

# Notes to financial statements

For the year ended 31 December 2004

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 October 1992. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The principal place of business of the Group is located at Suite 3301, Tower I, Lippo Centre, 89 Queensway, Hong Kong.

During the year, the Group disposed of and discontinued its manufacturing and trading of the Shao Xing wine and acquired certain new businesses. The activities of its principal subsidiaries and associates are set out in note 15 and 16 to the financial statements, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the periodic remeasurement of investment properties as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

### Subsidiaries

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

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

# Notes to financial statements

For the year ended 31 December 2004

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

### Joint venture companies

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

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

A joint venture company is treated as:

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

### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

# Notes to financial statements

For the year ended 31 December 2004

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

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

# Notes to financial statements

For the year ended 31 December 2004

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

### **Negative goodwill** *(Continued)*

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

### **Impairment of assets**

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### **Property, plant and equipment**

Property, plant and equipment, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

# Notes to financial statements

For the year ended 31 December 2004

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

### **Property, plant and equipment** *(Continued)*

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

Medium term land use right	Over the term of the relevant land use right
Leasehold land and buildings	2% – 5%
Machinery and equipment	9% – 25%
Furniture and fixtures	9% – 25%
Motor vehicles	18% – 20%
Wine jugs	5%

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises all construction costs and other direct costs attributable to such projects, including borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is reclassified to the appropriate categories of property, plant and equipment when completed and ready for use.

### **Investment properties**

Investment properties are interest in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market value based on annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

# Notes to financial statements

For the year ended 31 December 2004

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

### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

### **Intangible assets**

Intangible assets represented the production technology and knowhow in setting up new manufacturing facilities of a subsidiary, Dong Feng Shao Xing Wine Co., Ltd. ("Dong Feng") in 1994. The investment was disposed of during the year. The value of the intangible assets represented the excess of the agreed contribution by the other joint venture partner pursuant to the joint venture agreement over the actual fair value of tangible assets contributed by the joint venture partner into Dong Feng and was being amortised on the straight-line basis over the 20-year tenure of Dong Feng.

### **Long term investments**

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

# Notes to financial statements

For the year ended 31 December 2004

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

### **Investment securities**

Investment securities are investments in listed and unlisted securities, intended to be held for a long term purpose, and are stated at cost less any provisions for impairment in values on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Income tax**

Income tax comprises current and deferred taxation. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# Notes to financial statements

For the year ended 31 December 2004

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

### **Income tax** *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and effective interest rates applicable.



# Notes to financial statements

For the year ended 31 December 2004

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

### **Borrowing costs**

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

### **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 profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are 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.

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

### **Employee benefits**

#### *Retirement schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are members of the Central Pension Scheme operated by the People's Republic of China (the "PRC") government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation of the subsidiaries with respect to the Central Pension Scheme is to meet the required contributions under the Central Pension Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the Central Pension Scheme.

# Notes to financial statements

For the year ended 31 December 2004

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

### Share option scheme

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

### Related parties

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

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group was previously engaged in the manufacturing and trading of Shao Xing wine and such operations were disposed of during the year. The Group is currently organised into seven operating divisions, namely, property investment, skin and health care, trading of jewellery, trading of steel, trading of wine, artwork design and trading of other products.

Intersegment sales and transfers are transacted through negotiations between the respective segments.

