

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 September 2001. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is principally engaged in investing in listed and unlisted securities. The activities of its subsidiaries are set out in note 15 to the financial statements.

## 2. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### **Basis of consolidation**

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

The results of subsidiaries acquired or disposal during the year are included in the income statement from the effective date of acquisition or up to effective date of acquisition or up to the effective date of disposals as appropriate.

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

### **Investments in 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.

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

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue from sales of investments in securities is recognised on a trade-date basis.

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

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

### Property, plant and equipment

Property, plant and, equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of the lease
Computer equipment	20%
Furniture, fixtures and office equipment	20%

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

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interests in the fair value of the identifiable assets and liabilities of a subsidiary, associate or a jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

### **Taxation**

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Investments in securities

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

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

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

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

#### Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

Payments made under operating leases are recognised on straight-line basis over the relevant lease term.

#### Cash and cash equivalents

Cash and cash equivalents are carried in balance sheet at cost.

Cash and cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

For the purpose of the cash flow statement, cash and cash equivalents comprised cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investments and bank overdrafts.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Related parties**

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

### **Provision and contingencies**

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly 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.

Contingent liabilities are not recognised in the consolidated 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### **Retirement benefits scheme**

Costs of retirement benefits scheme are recognised as an expense in the year in which they fall due.

### **Other marketable securities**

Investments, other than investments in securities, that are held for trading purpose are included in the balance sheet at their fair values. Any changes in the fair values of the securities are recognised in income statement.

Upon disposal of other marketable securities, any profit and loss is accounted for in the income statement.

### **Foreign currencies**

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

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### 4. TURNOVER AND OTHER INCOME

The Group is principally engaged in investing in listed and unlisted securities. Turnover represents proceeds from sales of investments. An analysis of turnover and other income is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
<b>Turnover</b>		
Proceeds from sales of investments	<u>10,612,164</u>	<u>500,000</u>
<b>Other income</b>		
Dividend income	62,591	–
Exchange gain	16,347	–
Gain on disposal of a subsidiary	46,339	–
Interest income	274,453	135,182
Sundry income	<u>1,248</u>	<u>–</u>
	<u>400,978</u>	<u>135,182</u>

### 5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

#### Business segment

The Group's main business segment is investing in listed and unlisted securities.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 5. SEGMENT INFORMATION (continued)

#### Business segment (continued)

The following tables present revenue, results and expenditure information for the Group's business segment.

#### THE GROUP

	Securities investment		Consolidated	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Segment revenue	10,612,164	500,000	10,612,164	500,000
Dividend income	62,591	-	62,591	-
Interest income	274,453	135,182	274,453	135,182
Unrealised gain/(loss) on investments in securities	962,876	(424,707)	962,876	(424,707)
Unrealised (loss)/gain on other marketable securities	(253,621)	100,245	(253,621)	100,245
Allocated expenses	(12,023,528)	(2,059,970)	(12,023,528)	(2,059,970)
Segment results	<u>(365,065)</u>	<u>(1,749,250)</u>	<u>(365,065)</u>	<u>(1,749,250)</u>
Unallocated income			63,934	-
Unallocated expenses			(1,761,356)	(2,812,473)
Loss from operations			(2,062,487)	(4,561,723)
Interest on other loan, wholly repayable within 5 years			(42,215)	-
Net loss for the year attributable to shareholders			<u>(2,104,702)</u>	<u>(4,561,723)</u>
Segment assets	<u>71,970,331</u>	<u>21,035,726</u>	<u>71,970,331</u>	<u>21,035,726</u>
Unallocated assets			-	4,627,864
Total assets			<u>71,970,331</u>	<u>25,663,590</u>
Unallocated liabilities			234,879	172,436
Total liabilities			<u>234,879</u>	<u>172,436</u>
Other segment information:				
Depreciation	<u>-</u>	<u>-</u>	<u>54,935</u>	<u>90,958</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 5. SEGMENT INFORMATION (continued)

### Geographical segment

The following table presents revenue and certain assets for the Group's geographical segments.

