

Notes to the Financial Statements

1. GENERAL

Harmony Asset Limited is incorporated in the Cayman Islands as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in Note 15 to the financial statements.

2. RECENTLY ISSUED NEW ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("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 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. An assessment of the impact of these new HKFRSs has already been commenced but the Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable accounting standards issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). They have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, other investments are stated at fair value. A summary of the significant accounting policies adopted by the Group is set out below:

(a) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from the activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

(c) Associates

An associate is an enterprise, not being a subsidiary nor a joint venture, in which the Company, directly or indirectly, has a long-term equity interest and over which the Company is in a position to exercise significant influence, including participation in the operating and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) arising on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Intangible asset – goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associates and subsidiaries at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is capitalised and amortised using the straight-line basis over its estimated useful life of 5 years. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset. Goodwill on acquisitions that occurred prior to 1st January, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(e) Fixed assets and depreciation

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

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets and depreciation (continued)

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

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives using the straight-line method. The annual rates used is 20%.

The gain or loss on disposal or retirement of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, goodwill, investments in subsidiaries and associates have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

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 reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to 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.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments in securities

(i) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

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

(h) Club debentures

Club debentures included in other assets are stated at cost less any provision for impairment losses.

The carrying amounts of club debentures are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such club debentures will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Income taxes

(i) Income taxes for the year comprise current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income taxes (continued)

- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income taxes (continued)

(iii) (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(k) Foreign currencies

Foreign currencies transactions during the year are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the year are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Foreign currencies (continued)

The balance sheet of subsidiaries and associates expressed in foreign currencies are translated at the exchange rates ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange gains and losses are dealt with as a movement in reserves.

(l) Provisions and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. 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 provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(m) Revenue recognition

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

Dividend income from investment is recognised when the shareholder's right to receive payment have been established.

Gains or losses on sale of investment securities and other investments are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when investments are delivered and title has passed.

(n) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating leases are recognised as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

Salaries, annual leave and other benefits are accrued in the year in which the associated services are rendered by employees of the Group.

The Group has only one defined contribution plan and the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(p) 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.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits with banks, and short-terms, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are 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.

Notes to the Financial Statements

4. REVENUES AND TURNOVER

The Group principally invests in securities listed on the Stock Exchange and unlisted securities, including equity securities, convertible notes and bonds issued by corporate entities. Total revenues recognised during the year are as follows:

	2004 HK\$	2003 HK\$
Turnover		
Interest income from		
– bank deposits	14,806	18,486
– loan	2,910,884	4,633,544
– investment securities	298,572	522,740
– other sources	–	5,000
Arrangement fee income	187,500	457,500
Dividend income from		
– listed investments	1,004,738	1,009,230
– unlisted investments	750,000	3,275,000
	5,166,500	9,921,500
Other revenues		
Commission income	70,045	1,000,000
Gain on sale of other investments	17,447,117	3,563,632
Unrealised gain on other investments	3,255,061	11,099,581
Sundry income	1,621,553	432,824
	22,393,776	16,096,037
Total revenues	27,560,276	26,017,537

No analysis of the Group's turnover and contribution to operating profit for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the consolidated turnover, results and assets of the Group are attributable to markets outside Hong Kong.

Unrealised gain on other investments represent net unrealised gain arising from changes in fair values of other investments during the year.

Notes to the Financial Statements

5. PROPOSED DIVIDEND

	2004 HK\$	2003 HK\$
Proposed dividend of HK2 cents per share (2003: Nil)	2,922,047	–

The Board of Directors has recommended a dividend out of the share premium account of the Company of HK2 cents per share (2003: Nil) in respect of the year ended 31st December, 2004, totaling not less than HK\$2,922,047 (2003: Nil) which is subject to approval of shareholders at the forthcoming annual general meeting to be held on 28th June, 2005 and compliance with the Companies Law of the Cayman Islands.

6. OPERATING PROFIT

Operating profit has been arrived at after charging the following:

	2004 HK\$	2003 HK\$
Auditors' remuneration		
– Current year	238,000	258,000
– Underprovision in prior year	–	40,200
Annual listing fee	175,000	261,917
Management fees (Note 27)	2,166,444	2,143,931
Incentive fee (Note 27)	911,185	–
Pension costs – contributions to defined contribution plan	75,515	54,086
Travelling and entertainment expenses	486,507	592,659
Press announcements, printing and stationery expenses	143,378	80,146
Loss on disposal of fixed assets	–	17,500
Provision for bad debts	–	120,000
Operating lease in respect of land and buildings	836,118	433,869
Other operating expenses	1,761,938	1,920,793

There was no forfeited contribution in respect of the defined contribution plan available at the year-end to reduce future contributions (2003: Nil). There was no outstanding contributions to the plan at the year-end (2003: Nil).

7. FINANCE COSTS

	2004 HK\$	2003 HK\$
Bank overdraft interest	–	687
Interest on instalment loan	397,260	–
Interest on convertible bonds	1,453,894	2,607,205
	1,851,154	2,607,892

Notes to the Financial Statements

7. FINANCE COSTS (continued)

Interest on instalment loan and convertible bonds issued by a subsidiary of the Group which will be wholly repayable or converted into shares of the subsidiary on the maturity dates. Details of the instalment loan and convertible bonds are set out in Notes 24 and 25 to the financial statements.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$	2003 HK\$
Fees	73,115	60,000
Other emoluments		
– Salaries and other allowances	350,000	–
– Contributions to a pension scheme	15,750	–
	438,865	60,000

Directors' fees disclosed above include HK\$53,115 (2003: HK\$40,000) paid to independent non-executive directors.