# Notes to financial statements

For the year ended 31 December 2004

## 3. SEGMENT INFORMATION (Continued)

### Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

### 2004

#### Group

	Continuing Operations						Discontinuing Operations Manufacturing and trading of		Eliminations HK\$'000	Consolidated HK\$'000
	Property investment HK\$'000	Skin and health care HK\$'000	Trading of jewellery HK\$'000	Trading of steel HK\$'000	Trading of wine HK\$'000	Artwork design HK\$'000	Trading of other products HK\$'000	trading of Shao Xing wine HK\$'000		
Segment revenue:										
Sales to external customer	-	11,899	39,068	81,148	2,124	3,159	4,221	2,475	-	144,094
Intersegment sales	-	-	-	6,229	-	-	-	-	(6,229)	-
Other revenue and gains	11,648	398	720	271	141	1	6	-	-	13,185
<b>Total</b>	<b>11,648</b>	<b>12,297</b>	<b>39,788</b>	<b>87,648</b>	<b>2,265</b>	<b>3,160</b>	<b>4,227</b>	<b>2,475</b>	<b>(6,229)</b>	<b>157,279</b>
Segment results	6,916	(24,506)	(5,230)	(1,001)	(890)	(11,045)	(14,328)	(182)	-	(50,266)
Unallocated income										3,356
Unallocated expenses										(5,204)
Loss from operating activities										(52,114)
Finance costs										(4,068)
Share of profit of associates										8,820
Loss before taxation										(47,362)
Taxation										(3,217)
Loss before minority interests										(50,579)
Minority interests										(103)
Net loss from ordinary activities attributable to shareholders										(50,682)

# Notes to financial statements

For the year ended 31 December 2004

## 3. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

2004

Group

	Continuing Operations						Discontinuing Operations Manufacturing and trading of		Eliminations HK\$'000	Consolidated HK\$'000
	Property investment HK\$'000	Skin and health care HK\$'000	Trading of jewellery HK\$'000	Trading of steel HK\$'000	Trading of wine HK\$'000	Artwork design HK\$'000	Trading of other products HK\$'000	trading of Shao Xing wine HK\$'000		
Segment assets	101,169	45,704	40,770	50,368	4,910	27,986	11,272	-	-	282,179
Unallocated assets										25,939
Total assets										308,118
Segment liabilities	5,455	12,310	5,269	4,456	960	3,666	7,078	-	-	39,194
Unallocated liabilities										88,468
Total liabilities										127,662
Other segment information:										
Depreciation and amortisation	196	12,076	5,296	2,624	51	2,759	1,910	-	-	24,912
Unallocated amounts										25
Total										24,937
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-
Impairment of a deposit for investment, unallocated										-
Impairment of a long term investment, unallocated										-
Impairment of property, plant and equipment, net of amount written back, unallocated										-
Capital expenditure	10,704	1,327	9	3	37	221	172	-	-	12,473

# Notes to financial statements

For the year ended 31 December 2004

## 3. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

2003

Group

	Continuing Operations						Discontinuing Operations Manufacturing and trading of		Eliminations HK\$'000	Consolidated HK\$'000
	Property investment HK\$'000	Skin and health care HK\$'000	Trading of jewellery HK\$'000	Trading of steel HK\$'000	Trading of wine HK\$'000	Artwork design HK\$'000	Trading of other products HK\$'000	trading of Shao Xing wine HK\$'000		
Segment revenue:										
Sales to external customers	-	-	-	-	-	-	-	195,456	-	195,456
Intersegment sales	-	-	-	-	-	-	-	-	-	-
Other revenue and gains	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,456</b>	<b>-</b>	<b>195,456</b>
Segment results	-	-	-	-	-	-	-	35,293	-	35,293
Unallocated income										1,910
Unallocated expenses										(43,704)
Loss from operating activities										(6,501)
Finance costs										(12,533)
Share of profit of associates										-
Loss before taxation										(19,034)
Taxation										(6,229)
Loss before minority interests										(25,263)
Minority interests										(11,430)
Net loss from ordinary activities attributable to shareholders										(36,693)