### THE GROUP

	Hong Kong		United Kingdom		United States of America		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Segment revenue:</b>										
Proceeds from sales of investments	5,200,000	500,000	4,680,000	-	-	-	732,164	-	10,612,164	500,000
<b>Segment assets</b>	<b>48,737,985</b>	<b>21,035,726</b>	<b>-</b>	<b>-</b>	<b>13,993,760</b>	<b>-</b>	<b>9,238,586</b>	<b>-</b>	<b>71,970,331</b>	<b>21,035,726</b>
Unallocated assets									-	4,627,864
Total assets									<b>71,970,331</b>	<b>25,663,590</b>



## Notes to the Financial Statements

For the year ended 31 December 2004

### 6. LOSS FROM OPERATIONS

	2004 HK\$	2003 HK\$
The Group's loss from operations has been arrived at after charging:		
Directors' remuneration:		
Fees	135,000	260,967
Provident fund contributions ( <i>Note</i> )	11,000	19,825
Other emoluments	269,315	819,500
Staff costs		
Salaries	-	309,720
Provident fund contributions ( <i>Note</i> )	-	13,613
Other benefits	-	14,154
Total staff costs (including directors' remuneration)	<u>415,315</u>	1,437,779
Auditors' remuneration	53,000	45,000
Depreciation on property, plant and equipment	54,935	90,958
Loss on written-off of property, plant and equipment	49,647	-
Loss on disposal of property, plant and equipment	-	104,103
Operating lease rentals of land and buildings	276,929	302,729
Net realised loss on investments in securities	-	780,000
Net unrealised loss on investments in securities	-	424,707
Net unrealised loss on other marketable securities	253,621	-
and after crediting:		
Net realised gain on investments in securities	208,636	-
Net unrealised gain on investments in securities	962,876	-
Net unrealised gain on other marketable securities	-	100,245
Bank interest income	<u>274,453</u>	<u>135,182</u>

*Note:* As at 31 December 2004, there were no forfeitures available to offset the Group's future contributions (2003: Nil).

## Notes to the Financial Statements

For the year ended 31 December 2004

### 7. DIRECTORS' REMUNERATION

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

	THE GROUP	
	2004	2003
	HK\$	HK\$
Fees:		
Executive directors	-	-
Independent non-executive directors	135,000	180,967
Non-executive directors	-	80,000
Other emoluments:		
Executive directors	269,315	819,500
Provident fund contributions:		
Executive directors	11,000	19,825
	<u>415,315</u>	<u>1,100,292</u>

The above fees, other emoluments and provident fund contributions were paid to all directors, executives and non-executives, in respect of their length of services to the Group.

The emoluments of directors fell within the following band:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	<u>8</u>	<u>10</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during both years ended 31 December 2004 and 2003.

None of the directors waived emoluments in respect of the years ended 31 December 2004 and 2003.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 5 (2003: 3) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the highest paid, non-director employees for both year ended 31 December 2004 and 2003 are as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$</b>	<b>HK\$</b>
Basic salaries, housing benefits, other allowances and benefits in kind	-	268,649
Provident fund contributions	-	13,432
	<u>-</u>	<u>282,081</u>

There are no (2003: 2) highest paid, non-director employees whose remuneration fell within the following band is as follows:

	<b>Number of individuals</b>	
	<b>2004</b>	<b>2003</b>
Nil to HK\$1,000,000	-	2

During the year, no remuneration was paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office (2003: Nil).

## Notes to the Financial Statements

For the year ended 31 December 2004

### 9. TAXATION

During the year ended 31 December 2004 and 2003, no provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for both years.

The charge for the year can be reconciled to the loss per income statement as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Loss before taxation	<u>(2,104,702)</u>	<u>(4,561,723)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(368,323)	(798,302)
Tax effect of non-deductible expenses and non-taxable income in determining taxable profit	(122,377)	95,426
Tax effect of tax losses not recognised	<u>490,700</u>	<u>702,876</u>
Taxation charge	<u>—</u>	<u>—</u>

Details of the potential deferred tax asset not recognised in the year are set out in note 22.

### 10. NET ASSET VALUE PER SHARE AND LOSS PER SHARE

The net asset value per share is calculated by dividing the net assets included in the consolidated balance sheet of HK\$71,735,452 (2003: HK\$25,491,154) by the number of shares in issue at the year ended, being 480,000,000 (2003: 80,000,000).

The calculation of basic loss per share is based on the net loss for the year of HK\$2,104,702 (2003: loss of HK\$4,561,723) and the weighted average number of 337,923,497 (2003: 80,000,000) ordinary shares in issue during the year. The diluted earnings per share is not presented because there was no potential dilutive shares during the both years ended 31 December 2004 and 2003.