In addition to the directors' emoluments disclosed above, one director of the Company received emoluments from a related company, namely Harmony Asset Management Limited, which amounted to HK\$1,040,000 (2003: HK\$1,280,000), in respect of his services provided to the Company and its subsidiaries.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
HK\$Nil – HK\$1,000,000	6	3
HK\$1,500,001 – HK\$2,000,000	–	1

The Company do not have Share Option Scheme during the year.

Notes to the Financial Statements

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are presented in the analysis below:

	2004 HK\$	2003 HK\$
Basic salaries, other allowances and benefits in kind	1,424,000	1,065,858
Fees to a director of a subsidiary	105,000	455,000
Contributions to a pension scheme	70,965	70,536
	1,599,965	1,591,394

The individual emoluments payable to the five individuals are within the band "HK\$Nil to HK\$1,000,000". One (2003: One) of these five individuals is a director of a subsidiary within the Group for the period from 1st January, 2004 to 31st March, 2004 and becomes a director of the Company afterwards. For the period that the individual is not a director of the Company, the emoluments are therefore not reflected in the analysis presented in part (a).

9. INCOME TAXES

- (a) No provision for income taxes has been made in the Group's financial statements as the Group had no assessable profit for the year. The amount of income tax credited to the consolidated profit and loss account in prior year represents:

	2004 HK\$	2003 HK\$
Hong Kong profits tax	—	—
Overprovision in prior years	—	(449,631)
	—	(449,631)

- (b) No taxation charge is attributable to the associates of the Group (2003: Nil).

Notes to the Financial Statements

9. INCOME TAXES (continued)

- (c) Reconciliation between tax expense/(credit) and the Group's accounting profit/(loss) at applicable tax rates is set out below:

	2004 HK\$	2003 HK\$
Profit/(Loss) before taxation	8,119,191	(2,536,284)
Notional tax on profit/(loss) before taxation, calculated at the applicable tax rate of 17.5% (2003: 17.5%)	1,420,858	(443,850)
Tax effect of income not taxable for tax purpose	(563,656)	(1,217,987)
Tax effect of expenses not deductible for tax purpose	2,507,560	3,262,718
Utilisation of tax losses previously not recognised	(2,466,488)	(1,889,154)
Tax effect of tax losses not recognised	292,426	288,625
Temporary differences not recognised	(1,190,700)	(352)
Overprovision in prior years	–	(449,631)
Actual tax expense/(credit)	–	(449,631)

- (d) At the balance sheet date, the Group had unused tax losses of HK\$20,996,343 (2003: HK\$33,419,552) available for offsetting against future profits. However, no deferred tax asset has been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements

10. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a loss of HK\$34,228,735 (2003: profit of HK\$11,932,272) which has been dealt with in the financial statements of the Company. The loss for the year was mainly attributed by the provision made for the irrecoverable amount due from subsidiaries of HK\$47,631,159.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$8,119,191 (2003: loss of HK\$2,086,653).

The basic earnings/(loss) per share is based on the adjusted weighted average of 121,800,581 (2003: 117,303,866) ordinary shares in issue during the year.

12. FIXED ASSETS

	Group				Total
	Leasehold improvements	Office equipment	Furniture and fixtures	Motor vehicle	
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost					
At 1st January, 2004	877,258	363,142	298,029	528,200	2,066,629
Additions	402,371	31,040	100,582	–	533,993
At 31st December, 2004	1,279,629	394,182	398,611	528,200	2,600,622
Accumulated depreciation					
At 1st January, 2004	548,725	321,773	297,213	184,870	1,352,581
Provided for the year	140,543	37,970	12,728	105,640	296,881
At 31st December, 2004	689,268	359,743	309,941	290,510	1,649,462
Carrying amount					
At 31st December, 2004	590,361	34,439	88,670	237,690	951,160
At 31st December, 2003	328,533	41,369	816	343,330	714,048

Notes to the Financial Statements

12. FIXED ASSETS (continued)

	Company				Total HK\$
	Leasehold improvements HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	
Cost					
At 1st January, 2004	459,125	329,737	298,029	528,200	1,615,091
Additions	402,371	31,040	100,582	–	533,993
At 31st December, 2004	861,496	360,777	398,611	528,200	2,149,084
Accumulated depreciation					
At 1st January, 2004	459,125	295,739	297,213	184,870	1,236,947
Provided for the year	50,943	31,290	12,728	105,640	200,601
At 31st December, 2004	510,068	327,029	309,941	290,510	1,437,548
Carrying amount					
At 31st December, 2004	351,428	33,748	88,670	237,690	711,536
At 31st December, 2003	–	33,998	816	343,330	378,144

Notes to the Financial Statements

13. GOODWILL

	Group HK\$
Cost	
At 1st January, 2004 and 31st December, 2004	82,012
Accumulated amortisation	
At 1st January, 2004	10,251
Provided for the year	16,402
At 31st December, 2004	26,653
Carrying amount	
At 31st December 31, 2004	55,359
At 31st December 31, 2003	71,761

The amortisation period adopted for goodwill is 5 years.