# Notes to financial statements

For the year ended 31 December 2004

## 3. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

2003

Group

	Continuing Operations						Discontinuing Operations Manufacturing and trading of		Eliminations HK\$'000	Consolidated HK\$'000
	Property investment HK\$'000	Skin and health care HK\$'000	Trading of jewellery HK\$'000	Trading of steel HK\$'000	Trading of wine HK\$'000	Artwork design HK\$'000	Trading of other products HK\$'000	Shao Xing wine HK\$'000		
Segment assets	-	-	-	-	-	-	-	413,391	-	413,391
Unallocated assets										153,306
<b>Total assets</b>										<b>566,697</b>
Segment liabilities	-	-	-	-	-	-	-	292,100	-	292,100
Unallocated liabilities										6,089
<b>Total liabilities</b>										<b>298,189</b>
Other segment information:										
Depreciation and amortisation	-	-	-	-	-	-	-	15,037	-	15,037
Unallocated amounts										421
<b>Total</b>										<b>15,458</b>
Amortisation of intangible assets	-	-	-	-	-	-	-	1,360	-	1,360
Impairment of a deposit for investment, unallocated										10,416
Impairment of a long term investment, unallocated										712
Impairment of property, plant and equipment, net of amount written back, unallocated										-
Capital expenditure	-	-	-	-	-	-	-	6,145	-	6,145

# Notes to financial statements

For the year ended 31 December 2004

## 4. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
– Continuing operations	141,619	–
– Discontinuing operations	2,475	195,456
	<u>144,094</u>	<u>195,456</u>
<b>Other revenue and gains</b>		
<i>Other revenue</i>		
Bank interest income	133	162
Dividend income	32	–
Other interest income	2,428	1,376
Reversal of impairment provision on property, plant and equipment	4,669	–
Rental income from leasing of property, plant and equipment	958	42
Others	1,270	657
	<u>9,490</u>	<u>2,237</u>
<i>Gains</i>		
Gain on disposal of property, plant and equipment	3,773	233
Gain on disposal of subsidiaries	3,278	–
	<u>7,051</u>	<u>233</u>
	<u>16,541</u>	<u>2,470</u>

# Notes to financial statements

For the year ended 31 December 2004

## 5. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting):

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		136,061	125,410
Auditors' remuneration		583	800
Depreciation*	12	2,608	15,458
Amortisation of intangible assets*	13	–	1,360
Impairment of a long term investment***	17	–	712
Provision against amounts due from associates***	16	–	424
Staff costs (excluding directors' remuneration (note 7)):			
Wages and salaries		13,389	20,451
Pension scheme contributions		799	278
Forfeited contributions		–	(55)
		<hr/>	<hr/>
Net pension contributions**		799	223
		<hr/>	<hr/>
		14,188	20,674
		<hr/>	<hr/>
Provision for inventories		458	–
Minimum lease payments under operating leases on land and buildings		1,972	1,797
Exchange losses, net		33	706
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\* Included in "Administrative expenses" on the face of the consolidated profit and loss account.

\*\* There were no forfeited retirement scheme contributions available at the balance sheet date to reduce contributions in future years (2003: Nil).

\*\*\* Included in "Other operating expenses, net" on the face of the consolidated profit and loss account.



# Notes to financial statements

For the year ended 31 December 2004

## 6. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	2,774	7,478
Interest on other borrowings wholly repayable within five years	247	3,054
Interest on bank borrowings wholly repayable after five years	948	–
Interest on finance leases	99	1
Loan arrangement fees	–	2,000
	<u>4,068</u>	<u>12,533</u>

## 7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing Securities on the Stock Exchange ("Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	<u>198</u>	<u>400</u>
Other emoluments:		
Salaries, allowances and benefits in kind	2,900	2,081
Performance related bonuses	–	3,700
Pension scheme contributions	<u>25</u>	<u>21</u>
	<u>2,925</u>	<u>5,802</u>
	<u>3,123</u>	<u>6,202</u>

# Notes to financial statements

For the year ended 31 December 2004

## 7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (Continued)

Fees include HK\$135,667 (2003: HK\$355,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	5	11
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$4,000,001 – HK\$4,500,000	–	1
	<u>7</u>	<u>12</u>

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

During the year, two directors were granted share options in respect of their services to the Group under the share option scheme of the Company's ultimate holding company, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

### Five highest paid employees

Of the five highest paid employees during the year, two (2003: five) were executive directors of the Company whose remuneration are set out above. The remuneration of the remaining three highest paid individuals in 2004 (2003: Nil) are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	1,966	–
Retirement benefit scheme contributions	31	–
	<u>1,997</u>	<u>–</u>

