公司 *(Note b)*	Corporate	PRC	51	51	Investment holding
K.P.I. (BVI) Retail Management Company Limited	Corporate	British Virgin Islands	51	51	Investment holding

16. Interests in Jointly-controlled Entities *(continued)*

Name	Business structure	Place of establishment and operations	Percentage of ownership interest 2004	2003	Principal activities
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands	26	26	Investment holding
K.P.I. Convenience Retail Company Limited	Corporate	British Virgin Islands	50	50	Dormant
Lantis Trading Corporation	Corporate	British Virgin Islands	26	26	Investment holding
華聯集團吉買盛購物中心有限公司 *(Note c)*	Corporate	PRC	20.4	25.5	Supermarket chain stores operation
上海華聯港佳商業經營管理有限公司# *(Note d)*	Corporate	PRC	25	25	Investment holding

\# Not audited by CCIF CPA Limited

Notes:

a) Guangzhou Yue Xiu Beatrice Convenience Chain Stores Company Limited (formerly known as Guangzhou Yue Xiu Supermarket Company Limited) is a Sino-foreign equity joint venture established in the PRC to be operated for 20 years up to December 2018.

b) 海口港佳貿易有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

c) 華聯集團吉買盛購物中心有限公司 is an equity joint venture established in the PRC to be operated for 20 years up to March 2016.

d) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021.

16. Interests in Jointly-controlled Entities *(continued)*

Extracts of the financial statements of the Group's material jointly-controlled entity is as follows:

	2004	2003
	HK$'000	*HK$'000*
Income statement		
Turnover	**–**	–
Profit/(loss) after tax	**19,306**	(27,681)
Balance sheet		
Non-current assets	**51,237**	44,668
Current assets	**46,511**	33,727
Current liabilities	**(3,741)**	(3,693)
Net assets	**94,007**	74,702

17. Goodwill

	Group	
	2004	2003
	HK$'000	*HK$'000*
Cost		
At 1 January	**2,826**	–
Additions through acquisition of subsidiaries	**–**	2,826
At 31 December	**2,826**	2,826
Accumulated amortisation		
At 1 January	**565**	–
Amortisation for the year	**566**	565
At 31 December	**1,131**	565
Net book value		
At 31 December	**1,695**	2,261

The amortisation period adopted for goodwill is 5 years.

18. Long Term Unlisted Investment

	Group	
	2004	2003
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	**773**	773

19. Marketable Securities

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments,				
at market value:				
Hong Kong	**3,307**	2,649	**–**	588

20. Inventories

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**–**	92

All inventories at 31 December 2003 are stated at cost.

21. Trade and Bills Receivables

The aging of the Group's trade and bills receivables is analysed as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Outstanding balances with ages		
Current	**–**	128
1 to 3 months overdue	**34,552**	58,687
More than 3 months overdue but less than		
12 months overdue	**70**	–
Overdue more than 1 year	**–**	24
	34,622	58,839

22. Cash and Cash Equivalents

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**5,349**	3,535	**3,104**	627
Time deposits	**120,443**	87,919	**120,443**	87,919
	125,792	91,454	**123,547**	88,546
Less: Pledged time deposits against bills payable	**(36,768)**	(36,267)	**(36,768)**	(36,267)
Cash and cash equivalents	**89,024**	55,187	**86,779**	52,279

23. Trade and Bills Payables

The aging of the Group's trade and bills payable is analysed as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Due within 1 month or on demand	**–**	13
Due after 1 month but within 3 months	**33,733**	47,281
Due after 3 months but within 6 months	**–**	141
	33,733	47,435

24. Deferred Tax

	Group	
	2004	2003
	HK$'000	*HK$'000*
At 1 January	**–**	150
Reversal of temporary difference	**–**	(150)
At 31 December	**–**	–

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of tax losses of HK$13,340,000 (2003: HK$12,061,000). The unrecognised tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

25. Share Capital

	2004		2003	
	No. of shares	***HK$'000***	No. of shares	*HK$'000*
Authorised				
Ordinary share of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid				
At 1 January	**677,251,557**	**67,725**	564,433,557	56,443
Issue of new shares	**–**	**–**	112,818,000	11,282
Rights Issue of one new share for every two existing shares held	**338,625,779**	**33,863**	–	–
At 31 December	**1,015,877,336**	**101,588**	677,251,557	67,725

On 10 June 2004, the Company proposed a rights issue at HK$0.1 per share in the proportion of one share for every two existing share held. As a result of the rights issue, the Company has issued 338,625,779 new shares to existing shareholders representing approximately 33.33% of the then existing issued share capital of the Company were issued.

25. Share Capital *(continued)*

Share options

The Company adopted a share option scheme (the "Old Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operation on 19 March 1993. The Old Scheme expired on 19 March 2003.

At the beginning of the year, there were 38,000,000 options granted to the executive directors of the Company outstanding under the Old Scheme, which entitled the holders to subscribe for shares of the Company during the period from 18 November 1999 to 17 May 2004. The subscription price payable upon the exercise of these options was HK$0.163 per share.

At the beginning of the year, there were also 1,000,000 outstanding share options granted to an employee of the Group outstanding under the Old Scheme, which entitled the holders to subscribe for shares of the Company at HK$0.218 per share during the period from 8 January 2000 to 7 July 2004.

No share options were granted or exercised during the year. At the balance sheet date, the Company had no outstanding share options.