14. OTHER ASSETS

	Group	
	2004 HK\$	2003 HK\$
Deposits for investments	8,249,983	5,651,063
Club debentures, at cost	1,231,360	1,231,360
	9,481,343	6,882,423

	Company	
	2004 HK\$	2003 HK\$
Deposits for investments	6,174,983	2,651,063
Club debentures, at cost	1,231,360	1,231,360
	7,406,343	3,882,423

The deposits were interest free and placed with the agent or investee companies for conversion to unlisted investment securities in the near future.

Notes to the Financial Statements

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$	2003 HK\$
Unlisted shares, at cost	16,718,590	16,718,590
Provision for impairment losses on investments in subsidiaries	(16,718,588)	(8,359,294)
	2	8,359,296
Amounts due from subsidiaries	122,533,571	178,848,190
Amounts due to subsidiaries	(12,844,858)	(32,360,998)
	109,688,715	154,846,488

The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

15. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of subsidiaries at 31st December, 2004:

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited ("PIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Powercell Limited ("PCL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Quickrise Limited ("QRL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Multiple Asset Limited ("MAL")	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%*
Wingo Venture Limited ("WVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Star Holdings Limited ("ITSH")	Cayman Islands	Investment holding in Hong Kong	1 Ordinary share of HK\$0.1 each	100%*
IT Star Limited ("ITL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wintech Limited ("WTL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Marrick Investments Limited ("MIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

Notes to the Financial Statements

15. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Wayfairer Investments Limited ("WIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Development Limited ("ITD")	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%
Datacom Venture Limited ("DVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Gwynneth Gold Limited ("GGL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Goal Vision Limited ("GVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Incubation Centre at Cyberport Limited ("Incubation")	Hong Kong	Operation of an incubation centre	2 Ordinary shares of HK\$1 each	100%
Techlink Venture Limited ("TVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

* Shares held directly by the Company

Notes to the Financial Statements

16. INTERESTS IN AND LOAN TO ASSOCIATES

	Group	
	2004 HK\$	2003 HK\$
Share of net assets other than goodwill	—	—
Loan to an associate	5,705,210	10,625,634
	5,705,210	10,625,634
Investments in unlisted shares, at cost	3,278,500	7,678,500

The loan to an associate is unsecured, interest free and repayable on demand.

Notes to the Financial Statements

16. INTERESTS IN AND LOAN TO ASSOCIATES (continued)

The following is a list of the associates at 31st December, 2004:

Name of associates	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
Last Minute Limited	British Virgin Islands	Investment holding	2,730,000 ordinary shares of HK\$1 each	35%
Waltin (HK) Limited	Hong Kong	Investment holding	2,500 ordinary shares of HK\$1 each	25%

A brief description of the business information of the major associates is as follows:

Waltin (HK) Limited

Waltin (HK) Limited (“Waltin”) holds an investment in a Chinese medicine health care centre (known as “Chinese Medicine Valley”) in Zhuhai of the PRC. The Group has invested HK\$6 million (2003: HK\$5 million) in this project.

Chinese Medicine Valley commenced its operation in November 2002. Chinese Medicine Valley provides Chinese medicine spa, Chinese medicine treatments, personal beauty services, Chinese herbal meal, accommodation and various entertainment facilities. The major customers of Chinese Medicine Valley comprise of visitors and tours.

Notes to the Financial Statements

17. INVESTMENT SECURITIES

	Group	
	2004 HK\$	2003 HK\$
Investment securities, at cost:		
Convertible notes, unlisted (<i>Note (a)</i>)	899,037	10,000,000
Equity securities, unlisted (<i>Note (b)</i>)	48,905,190	57,026,435
Loans to investee companies (<i>Note (b)</i>)	73,080,921	72,811,773
	122,885,148	139,838,208
Less: Written off of loan to an investee company	–	(429,625)
Less: Provision for impairment losses in investment securities	(39,339,216)	(34,257,746)
	83,545,932	105,150,837

Unlisted equity securities are classified as investment securities which are held for long-term strategic purposes to maintain good relationships with business counterparts and generate regular dividends in future years.

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(a) Convertible notes

Convertible notes are dated debt securities which permit the holder the right to convert the debt securities into shares of the issuers at the specified dates. The original intention of the directors was to take up the option to convert and, upon conversion of the convertible notes, they would be stated at the cost of acquiring the underlying shares.

The convertible notes bear an interest fixed at a rate of 5% (2003: 6%) per annum.

Details of the convertible notes are as follows:

Name of issuer	Security	Nature of business	Principal amount		Maturity date	% of total assets of the Group	% of total assets of the Group
			2004 HK\$'000	2003 HK\$'000		2004	2003
Dynamic Fortune Limited	Secured	Furniture trading	–	10,000	17th February, 2005	N/A	5.30%
FIG Environment Technology Company Limited	Secured	Environment technology	899	–	9th December, 2005	0.52%	N/A
			899	10,000			

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities

At 31st December, 2004, the carrying amounts of equity interest in Capital Venture Limited and Chief Finance Limited exceeded 10% of total assets of the Company and the Group.