During the year, one of the highest paid employees, who was an executive director, were granted 50,000,000 share options in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

# Notes to financial statements

For the year ended 31 December 2004

## 8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for the year:		
Group		
Continuing operations		
Current – Hong Kong		
Charge for the year	903	–
Under provision in prior years	4	–
Deferred ( <i>Note 27</i> )	(244)	–
	<hr/>	<hr/>
	663	–
Discontinuing operations		
Current – Elsewhere	–	6,229
Share of taxation attributable to associates	2,554	–
	<hr/>	<hr/>
Total charge for the year	<u>3,217</u>	<u>6,229</u>

# Notes to financial statements

For the year ended 31 December 2004

## 8. TAXATION (Continued)

A reconciliation of the tax expense applicable to the loss before taxation using statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(47,362)</u>	<u>(19,034)</u>
Taxation at the statutory rate of 17.5% (2003: 17.5%)	(8,289)	(3,331)
Higher taxation rates of other countries	1,009	2,538
Income not subject to taxation	(17,229)	(732)
Expenses not deductible for taxation	24,296	5,690
Tax losses not recognised	3,131	2,201
Tax losses utilised from previous period	(33)	(137)
Under provision of taxation	<u>332</u>	<u>–</u>
Tax charge at the Group's effective rate	<u><u>3,217</u></u>	<u><u>6,229</u></u>

At 31 December 2004, the Group has no significant potential deferred tax liabilities (2003: Nil) for which provision has not been made. There is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

The Group has estimated tax losses arising in Hong Kong of approximately HK\$70,081,000 (2003: HK\$52,378,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

# Notes to financial statements

For the year ended 31 December 2004

## 9. DISCONTINUING OPERATIONS

On 19 March 2004, the Company entered into a conditional agreement (and supplemented by a further agreement dated 29 March 2004) to dispose of its entire interest in the issued share capital of an indirect wholly-owned subsidiary, All Paramount International Limited (“All Paramount”), to an independent third party at a consideration of approximately HK\$45 million (the “Disposal”). The principal asset of All Paramount was its 49% equity interest in Dong Feng Shao Xing Wine Co. Ltd. Included in All Paramount, there were also other borrowings of HK\$80 million from an independent third party (see note 24 to the financial statements). A total amount of HK\$62.2 million was utilised by a subsidiary of the Group for the granting of advances to two independent third parties, details of which are set out in note 21 to the financial statements. Details of the Disposal were set out in the Company’s circular despatched to shareholders of the Company dated 15 April 2004. The Disposal resulted in the discontinuance of the manufacturing and trading of Shao Xing wine business, which formed a major part of the Group’s manufacturing and trading of Shao Xing wine business segment in 2003. The Disposal was completed on 2 April 2004.

In the opinion of the Company’s directors, the Disposal is also consistent with the Group’s new investment strategy to diversify its business and to minimise the risk of the Group’s reliance on a single business. The Disposal enables the Group to realise its investment in the manufacturing and trading of Shao Xing wine business and to refocus the Group’s resources on expanding its newly acquired businesses which include skin and health care business, trading of jewellery and steel and artwork design.

# Notes to financial statements

For the year ended 31 December 2004

## 9. DISCONTINUING OPERATIONS *(Continued)*

The turnover, other revenue, expenses and results of the manufacturing and trading of Shao Xing wine business for the two years ended 31 December 2004 and 2003 were as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>TURNOVER</b>	<b>2,475</b>	195,456
Cost of sales	<u>(1,569)</u>	<u>(125,410)</u>
Gross profit	<b>906</b>	70,046
Other revenue	–	746
Selling and distribution costs	–	(17,847)
Administrative expenses	<b>(1,088)</b>	(15,984)
Provision for bad and doubtful debts	<u>–</u>	<u>(1,456)</u>
<b>(LOSS)/PROFIT FROM OPERATING ACTIVITIES</b>	<b>(182)</b>	35,505
Finance costs	<u>–</u>	<u>(12,072)</u>
<b>(LOSS)/PROFIT BEFORE TAXATION</b>	<b>(182)</b>	23,433
Taxation	<u>–</u>	<u>(6,229)</u>
<b>(LOSS)/PROFIT BEFORE MINORITY INTERESTS</b>	<b>(182)</b>	17,204
Minority interests	<u>–</u>	<u>(11,430)</u>
<b>NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<u><b>(182)</b></u>	<u>5,774</u>