26. Reserves

Group

	Share premium	Capital reserve*	Statutory public welfare reserve	Exchange fluctuation reserve	Statutory surplus reserve**	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1/1/ 2003	108,663	67,655	173	2,613	204	(71,633)	107,675
Profit for the year	–	–	–	–	–	10,337	10,337
Negative goodwill recognised on write-off of interest in a subsidiary	–	(37,003)	–	–	–	–	(37,003)
Transfer	–	–	–	–	1	(1)	–
At 31/12/2003 and 1/1/2004	108,663	30,652	173	2,613	205	(61,297)	81,009
Issuing expenses	(1,784)	–	–	–	–	–	(1,784)
Profit for the year	–	–	–	–	–	11,842	11,842
At 31/12/2004	106,879	30,652	173	2,613	205	(49,455)	91,067

	2004	2003
	HK$'000	*HK$'000*
Accumulated losses retained by:		
Company and its subsidiaries	**(26,047)**	(28,043)
An associate	**–**	–
Jointly-controlled entities	**(23,408)**	(33,254)
	(49,455)	(61,297)

Notes : * At 31 December 2004, the amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries and jointly-controlled entities, were HK$30,592,000 (negative goodwill) and HK$60,000 (negative goodwill) respectively. Such goodwill is stated at cost.

** Pursuant to the PRC accounting and regulations, a portion of the profits of the Group's subsidiaries in PRC have been transferred to statutory surplus reserve.

26. Reserves *(continued)*

Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1/1/2003	108,663	(7,022)	101,641
Loss for the year	–	(36,482)	(36,482)
At 31/12/2003 and 1/1/2004	108,663	(43,504)	65,159
Loss for the year	–	(8,655)	(8,655)
Issuing expenses	(1,784)	–	(1,784)
At 31/12/2004	106,879	(52,159)	54,720

27. Acquisition Of Subsidiaries

On 25 June 2003, the Group acquired 100% interest of Wainwright International Limited and its subsidiary namely 上海綠葉生物高科技有限公司 for HK$3,900,000, satisfied in cash.

	2004 HK$'000	2003 HK$'000
Net assets acquired		
Fixed assets	–	603
Inventories	–	126
Trade and bills receivables	–	15
Prepayment, deposits and other receivables	–	699
Cash and cash equivalent	–	81
Trade and bills payable	–	(11)
Other payables and accruals	–	(439)
Net identifiable assets and liabilities	–	1,074
Goodwill arising on consolidation	–	2,826
Total purchase price paid, satisfied in cash	–	3,900
Less: Cash of subsidiaries acquired	–	(81)
Net cash outflow in respect of the purchase of subsidiaries	–	3,819

28. Operating Lease Arrangements

a) As lessor

The Group leases its investment properties (note 13 to the financial statements) and golf club membership under operating lease arrangements, with leases negotiated for terms of one year for investment properties and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**58**	247
In the second to fifth years, inclusive	**–**	14
	58	261

b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,747**	1,498	**1,731**	1,482
In the second to fifth years, inclusive	**1,182**	1,170	**1,114**	1,102
After the fifth years	**38**	55	**–**	–
	2,967	2,723	**2,845**	2,584

29. Related Party Transactions

During the year, the Group had the following transactions with related parties other than those disclosed elsewhere in the financial statements:

		Group	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Rental expenses to companies controlled by directors	*(i)*	**996**	996
Rental income from a jointly-controlled entity	*(ii)*	**156**	212

Notes:

i) Rental expenses for a director was paid to a company controlled by him. The monthly rental of HK$83,000 was calculated by reference to open market rental.

ii) Rental income was received from a jointly-controlled entity. The monthly rental was mutually agreed by both parties.

30. Gain On Disposal Of Jointly-controlled Entities

Pursuant to a sale and purchase agreement and a supplementary agreement dated 1 September 2003 and 25 November 2003 respectively, a jointly-controlled entity of the Group disposed of 10% equity interest in the Hua Lian GMS Shopping Center Company Limited ("Hualian GMS") at a consideration of RMB20 million to China Resources Vanguard Supermarket Co., Ltd. The transaction was completed on 16 January 2004. The disposal of 10% equity interest in Hualian GMS through the Group's jointly-controlled entity has contributed approximately HK$7.3 million to the Group's net profit for the year under review. The aforesaid jointly-controlled entity still holds 40% equity interest in Hualian GMS.

31. Banking Facilities

Banking facilities utilised by one of the subsidiaries and guaranteed by the Company amounting to HK$33,733,000 (2003: HK$47,132,000).

32. Post Balance Sheet Event

Subsequent to the balance sheet date, the board of Directors of K.P.I. (BVI) Retail Management Company Limited ("KPIRM"), a jointly-controlled entity of the Company, has passed a resolution to transfer all of its equity in K.P.I. Beatrice Holdings Limited ("KPIBH") to TLC Beatrice (China) Limited or its designated trustee or affiliate for a consideration of US$1. As a result of such transfer, KPIRM in effect also disposed all its interest in Guangzhou Yue Xiu Beatrice Convenience Chain Store Co., Ltd. ("Guangzhou Yue Xiu"), Guangzhou K.P.I. Commercial Company Limited and Lantis Trading Corporation which are held indirectly by KPIRM through KPIBH. Upon completion of such transfer, KPIRM will no longer hold any equity interest in KPIBH and will be exempted from all past and future liabilities which is related to Guangzhou Yue Xiu.