Details of the unlisted equity securities are as follows:

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets (liabilities) attributable to the Group
					HK\$'000 2004	HK\$'000 2003		
Capital Venture Limited	Hong Kong	Provision of property investment & financing services	520,000 (2003: 520,000) ordinary shares of HK\$1 each	26% (2003: 26%)	27,860	27,860	16.25% (2003: 14.74%)	5,480 (2003: 6,250)
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2,600,000 (2003: 2,600,000) ordinary shares of HK\$1 each	26% (2003: 26%)	32,864	35,464	19.17% (2003: 18.77%)	32,922 (2003: 33,155)
Goodwill Forever Limited	British Virgin Islands	Investment holding	Nil (2003: 13,870) ordinary shares of US\$1 each	Nil (2003: 34.68%)	-	23,620	N/A (2003: 12.50%)	N/A (2003: 6,899)
Yeelong Enterprises Limited	Hong Kong	Investment holding	42,235,362 (2003: 42,235,362) ordinary shares of HK\$1 each	35% (2003: 35%)	14,246	14,246	8.31% (2003: 7.54%)	2,924 (2003: 2,895)
Fullpower Holdings Limited	British Virgin Islands	Investment holding	1,750,000 (2003: 1,750,000) ordinary shares of HK\$1 each	35% (2003: 35%)	12,654	11,149	7.38% (2003: 5.90%)	6,039 (2003: 5,463)
Creative Energy (Asia) Limited	Hong Kong	Development of energy saving technology	75,000 (2003: 75,000) ordinary shares of HK\$1 each	15% (2003: 15%)	75	75	0.04% (2003: 0.04%)	(89) (2003: 75)

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets (liabilities) attributable to the Group
					HK\$'000 2004	HK\$'000 2003		
One.Tel Holdings Limited	British Virgin Islands	IDD and ISP services	4,000,000 (2003: 4,000,000) ordinary shares of HK\$1 each	20% (2003: 20%)	4,000	4,000	2.33% (2003: 2.12%)	516 (2003: 7,617)
TIM EDPlatform Limited	Hong Kong	Development of educational platform	928 (2003: 928) ordinary shares of HK\$1 each	9.28% (2003: 9.28%)	400	400	0.23% (2003: 0.21%)	271 (2003: 206)
Hong Kong Beer Company Limited	Hong Kong	Production and trading of beer products	3,000 (2003: 3,000) ordinary shares of HK\$1 each	30% (2003: 30%)	713	345	0.42% (2003: 0.18%)	(344) (2003: (159))
Taste of Hong Kong Limited	Hong Kong	Trading of gift and souvenir	300,000 (2003: 300,000) ordinary shares of HK\$1 each	30% (2003: 30%)	366	313	0.21% (2003: 0.17%)	125 (2003: 176)
Modern Market Management Limited	Hong Kong	Management services	300,000 (2003: 300,000) ordinary shares of HK\$1 each	30% (2003: 30%)	750	750	0.44% (2003: 0.40%)	2,798 (2003: 2,156)
Jade Dynasty Holdings Limited	British Virgin Islands	Investment holding	Nil (2003: 5,714) ordinary shares of US\$0.01 each	Nil (2003: 0.57%)	-	1,000	N/A (2003: 0.53%)	N/A (2003: 129)

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		Net assets (liabilities) % of total assets of the Group attributable to the Group	
					HK\$'000 2004	HK\$'000 2003		HK\$'000
TJ Restaurant Management Co., Limited	Hong Kong	Japanese seafood restaurant	624,000 (2003: 624,000) ordinary shares of HK\$1 each	8% (2003: 8%)	1,544	1,544	0.9% (2003: 0.82%)	169 (2003: 153)
ChineseWorldNet.com Inc.	Cayman Islands	Provision of financial information service	600,000 (2003: 400,000) ordinary shares of US\$0.001 each	7.5% (2003: 5%)	2,043	1,872	1.19% (2003: 0.99%)	(27) (2003: 35)
Allways Internet Limited	Hong Kong	Provision of travel agency services and information on internet	1,050,000 (2003: 1,050,000) ordinary shares of HK\$1 each	35% (2003: 35%)	1,500	1,500	0.87% (2003: 0.79%)	705 (2003: 728)
Fujita Glass Limited	Hong Kong	Trading of glass	3,750 (2003: 3,750) ordinary shares of HK\$1 each	15% (2003: 15%)	250	250	0.15% (2003: 0.13%)	(175) (2003: (102))
Enviro Technology International Limited	Hong Kong	Development of battery regenerators	500 (2003: 500) ordinary shares HK\$1 each	16.67% (2003: 16.67%)	390	390	0.23% (2003: 0.21%)	157 (2003: 160)
10 Moons Technology (HK) Limited	Hong Kong	Developing, processing and selling of computer peripheral products	70,000 (2003: N/A) ordinary shares of HK\$1 each	7% (2003: N/A)	1,300	-	0.76% (2003: N/A)	1,443 (2003: N/A)
Sinochamp Holdings Limited	British Virgin Islands	Provision of telecommunication value-add service	5 (2003: N/A) ordinary shares of US\$0.001 each	9.62% (2003: N/A)	50	-	0.03% (2003: N/A)	50 (2003: N/A)