# Notes to financial statements

For the year ended 31 December 2004

## 9. DISCONTINUING OPERATIONS *(Continued)*

The carrying amounts of the total assets, liabilities and minority interests relating to the discontinuing operations at 31 December are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Total assets	–	444,080
Total liabilities	–	(292,665)
Minority interests	–	(107,453)
	<hr/>	<hr/>
Net assets	–	43,962
	<hr/> <hr/>	<hr/> <hr/>

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company amounted to HK\$3,489,000 (2003: HK\$37,319,000) (note 30(b)).

## 11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of HK\$50,682,000 (2003: HK\$36,693,000) and the weighted average number of 10,565,957,570 ordinary shares (2003: 4,080,935,888) in issue during the year, as adjusted to reflect the rights issue completed during the year.

The diluted loss per share for the year ended 31 December 2004 has not been shown as the exercise prices of the outstanding share options of the Company were higher than the average market price of the Company's shares during the year and therefore the share options were not dilutive.

Diluted loss per share for the year ended 31 December 2003 has not been disclosed, because there was no potential ordinary shares in existence during the year ended 31 December 2003.

# Notes to financial statements

For the year ended 31 December 2004

## 12. PROPERTY, PLANT AND EQUIPMENT

### Group

	Investment Properties HK\$'000	Land and buildings HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Wine jugs HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:								
1 January 2004	-	151,111	79,194	6,232	5,595	34,213	102	276,447
Additions	10,704	-	698	1,071	-	-	-	12,473
Acquisition of subsidiaries	74,299	-	11,769	5,373	900	-	-	92,341
Disposals of subsidiaries	-	(150,564)	(76,330)	(2,930)	(5,188)	(34,213)	(102)	(269,327)
Disposals	(22,392)	-	(3,676)	(4,901)	(570)	-	-	(31,539)
Surplus arising on revaluation	10,909	-	-	-	-	-	-	10,909
Exchange realignment	-	-	(9)	-	(1)	-	-	(10)
31 December 2004	<u>73,520</u>	<u>547</u>	<u>11,646</u>	<u>4,845</u>	<u>736</u>	<u>-</u>	<u>-</u>	<u>91,294</u>
Analysis of cost or valuation:								
At cost	260	547	11,646	4,845	736	-	-	18,034
At 31 December 2004 valuation	<u>73,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,260</u>
	<u>73,520</u>	<u>547</u>	<u>11,646</u>	<u>4,845</u>	<u>736</u>	<u>-</u>	<u>-</u>	<u>91,294</u>
Accumulated depreciation and impairment:								
1 January 2004	-	44,716	42,632	6,035	4,453	3,547	-	101,383
Provided during the year	-	-	1,014	1,428	166	-	-	2,608
Acquisition of subsidiaries	-	-	5,909	2,248	447	-	-	8,604
Disposals of subsidiaries	-	(44,169)	(39,769)	(2,733)	(4,090)	(3,547)	-	(94,308)
Disposals	-	-	(2,928)	(2,606)	(395)	-	-	(5,929)
Exchange realignment	-	-	(9)	-	(1)	-	-	(10)
31 December 2004	<u>-</u>	<u>547</u>	<u>6,849</u>	<u>4,372</u>	<u>580</u>	<u>-</u>	<u>-</u>	<u>12,348</u>
Net book value:								
31 December 2004	<u>73,520</u>	<u>-</u>	<u>4,797</u>	<u>473</u>	<u>156</u>	<u>-</u>	<u>-</u>	<u>78,946</u>
31 December 2003	<u>-</u>	<u>106,395</u>	<u>36,562</u>	<u>197</u>	<u>1,142</u>	<u>30,666</u>	<u>102</u>	<u>175,064</u>

The Group's investment properties are all situated in Hong Kong and are all held under medium term leases.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of machinery and equipment at 31 December 2004, amounted HK\$3,299,000 (2003: Nil).