### 11. DIVIDENDS

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

## Notes to the Financial Statements

For the year ended 31 December 2004

### 12. RETIREMENT BENEFITS SCHEME

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject to a maximum contribution of HK\$1,000 per month and thereafter contributions are voluntary.

### 13. PROPERTY, PLANT AND EQUIPMENT

#### The Group and the Company

	Leasehold improvements <i>HK\$</i>	Computer equipment <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Total <i>HK\$</i>
COST				
At 1 January 2004	89,712	61,126	41,953	192,791
Written off	(89,712)	(61,126)	(41,953)	(192,791)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
ACCUMULATED DEPRECIATION				
At 1 January 2004	51,957	23,597	12,655	88,209
Provided for the year	37,755	10,188	6,992	54,935
Eliminated on written off	(89,712)	(33,785)	(19,647)	(143,144)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUES				
At 31 December 2004	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	37,755	37,529	29,298	104,582
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 14. NEGATIVE GOODWILL

	<b>HK\$</b>
At 1 January 2004	-
Addition from acquisition of subsidiaries ( <i>note 25</i> )	<u>(64,857)</u>
At 31 December 2004	<u><u>(64,857)</u></u>

### 15. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
Unlisted shares, at cost	<u><u>10,000,008</u></u>	<u><u>16</u></u>

Details of subsidiaries as at 31 December 2004 are as follows:

Name	Place of incorporation and operation	Particulars of issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activity
			Direct	Indirect	
Capital Handle Investment Limited	British Virgin Islands	1 share of US\$1 each	100%	-	Investments holding
Crystal Shine Limited	British Virgin Islands	2 shares of US\$1 each	100%	-	Investments holding
San Francisco Alden, Inc.	United States of America	100 shares of US\$10 each	-	100%	Investments holding

*Notes:*

Topkey International Limited and Asiawin International Limited, the wholly-owned subsidiaries of the Company was in the process of being stroke-off. During the year, the investments in these two subsidiaries at an aggregate cost of HK\$16 have been written off to the income statement.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 16. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
<b>NON-CURRENT</b>				
Unlisted held-to-maturity debt security, at cost	9,500,000	–	9,500,000	–
Unlisted investment securities, at cost	14,000,000	–	–	–
	<u>23,500,000</u>	<u>–</u>	<u>9,500,000</u>	<u>–</u>
<b>CURRENT</b>				
Listed other investments, at market value	4,459,220	1,740,120	4,459,220	1,740,120
Unlisted other investments, at directors' valuation	–	8	–	8
	<u>4,459,220</u>	<u>1,740,128</u>	<u>4,459,220</u>	<u>1,740,128</u>
	<u>27,959,220</u>	<u>1,740,128</u>	<u>13,959,220</u>	<u>1,740,128</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 16. INVESTMENTS IN SECURITIES (continued)

As at 31 December 2004, the carrying amounts of interests in the following investments in securities of the Group and the Company were:

Notes	Balance at 1/1/2004					Balance at 31/12/2004			Dividends received during the year	Dividend cover	% of share capital owned	% of total assets of the Group	
	Cost	Market value/directors' valuation	Additions	Disposals	Unrealised gain/(loss)	Cost	Market value/directors' valuation	Realised gain/(loss)					
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	%	%	%	
<b>NON-CURRENT</b>													
<b>Unlisted held-to-maturity debt security</b>													
Yuen Hing Hotel (Wuhan) Co. Ltd	a	-	-	9,500,000	-	-	9,500,000	9,500,000	-	-	N/A	N/A	13.20%
<b>Unlisted investment securities</b>													
765 Airport Boulevard Partnership	b	-	-	14,000,000	-	-	14,000,000	14,000,000	-	-	N/A	20%	19.45%
		-	-	23,500,000	-	-	23,500,000	23,500,000	-	-			
<b>CURRENT</b>													
<b>Unlisted held-to-maturity debt security</b>													
Callable floating rate notes issued by Lloyds Banks Plc.	c	-	-	4,680,000	(4,680,000)	-	-	-	-	-	N/A	N/A	N/A
<b>Listed other investments</b>													
Hong Kong Golden Resources Development Int'l. Ltd.	d	-	-	1,756,224	-	58,696	1,756,224	1,814,920	-	62,591	3.68%	< 0.1%	2.52%
GR Investment International Ltd.	e	2,164,826	1,740,120	-	-	904,180	2,164,826	2,644,300	-	-	N/A	4%	3.67%
Outside Hong Kong Biomerieux SA	f	-	-	723,528	(723,528)	-	-	-	8,636	-	N/A	N/A	N/A
		2,164,826	1,740,120	2,479,752	(723,528)	962,876	3,921,050	4,459,220	8,636	62,591			
<b>CURRENT Unlisted other investments</b>													
Greater Achieve Ltd.	24	8	8	-	(8)	-	-	-	-	-	N/A	N/A	N/A
Hennabun Management Inc.	g	-	-	5,000,000	(5,000,000)	-	-	-	200,000	-	N/A	N/A	N/A
		8	8	5,000,000	(5,000,008)	-	-	-	200,000	-			
		2,164,834	1,740,128	12,159,752	(10,403,536)	962,876	3,921,050	4,459,220	208,636	62,591			
<b>Total</b>		<b>2,164,834</b>	<b>1,740,128</b>	<b>35,659,752</b>	<b>(10,403,536)</b>	<b>962,876</b>	<b>27,421,050</b>	<b>27,959,220</b>	<b>208,636</b>	<b>62,591</b>			



# Notes to the Financial Statements

For the year ended 31 December 2004

## 16. INVESTMENTS IN SECURITIES (continued)

Notes:

- a. The Group acquired a zero coupon debt security with a face value of RMB29,077,380 issued by Yuen Hing Hotel (Wuhan) Company Limited ("Yuen Hing"), which is incorporated in Hong Kong, at a cost of HK\$9,500,000. These debt securities effectively covered the rights of debts of Yuen Hing arising from its past dealings with its designated debtors. Yuen Hing will pay the full amount of RMB29,077,380 to the Group by the same installments as Yuen Hing recovers its debts from its designated debtors. Yuen Hing is principally engaged in the management of hotel, food and beverage facilities. Golden Resources Development Limited, a company listed on the Stock Exchange, guarantees the Group for the full amount of RMB29,077,380 that Yuen Hing due the Group.
- b. Investment in the limited partnership of 765 Airport Boulevard Partnership is not equity accounted for in accordance with the SSAP 10 "Accounting for investments in associates". This is because the Group is not in a position to exercise any significant influence over the financial and operating policies of the 765 Airport Boulevard Partnership. The 765 Airport Boulevard Partnership is registered in the United States of America and is principally engaged in the holding and operation of a hotel.
- c. The Group acquired 2,000,000 callable floating rate notes at US\$1 each issued by Lloyds Banks Plc. through margin finance at HK\$4,680,000 during the year. Such floating rate notes were redeemed by Lloyds Bank Plc. at US\$1 each during the year. Lloyds Banks Plc. is principally engaged in offering a wide range of banking and financial services.
- d. Golden Resources Development International Limited is principally engaged in sourcing, importing, wholesaling, processing, packaging, marketing and distribution of rice, warehousing operation, property investment, securities investment and investment holding.
- e. GR Investment International Limited is principally engaged in holding equity and equity-related investments and providing management services to its investee companies.
- f. The Group acquired 2,500 ordinary shares of Biomerieux SA at HK\$723,528 and disposed those ordinary shares at HK\$732,164 during the year. Biomerieux SA is principally engaged in designing, developing, manufacturing and marketing system used in clinical and industrial applications and its shares are listed on the Stock Exchange of Paris.
- g. The Group acquired 2,500,000 ordinary shares of Hennabun Management Incorporation at HK\$5,000,000 and disposed such shares at HK\$5,200,000 during the year. Hennabun Management Incorporation is principally engaged in securities trading, investment holding, investment advisory and money lending.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 17. OTHER MARKETABLE SECURITIES

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Equity securities:				
Listed	1,451,160	756,800	1,451,160	756,800
Unlisted	1,432,670	—	—	—
	<u>2,883,830</u>	<u>756,800</u>	<u>1,451,160</u>	<u>756,800</u>
Market value of listed securities	<u>1,451,160</u>	<u>756,800</u>	<u>1,451,160</u>	<u>756,800</u>

As at 31 December 2004, the carrying amounts of interests in the following other marketable securities of the Group and the Company were:

	Notes	Balance at 1/1/2004					Balance at 31/12/2004					Dividends received during the year	Dividend cover	% of share capital owned	% of total assets of the Group
		Cost	Market value/directors' valuation	Additions	Disposals	Unrealised gain/(loss)	Cost	Market value/directors' valuation	Realised gain/(loss)	Realised gain/(loss)					
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	%	%	%
<b>Listed</b>															
Hong Kong															
Kenfair International (Holdings) Ltd.	a	656,555	756,800	1,015,893	—	(321,533)	1,672,448	1,451,160	—	—	—	—	N/A	N/A	2.02%
<b>Unlisted</b>															
GSNE-ER call option	b	—	—	1,364,758	—	67,912	1,364,758	1,432,670	—	—	—	—	N/A	N/A	1.99%
<b>Total</b>		<u>656,555</u>	<u>756,800</u>	<u>2,380,651</u>	<u>—</u>	<u>(253,621)</u>	<u>3,037,206</u>	<u>2,883,830</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>			

Notes:

- Kenfair International (Holdings) Limited is principally engaged in organising of trade fairs, trade shows and related activities to promote and facilitate trade between international buyers and manufacturers.
- Call options on Goldman Sachs Non-Energy Excess Return Index ("GSNE-ER") is a composite index with commodities. The call options are issued by Goldman Sachs International.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 18. AMOUNT DUE FROM AN INVESTEE COMPANY/AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed repayment terms.

### 19. SHARE CAPITAL

	Number of shares		Amount	
	2004	2003	2004	2003
			HK\$	HK\$
Ordinary shares of HK\$0.01 each				
<b>Authorised:</b>				
At beginning of year and at end of year	<u>600,000,000</u>	<u>600,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>
<b>Issued and fully paid:</b>				
At beginning of year	<u>80,000,000</u>	<u>80,000,000</u>	<u>800,000</u>	<u>800,000</u>
Issue of shares	<u>400,000,000</u>	<u>-</u>	<u>4,000,000</u>	<u>-</u>
At end of year	<u>480,000,000</u>	<u>80,000,000</u>	<u>4,800,000</u>	<u>800,000</u>

In May 2004, a total of 400,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK0.125 per share to the public for a total cash consideration of HK\$50,000,000, before the related issue expenses of HK\$1,651,000. The net proceeds will be applied to make investments and for general working capital purposes.

These shares rank pari passu in all respects with other shares in issue.

### 20. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 December 2001. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees and executives, including all the Directors of the Company and any substantial shareholders as defined in the Listing Rules to subscribe shares in the Company.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 20. SHARE OPTION SCHEME (continued)

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceeding 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

HK\$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Scheme at any time during the five-year period commencing on the date upon which the option is accepted by the grantee and expiring on the last day of the five-year period or the expiry of the tenth anniversary of the Scheme, whichever is the earlier.

The exercise price is determined by the Board of Directors, and should not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Scheme will remain in force for a period of 10 years commencing on 3 December 2001.

No option had been granted or agreed to be granted under the Scheme from the date of adoption of the Scheme.

### 21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>2004</b> <b>HK\$</b>	2003 <b>HK\$</b>
Within one year	-	242,725
In the second to fifth year inclusive	-	-
	<u>          -</u>	<u>          -</u>
	<u>          -</u>	<u>242,725</u>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 22. DEFERRED TAXATION

At the balance sheet date, the Group has estimated unrecognised tax losses of approximately HK\$11,274,000 (2003: HK\$8,470,000) to set off against future taxable income. No deferred tax asset is recognised in respect of such tax losses carried forward as the realisation of the related tax benefit through future taxable profits is not probable. This tax loss has no expiry date.

The Group and the Company had no material unprovided deferred tax liabilities at the balance sheet date (2003: Nil).