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets (liabilities) attributable to the Group
					HK\$'000 2004	HK\$'000 2003		
Teddy Bear Kingdom Holdings Limited	British Virgin Islands	Investment holding	1,256 (2003: N/A) ordinary shares of US\$1 each	12.56% (2003: N/A)	14,000	-	8.17% (2003: N/A)	827 (2003: N/A)
China Goldcorp Limited	British Virgin Islands	Exploration, mining production, refining and sale of gold	10,000 (2003: N/A) ordinary shares of US\$1 each	25% (2003: N/A)	78	-	0.05% (2003: N/A)	28 (2003: N/A)
Square Profit Limited	Hong Kong	Chinese restaurant	2,000 (2003: N/A) ordinary shares of HK\$1 each	20% (2003: N/A)	1,200	-	0.7% (2003: N/A)	995 (2003: N/A)
IS Master Company Limited	Hong Kong	Total solutions for point of sale system	1,000 (2003: N/A) ordinary shares of HK\$1 each	10% (2003: N/A)	141	-	0.08% (2003: N/A)	141 (2003: N/A)
EL Grande Holdings Limited	Hong Kong	Investment holding	3,975 (2003: N/A) ordinary shares of HK\$1 each	15% (2003: N/A)	2,934	-	1.71% (2003: N/A)	(725) (2003: N/A)
Bright Genius Industries Limited	Hong Kong	Chinese restaurant	1,000 (2003: N/A) ordinary shares of HK\$1 each	10% (2003: N/A)	250	-	0.15% (2003: N/A)	296 (2003: N/A)
Excel Concept Development Limited	Hong Kong	Manufacturing of toy cloth	1,000,000 (2003: N/A) ordinary shares of HK\$1 each	16.67% (2003: N/A)	1,300	-	0.76% (2003: N/A)	1,209 (2003: N/A)

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		Net assets (liabilities) % of total assets of the Group attributable to the Group	
					HK\$'000 2004	HK\$'000 2003	2004	2003
Pacific Life Science Holdings Limited	Cayman Islands	Investment holding	1,000,000 (2003: N/A) ordinary shares of HK\$1 each	8.7% (2003: N/A)	778	-	0.45% (2003:N/A)	785 (2003:N/A)
Cmedtec Limited	Hong Kong	Manufacturing of chinese medicine, health food and health tonic	1,429 (2003: N/A) ordinary shares of HK\$1 each,	9% (2003: N/A)	300	-	0.17% (2003:N/A)	78 (2003:N/A)
					121,986	124,778		
Unlisted equity securities written off in 2004 (Note (c))					-	4,631		
Less: Provision for impairment losses					(39,339)	(34,258)		
					82,647	95,151		

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

A brief description of the business information of the major unlisted investee companies is as follows:

Capital Venture Limited (“CVL”)

The company has obtained the money lender licence since 1997. It principally engages in property investment and financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The loan tenor offered to selected customers by CVL is from short to medium term. The Group has made a provision for impairment loss of HK\$3,800,000 (2003: loss of HK\$3,800,000) for this investment as at 31st December, 2004.

Chief Finance Limited (“CFL”)

CFL is also a money lender and principally engages in financing business in Hong Kong. Its customers are mainly established companies and individuals of high net worth in Hong Kong. The business objective of CFL is to earn high interest income from short term loans advanced to selected clients. The Group has made a provision for impairment loss of HK\$3,200,000 (2003: loss of HK\$3,200,000) for this investment as at 31st December, 2004.

Fullpower Holdings Limited (“FHL”)

FHL is an investment holding company which invests in Challengers Services Limited and Challengers Auto Services Limited (“Challengers”). Challengers are principally engaged in the provision of car washing, beauty services and auto garage services. The Group has made a provision for impairment loss of HK\$5,000,000 (2003: loss of HK\$5,000,000) for this investment as at 31st December, 2004.

Yeelong Enterprises Limited (“Yeelong”)

Yeelong was engaged in the business of operating bowling centre in Dalian of the PRC and this bowling centre is currently ceased operation. A provision for impairment loss of HK\$9,971,941 (2003: loss of HK\$9,971,941) was made for this investment as at 31st December, 2004.

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(b) Unlisted equity securities (continued)

Teddy Bear Kingdom Holdings Limited (“Teddy Bear Kingdom”)

Teddy Bear Kingdom operates the first and largest indoor theme park in Hong Kong. The theme park occupies an area of over 60,000 square feet, comprising of various educational and recreational facilities such as a teddy bear museum, an entertainment centre, an educational centre, a picnic place and a merchandise shop. The Group's total investment in shares of and loan to this investee amounted to HK\$14 million. Full provision has been made by the Group for this investment as at 31st December 2004.

One.Tel Holdings Limited (“One.Tel”)

One.Tel is an investment holding company and the group engages in the provision of telecommunication service. One.Tel provides a wide range of telecommunication services at competitive values, including flat rate international call, post-paid calling cards, IDD roaming service and One.Tel Net internet services. No dividend income was received by the Group (2003: HK\$2,625,000) from One.Tel for the year ended 31st December, 2004.

The equity investments in the above companies with interests held exceeding 20% are recorded as investment securities at cost. These investments are not classified as investments in associates as the Group does not participate in their operations and has no significant influence over their management.