Certain of the Group's investment properties with a net book value of HK\$55,260,000 as at 31 December 2004 were pledged to secure general banking facilities granted to the Group.



# Notes to financial statements

For the year ended 31 December 2004

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Company

	<b>Furniture and fixtures</b> HK\$'000
Cost:	
1 January 2004	–
Additions	8
	<hr/>
31 December 2004	8
	<hr/>
Accumulated depreciation:	
1 January 2004	–
Provided during the year	1
	<hr/>
31 December 2004	1
	<hr/>
Net book value:	
31 December 2004	7
	<hr/> <hr/>
31 December 2003	–
	<hr/> <hr/>

# Notes to financial statements

For the year ended 31 December 2004

## 13. INTANGIBLE ASSETS

### Group

	<b>Production technology and knowhow</b>
	HK\$'000
Cost:	
1 January 2004	27,206
Disposal of a subsidiary	(27,206)
	<hr/>
31 December 2004	–
	<hr/>
Accumulated amortisation:	
1 January 2004	13,603
Disposal of a subsidiary	(13,603)
	<hr/>
31 December 2004	–
	<hr/>
Net book value:	
31 December 2004	–
	<hr/> <hr/>
31 December 2003	13,603
	<hr/> <hr/>

# Notes to financial statements

For the year ended 31 December 2004

## 14. GOODWILL

The amounts of the goodwill capitalised as an asset arising from the acquisition of subsidiaries, are as follows:

### Group

	<b>Goodwill</b> HK\$'000
Cost:	
1 January 2004	–
Acquisition of subsidiaries (note 31(b))	146,755
	<hr/>
31 December 2004	146,755
	<hr/>
Accumulated amortisation:	
1 January 2004	–
Amortisation provided during the year	22,329
	<hr/>
31 December 2004	22,329
	<hr/>
Net book value:	
31 December 2004	<b>124,426</b>
	<hr/> <hr/>
31 December 2003	–
	<hr/> <hr/>

# Notes to financial statements

For the year ended 31 December 2004

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	69,312	69,321
Due from subsidiaries	506,045	415,033
	<u>575,357</u>	<u>484,354</u>
Provision for impairment	(392,766)	(396,831)
	<u>182,591</u>	<u>87,523</u>

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

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Firstone Corporate Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Trading of wine and other food products
Firstone Enterprises Limited	British Virgin Islands	HK\$67,349,601 ordinary shares	100	–	Investment holding
Ostrindo Holdings Limited	British Virgin Islands	US\$1,000 ordinary shares	–	100	Investment holding
Super Access Investments Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary share	100	–	Investment holding
Preciseworth Investments Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary share	100	–	Securities trading

# Notes to financial statements

For the year ended 31 December 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sky Path Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Glory Hero Corporation Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property holding
Fabulous Career Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property holding
Main Benefit Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property holding
Excel Harvest Corporation Limited	Hong Kong	HK\$1,000,000 ordinary shares	–	100	Trading of jewellery
Excellent Venture Enterprises Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property investment
Dragon Mount Corporation Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property investment
Profit Legend Corporation Limited	Hong Kong	HK\$2 ordinary shares	–	100	Property investment
Profit Team Consultants Limited	British Virgin Islands/ Hong Kong	US\$300 ordinary shares	–	100	Investment holding
Seventh Corporation Limited	Hong Kong	HK\$1,520 ordinary shares	–	100	Management and support
Best Future Holdings Limited	Hong Kong	HK\$400 ordinary shares	–	100	Investment holding