### 23. RELATED PARTY AND CONNECTED TRANSACTIONS

During the year, the Group had the following significant related party and connected transactions:

	Notes	2004 HK\$	2003 HK\$
Investment management fees paid to Baron Asset Management Limited	(i)	420,000	479,970
Rental expenses paid to Baron International Investment Holdings Limited	(ii)	27,000	–
Commission fee for underwriting paid to Baron Capital Limited	(iii)	1,149,938	–
Sales proceeds received from a resigned director for disposal of motor vehicle	(iv)	–	100,000

Notes:

- (i) Pursuant to the investment management agreement dated 12 December 2001 (the "Fund Management Agreement") entered into between the Company and Baron Asset Management Limited (the "Fund Manager"), the Fund Manager has agreed to provide the Company with investment management services commencing on the date of agreement. The Fund Management Agreement will continue for successive periods unless be terminated at any time by either the Company or the Fund Manager serving not less than six month's prior notice in writing. Under the Fund Management Agreement, the fund manager is entitled to an annual management fee of HK\$500,000.

Under the Supplementary Agreement entered into between the Company and the Fund Manager on 30 September 2003, the annual management fee is revised to HK\$420,000 effective from 1 October 2003. The Fund Management Agreement was entered into with reference to normal commercial terms.

- (ii) Pursuant to a tenancy agreement signed on 20 March 2004 between the Company and Baron International Investment Holdings Limited (the "Baron International"), Baron International has leased office premises to the Company commencing on 1 April 2004 for a monthly rental of HK\$3,000. The tenancy agreement will continue for successive period unless terminated at any time by either the Company or the lessor by notice in writing. The tenancy agreement was negotiated between the parties with reference to the normal commercial terms. Baron International is a fellow subsidiary of the Fund Manager.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 23. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

- (iii) During the year, the Company appointed Baron Capital Limited ("Baron Capital") as its underwriter relating to an open offer of 400,000,000 shares at HK\$0.125 per share. Pursuant to the underwriting agreement dated 26 February 2004, a documentation fee of HK\$180,000 together with a commission of HK\$969,938 was paid to Baron Capital. The transactions were negotiated between the parties with reference to the normal commercial terms. Baron Capital is a fellow subsidiary of the Fund Manager.
- (iv) Last year, the Group disposed a motor vehicle for a consideration of HK\$100,000 to a director who resigned in 2003. The consideration was determined by the directors on the basis of estimated market value.

### 24. DISPOSAL OF A SUBSIDIARY

During the year, the Company disposed of its entire 100% equity interests in Greater Achieve Limited ("Greater Achieve") for a consideration of US\$602,000. Greater Achieve was incorporated in the British Virgin Islands and its only asset was an investment property located in Hong Kong.

Greater Achieve had not been consolidated because the investment was acquired in December 2003 with an exclusive view to dispose it in the near future. The investment was therefore accounted for as other investments under SSAP 24, and was carried at fair value, with valuation movements dealt with in the income statement. The interest in Greater Achieve at the date of disposal was as follows:

	2004 HK\$	2003 HK\$
NET ASSETS DISPOSED OF:		
Investment in securities	8	–
Amount due from an investee company	<u>4,634,383</u>	–
	<u>4,634,391</u>	–
Gain on disposal	<u>46,339</u>	–
Total consideration	<u><u>4,680,730</u></u>	–
Satisfied by:		
Cash	<u><u>4,680,730</u></u>	–
Net cash inflow arising on disposal:		
Cash consideration	<u><u>4,680,730</u></u>	–

No turnover and loss from operations were contributed by the subsidiary disposed during the year to the Group's turnover and loss from operations.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 25. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% of the issued share capital of both Crystal Shine Limited and San Francisco Alden Inc.

This acquisitions have been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisitions was HK\$64,857.

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
NET ASSETS ACQUIRED		
Investment	<b>10,000,000</b>	–
Bank balances and cash	<b>64,857</b>	–
	<b>10,064,857</b>	–
Goodwill	<b>(64,857)</b>	–
Total consideration	<b>10,000,000</b>	–
Satisfied by:		
Cash	<b>10,000,000</b>	–
Net cash outflow arising on acquisition:		
Cash consideration	<b>(10,000,000)</b>	–
Bank balances and cash acquired	<b>64,857</b>	–
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<b>(9,935,143)</b>	–

No turnover and loss from operations were contributed by the subsidiaries acquired during the year to the Group's turnover and loss from operations.

### 26. SUBSEQUENT EVENT

Subsequent to 31 December 2004, the Group bought 2,100,000 shares of K. Wah International Holdings Ltd., whose shares are listed on the Stock Exchange, at a cost of HK\$5,225,367 and bought 1,000,000 shares of Tracker Fund of Hong Kong, whose shares are listed on the Stock Exchange, at a cost of HK\$14,090,032.