Notes to the Financial Statements

17. INVESTMENT SECURITIES (continued)

(c) The following is a list of unlisted equity securities written off at 31st December, 2004 :

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost		% of total assets of the Group	Net assets attributable to the Group
					HK\$'000 2004	HK\$'000 2003		
Innocom Technology Limited	Hong Kong	Product development and manufacturing	2,500 (2003: 2,500) ordinary shares of HK\$1 each	25% (2003: 25%)	-	575	Nil (2003: 0.30%)	Nil (2003: Nil)
Goodwill China Business Information Limited	Hong Kong	Sale of information products	134,554 (2003: 134,554) ordinary shares of HK\$1 each	2% (2003: 2%)	-	1,000	Nil (2003: 0.53%)	Nil (2003: Nil)
Multimedians Limited	Hong Kong	Software development for the education market	1,133,333 (2003: 1,133,333) ordinary shares of HK\$0.10 each	32% (2003: 32%)	-	3,056	Nil (2003: 1.62%)	Nil (2003: Nil)
Unlisted equity securities written off in 2004					-	4,631		

Notes to the Financial Statements

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Accounts receivable	9,657,500	1,747,086	1,357,500	1,020,000
Loan receivable				
– Secured	13,700,000	12,500,000	–	–
– Unsecured	2,036,150	2,971,461	1,536,150	–
Interest receivable	334,490	2,436,690	–	–
Deposits	413,502	240,873	279,629	65,000
Prepayments	152,850	262,500	149,100	208,750
Other receivables	58,000	158,030	58,000	33,030
	26,352,492	20,316,640	3,380,379	1,326,780

Both secured and unsecured loan receivables are interest-bearing.

The aging analysis of the accounts receivable and prepayments were as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Current	2,058,829	725,476	1,925,000	175,000
30 – 60 days	10,718	490,628	900	6,240
61 – 90 days	15,839	421,935	5,580	10,000
Over 90 days	24,267,106	18,678,601	1,448,899	1,135,540
	26,352,492	20,316,640	3,380,379	1,326,780

Notes to the Financial Statements

19. OTHER INVESTMENTS

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Equity securities, at fair value				
– Listed in Hong Kong	26,968,660	22,964,580	18,577,123	13,774,060
– Listed outside Hong Kong	2,445,300	7,940,400	–	–
	29,413,960	30,904,980	18,577,123	13,774,060
Market value of listed securities	29,413,960	30,904,980	18,577,123	13,774,060

Under an agreement entered into between the Group and a bank, the Group can pledge its listed securities with total market value of HK\$7,211,600 (2003: HK\$11,305,000) to the bank for a loan equal to 20% (2003: 20%) of the total market value of these shares.

Notes to the Financial Statements

19. OTHER INVESTMENTS (continued)

Details of the other investments are as follows:

Name of investee company	Place of incorporation	Number of shares/warrants held as at 31st December, 2004	Carrying value as at 1st January, 2004	Additions/ (Disposal) in 2004	Market value as at 31st December, 2004	Unrealised gain/(loss) arising on revaluation	% of total assets of the Group	Net assets attributable to the Group
			HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
At 31st December, 2004								
<i>Listed in Hong Kong</i>								
Allied Group Limited	Hong Kong	200,000	-	1,555	1,630	75	0.95%	3,403
EganaGoldpfeil (Holdings) Limited	Cayman Islands	5,200,000	9,256	-	8,476	(780)	4.94%	6,622
Jade Dynasty	Bermuda	1,919,090	-	1,000	720	(280)	0.42%	289
Millennium Group Limited	Hong Kong	3,621,472	404	25	272	(157)	0.16%	330
Prime Success International Group Limited	Cayman Islands	4,500,000	9,455	(8,041)	5,062	3,648	2.95%	1,318
Tysan Holdings Limited	Bermuda	10,000,000	1,850	-	2,150	300	1.25%	8,751
Tonic Industrial Limited	Cayman Islands	6,999,200	-	3,036	1,820	(1,216)	1.06%	4,457
Upbest Group Limited	Cayman Islands	4,000,000	2,000	-	6,840	4,840	3.99%	636
			22,965	(2,425)	26,970	6,430		
As at 31st December, 2004								
<i>Listed outside Hong Kong</i>								
Celsion Corporation	Delaware	550,000	5,620	-	2,445	(3,175)	1.43%	41
Dragon Pharmaceuticals Inc.	Florida	-	1,813	(1,813)	-	-	N/A	N/A
Transcom Security Networks Inc.	British Columbia	-	507	(507)	-	-	N/A	N/A
			7,940	(2,320)	2,445	(3,175)		
			30,905	(4,745)	29,415	3,255		

Notes to the Financial Statements

19. OTHER INVESTMENTS (continued)

A brief description of the business and financial information of the major listed investee companies, based on their latest published annual or interim reports, is as follows:

EganaGoldpfeil (Holding) Limited (“EganaGoldpfeil”)

EganaGoldpfeil is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brand names to third parties; and trading of timepiece components, jewellery and consumer electronic products.

The profit attributable to shareholders of EganaGoldpfeil for the year ended 30th November, 2004 was approximately HK\$88,691,000. As at 30th November, 2004, the net asset value of EganaGoldpfeil was approximately HK\$1,532,580,000. During the year, the Group received cash dividend of HK\$232,511 from EganaGoldpfeil.

Prime Success International Group Limited (“Prime Success”)

Prime Success is principally engaged in the manufacturing, marketing and sales of footwear products, shoe components and materials.

The profit attributable to shareholders of Prime Success for the six months ended 30th June, 2004 was approximately HK\$66,030,000. As at 30th June, 2004, the net asset value of Prime Success was approximately HK\$450,410,000. During the year, the Group received cash dividend of HK\$702,946 from Prime Success.