# Notes to financial statements

For the year ended 31 December 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Green House & Spa Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Trading of beauty products
Beckon B Company Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Trading of beauty products
Sengo Limited	Hong Kong	HK\$2 ordinary shares	–	100	Trading of beauty products
Smart Symbol Limited	Hong Kong	HK\$2 ordinary shares	–	100	Trading of beauty products
Silver Dragon Limited	Hong Kong	HK\$1,000,000 ordinary shares	–	80	Investment holding
International Physique & Aesthetic Education Limited	Hong Kong	HK\$10 ordinary shares	–	72	Beauty training
Everich International Group Limited	Hong Kong	HK\$10 ordinary shares	–	72	General trading and property investment
Happy Smart Limited	Hong Kong	HK\$10 ordinary shares	–	72	Advertising and public relations
Creative Centre Limited	Hong Kong	HK\$10 ordinary shares	–	72	General trading and property investment
Daiwah Company Limited	British Virgin Islands/ Hong Kong	US\$100 ordinary shares	–	100	Investment holding
Lei Pong Silkscreen & Inkjet Printing Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Artwork production and graphic design

# Notes to financial statements

For the year ended 31 December 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Screenyard 8 Colours Production (HK) Limited	Hong Kong	HK\$20,408 ordinary shares	–	100	Artwork production and graphic design
Grafixpro Limited	Hong Kong	HK\$500,000 ordinary shares	–	100	Artwork production and graphic design
Right Choice Exhibition Display (HK) Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Rental of exhibition display equipment
Jafoon Limited	Hong Kong	HK\$1,000 ordinary shares	–	75	Trading of steel
Full Land Limited	Hong Kong	HK\$2 ordinary shares	–	75	Property investment
Golden View Limited	Hong Kong	HK\$2 ordinary shares	–	75	Property investment

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

During the year, the Company acquired equity interests in certain subsidiaries from respective vendors who have agreed to pay certain multiples of guaranteed profits and other income ("Profit Multiples") for the businesses they sold to the Company. The Company has consolidated the results of these subsidiaries from the respective dates the control of the subsidiaries was transferred to the Company. As of 31 December 2004, the Company has not yet reflected the Profit Multiples in the financial statements. The directors of the Company are of the opinion that agreement would be reached with the respective vendors in the year ending 31 December 2005. Because the Profit Multiples have taken into account the future profitability of the acquired businesses when the respective agreement were signed, the Company would apply the Profit Multiples, if any, to reduce the investment costs in the Company's financial statements (and the amount of goodwill on consolidation) relating to the businesses so acquired, when all the conditions (including the final amount and the collectability of the Profit Multiples are established, etc.) for recording the Profit Multiples are met.

# Notes to financial statements

For the year ended 31 December 2004

## 16. INTERESTS IN ASSOCIATES

	2004	Group 2003
	HK\$'000	HK\$'000
Share of net assets	–	–
Amounts due from associates	52,070	52,070
Provision against amounts due from associates	(52,070)	(52,070)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, they will not be repayable within twelve months from the balance sheet date and accordingly, the amounts have been classified as non-current assets.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Centra Intertraco Limited	Corporate	Hong Kong	35	Investment holding
Shenzhen Capstone Food and Beverage Co., Ltd.	Corporate	PRC/Mainland China	24.5	Dormant
Shaoguan Quan Tong Industrial Ltd.	Corporate	PRC/Mainland China	25	Dormant



# Notes to financial statements

For the year ended 31 December 2004

## 17. LONG TERM INVESTMENT

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	156,514	156,514
Due from investee	518	518
Provision for impairment	(156,232)	(156,232)
	<u>800</u>	<u>800</u>

The long term investment represents an unlisted investment (11.14% equity interest) in a company incorporated in the British Virgin Islands which owns a group of subsidiaries, the operations of which were terminated in prior years.