Upbest Group Limited (“Upbest”)

Upbest is principally engaged in the provision of a wide range of financial services including securities broking, futures broking, margin financing, money lending, corporate finance advisory and assets management.

The profit attributable to shareholders of Upbest for the six months ended 30th September, 2004 was approximately HK\$15,263,000. As at 30th September, 2004, the net asset value of Upbest was approximately HK\$178,173,000. During the year, the Group received dividend of HK\$39,752 from Upbest.

Notes to the Financial Statements

19. OTHER INVESTMENTS (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held as at 31st December, 2003	Carrying value as at 1st January, 2003	Additions in 2003	Market value as at 31st December, 2003	Unrealised gain/(loss) arising on revaluation	% of total assets of the Group	Net assets attributable to the Group
			HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
At 31st December, 2003								
<i>Listed in Hong Kong</i>								
EganaGoldpfeil (Holdings) Limited	Cayman Islands	5,200,000	7,332	-	9,256	1,924	4.9%	6,094
Millennium Group Limited	Hong Kong	2,374,000	209	243	404	(48)	0.21%	327
Prime Success International Group Limited	Cayman Islands	30,500,000	3,264	-	9,455	6,191	5.00%	7,154
Tysan Holdings Limited	Bermuda	10,000,000	1,550	-	1,850	300	0.98%	8,867
Upbest Group Limited	Cayman Islands	4,000,000	1,880	-	2,000	120	1.06%	530
			14,235	243	22,965	8,487		
As at 31st December, 2003								
<i>Listed outside Hong Kong</i>								
Celsion Corporation	Delaware	550,000	-	3,631	5,620	1,989	2.97%	352
Dragon Pharmaceuticals Inc.	Florida	250,000	1,190	-	1,813	623	0.96%	997
Transcom Security Networks Inc.	British Columbia	500,000	507	-	507	-	0.27%	149
			1,697	3,631	7,940	2,612		
			15,932	3,874	30,905	11,099		

Notes to the Financial Statements

20. CREDITORS AND ACCRUALS

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Creditors	–	–	–	–
Accruals	2,115,625	956,571	1,512,326	573,071
	2,115,625	956,571	1,512,326	573,071

The aging analysis of the creditors and accruals were as follow:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Current	1,220,098	272,900	1,162,299	224,900
30 – 60 days	–	14,900	–	14,900
61 – 90 days	–	–	–	–
Over 90 days	895,527	668,771	350,027	333,271
	2,115,625	956,571	1,512,326	573,071

Notes to the Financial Statements

21. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 1st January, 2003 before share consolidation (<i>Note (b)</i>)	10,000,000,000	100,000,000

	Authorised ordinary shares of HK\$0.2 each	
	No. of shares	HK\$
At 1st January, 2004 and 31st December, 2004, after share consolidation (<i>Note (b)</i>)	500,000,000	100,000,000

	Issued and fully paid ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 1st January, 2003	974,388,225	9,743,882
Issue of shares due to rights issue (<i>Note (a)</i>)	1,461,582,337	14,615,824
At 24th January, 2003 before share consolidation (<i>Note (b)</i>)	2,435,970,562	24,359,706

	Issued and fully paid ordinary shares of HK\$0.2 each	
	No. of shares	HK\$
At 31st December 2003 and 1st January, 2004 after share consolidation (<i>Note (b)</i>)	121,798,528	24,359,706
Exercise of warrants (<i>Note (c)</i>)	3,846	769
At 31st December, 2004	121,802,374	24,360,475

Notes to the Financial Statements

21. SHARE CAPITAL (continued)

Notes:

(a) Rights issue

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19th December, 2002, a rights issue scheme which offered three rights shares for every two existing shares to the existing shareholders was approved and adopted. New shares of 1,461,582,337 of HK\$0.01 each were issued at HK\$0.02 per share for cash on 23rd January, 2003 under the rights issue scheme. These shares rank pari passu to the existing shares. The funds raised by the Company net of share issuance expenses amounted to HK\$27,945,994 which was used as the Group's working capital and for investment purposes.

(b) Share consolidation

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23rd January, 2003, 20 shares of the Company of HK\$0.01 each were consolidated into 1 new share of the Company of HK\$0.2 each with effect on 24th January, 2003.

(c) Warrants

Prior to the expiration of the 2004 warrants on 30th June, 2004, 3,846 of the 2004 warrants were exercised and 3,846 ordinary shares of HK\$0.2 each were issued at a cash consideration of HK\$1 per ordinary share. These new shares ranked pari passu with the existing shares of the Company.

Notes to the Financial Statements

22. RESERVES

Group

	Share premium HK\$	Proposed dividend HK\$	Accumulated losses HK\$	Total HK\$
At 1st January, 2003	138,489,401	–	(33,403,207)	105,086,194
Premium on issue of shares	13,330,170	–	–	13,330,170
Loss for the year	–	–	(2,086,653)	(2,086,653)
At 31st December, 2003 and 1st January, 2004	151,819,571	–	(35,489,860)	116,329,711
Premium on issue of shares	3,077	–	–	3,077
Profit for the year	–	–	8,119,191	8,119,191
Proposed dividend	(2,922,047)	2,922,047	–	–
At 31st December, 2004	148,900,601	2,922,047	(27,370,669)	124,451,979
Attributable to:				
Company and subsidiaries	148,900,601	2,922,047	(23,069,659)	128,752,989
Associates	–	–	(4,301,010)	(4,301,010)
At 31st December, 2004	148,900,601	2,922,047	(27,370,669)	124,451,979

Notes to the Financial Statements

22. RESERVES (continued)

Company

	Share premium HK\$	Proposed dividend HK\$	Retained earnings/ (accumulated losses) HK\$	Total HK\$
At 1st January, 2003	138,489,401	–	(1,273,710)	137,215,691
Premium on issue of shares	13,330,170	–	–	13,330,170
Profit for the year	–	–	11,932,272	11,932,272
At 31st December, 2003 and 1st January, 2004	151,819,571	–	10,658,562	162,478,133
Premium on issue of shares	3,077	–	–	3,077
Loss for the year	–	–	(34,228,735)	(34,228,735)
Proposed dividend	(2,922,047)	2,922,047	–	–
At 31st December, 2004	148,900,601	2,922,047	(23,570,173)	128,252,475

Note: Distributable reserves of the Company at 31st December, 2004 according to the Company's Articles of Association amounted to HK\$128,252,475 (2003: HK\$162,478,133).

23. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets of HK\$148,812,454 (2003: HK\$140,689,417) and the 121,802,374 (2003: 121,798,528) ordinary shares in issue as at 31st December, 2004.

Notes to the Financial Statements

24. INTEREST-BEARING BORROWING

	2004 HK\$	2003 HK\$
Repayable within one year	10,000,000	–

Under a deed of agreement entered into between the Group and a bondholder, a convertible bond with principal amount of HK\$18,000,000 has been converted as loan advanced to the Group at a fixed interest rate of 5% per annum and repayable by 4 instalments.

25. CONVERTIBLE BONDS

	2004 HK\$	2003 HK\$
Convertible bonds		
– Due for repayment	–	5,000,000
– Repayable within one year	9,900,000	39,900,000
	9,900,000	44,900,000

As at 31st December, 2004, the maturity date for a convertible bond with a principal amount of HK\$9.9 million has been extended to 8th March, 2005. The convertible bond carried fixed interest of 6% per annum. The bondholder was entitled to convert the full principal amount of the bond into a pre-determined number of ordinary shares of ITSH on occurrence of certain conversion events at any time prior to the maturity date. Upon full conversion of the bond, 13,200,000 shares of HK\$0.10 each will be allotted to the bondholder which will represent 6.6% of the enlarged issued share capital of ITSH.

Notes to the Financial Statements

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before taxation to net cash generated from/(used in) operations:

	2004 HK\$	2003 HK\$
Operating activities		
Profit/(Loss) from ordinary activities before taxation	8,119,191	(2,536,284)
Loss on disposal of investment securities	1,193,400	–
Provision for impairment loss on investment securities	5,565,486	10,477,600
Provision for impairment loss on loans to associates	–	4,199,586
Written off of loan to an investee company	–	429,625
Provision for bad debt	–	120,000
Share of losses of associates	–	2,410,530
Interest income	(3,224,262)	(5,179,770)
Dividend income from investment securities	(750,000)	(3,275,000)
Finance costs	1,851,154	2,607,892
Loss on disposal of an associate	1,972,213	–
Loss on disposal of owned assets	–	17,500
Depreciation of owned fixed assets	296,881	306,916
Amortisation of goodwill	16,402	10,251
Operating profit before changes in working capital	15,040,465	9,588,846
Increase in other assets	(3,958,920)	(3,351,063)
Decrease/(Increase) in other investments	2,491,020	(7,329,744)
Decrease/(Increase) in accounts receivable and prepayments	161,948	(12,348,683)
Increase/(Decrease) in creditors and accruals	1,080,654	(123,247)
Increase in other payables	–	540,000
Cash generated from/(used in) operations	14,815,167	(13,023,891)

Notes to the Financial Statements

27. MANAGEMENT CONTRACTS

	2004 HK\$	2003 HK\$
Management fees		
– Harmony Asset Management Limited (<i>Note</i>)	2,166,444	2,143,931
Incentive fee		
– Harmony Asset Management Limited (<i>Note</i>)	911,185	–

Note: The Company has entered into an investment management agreement with Harmony Asset Management Limited (“HAML”), a company which is wholly owned by Dr. Chow Pok Yu Augustine. Under the agreement, HAML has agreed to assist the board of directors with the day-to-day management of the Group until 5th April 2006. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company of the preceding month and an incentive fee at 10% of the surplus in the net asset value over a financial year. Dr. Chow Pok Yu Augustine, being a beneficial shareholder, was interested in these contracts in 2004 and 2003.

28. COMMITMENTS

Commitments under operating leases

At 31st December, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$	2003 HK\$
Within one year	1,037,990	456,461
In the second to fifth years inclusive	1,121,890	169,430
	2,159,880	625,891

Notes to the Financial Statements

29. SUBSEQUENT EVENT

On 1st March 2005, the Group entered into a placing agreement with a placing agent that the Group agreed to place through the placing agent an aggregate of 24,300,000 placing shares, on a fully underwritten basis, to not fewer than six placees, at a price of HK\$0.35 per share. The placing shares of 24,300,000 shares represent approximately 20% of the Group's existing share capital and approximately 16.63% of the issued share capital as enlarged by the placing.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26th April, 2005.