## 18. INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity securities	5,536	–
Securities listed in Hong Kong	3,731	–
	<u>9,267</u>	<u>–</u>
Market value of listed securities	<u>3,949</u>	<u>–</u>

## 19. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	–	9,415
Work in progress	–	29,893
Finished goods	8,485	121,610
	<u>8,485</u>	<u>160,918</u>

At 31 December 2004, no inventory items were carried at net realisable value (2003: Nil).

# Notes to financial statements

For the year ended 31 December 2004

## 20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days, except for certain well-established customers where the credit terms are extended to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 3 months	5,210	8,779
3 to 6 months	82	2,799
Over 6 months	7,276	1,739
	<u>12,568</u>	<u>13,317</u>

## 21. LOAN RECEIVABLES

Pursuant to a loan facility agreement dated 13 August 2003 entered into between the Group and an independent third party ("Company A"), the Group agreed to grant a maximum facility of HK\$35 million to Company A under which the amount advanced bore interest at a rate of 1% over the best lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited ("HSBC") per annum. The outstanding loan amount was repayable six months from the date of the loan agreement, being 12 February 2004. The loan was secured by a charge over all the issued shares and shareholders' loan of a wholly-owned subsidiary held by Company A, which is engaged in Japanese restaurant operations in Hong Kong. As at 31 December 2003, HK\$30 million had been advanced by the Group to Company A. During the year, the outstanding balance was fully settled by Company A.

# Notes to financial statements

For the year ended 31 December 2004

## 21. LOAN RECEIVABLES *(Continued)*

Pursuant to a loan facility agreement dated 23 September 2003 entered into between the Group and independent third party ("Company B"), the Group agreed to grant a maximum facility of HK\$35 million to Company B under which the amount advanced bore interest at a rate of 1% over the best lending rate quoted by HSBC per annum. The outstanding loan amount was repayable six months from the date of the loan agreement, being 22 March 2004. The loan was secured by a charge over all the issued shares and shareholders' loan of a subsidiary of Company B, which is engaged in apparel trading with an extensive distribution network in Hong Kong, Macau and Mainland China. At 31 December 2003, HK\$32.2 million had been advanced by the Group to Company B. During the year, the outstanding balance was fully settled by Company B.

Pursuant to loan agreements dated 11 November 2003 and 23 December 2003 entered into between the Group and an independent third party ("Company C"), the Group advanced an amount of HK\$500,000 each time to Company C which bears interest at a rate of 5% per annum. The outstanding loan amount is repayable six months from the date of the loan agreements, being 11 May 2004 and 22 June 2004. The loan is secured by a personal guarantee of the shareholder of Company C. At 31 December 2003, HK\$1 million had been advanced by the Group to Company C. During the year, Company C became a subsidiary of the Group immediately following the acquisition of the beauty and health care business.

## 22. CASH AND CASH EQUIVALENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cash and bank balances	40,088	134,263
Time deposits, which are not restricted as to use	426	–
	<u>40,514</u>	<u>134,263</u>

# Notes to financial statements

For the year ended 31 December 2004

## 23. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 3 months	8,888	18,942
3 to 6 months	714	322
Over 6 months	6,824	2,629
	<u>16,426</u>	<u>21,893</u>

## 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts, secured	11,208	–
Bank borrowings, secured	49,958	138,679
Trust receipt loans, secured	21,912	–
Other borrowings, secured	1,237	80,000
Other borrowings, unsecured	412	–
	<u>84,727</u>	<u>218,679</u>
Interest-bearing bank and other borrowings are repayable as follows:		
Within one year or on demand	41,846	218,679
In the second year	2,750	–
In the third to fifth years, inclusive	7,982	–
Beyond five years	32,149	–
	<u>84,727</u>	<u>218,679</u>
Portion classified as current liabilities	<u>(41,846)</u>	<u>(218,679)</u>
Long term portion	<u>42,881</u>	<u>–</u>

# Notes to financial statements

For the year ended 31 December 2004

## 24. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

At 31 December 2004, the Group's secured interest bearing bank and other borrowings were secured by the following:

- (a) first legal charges over certain investment properties of the Group with an aggregate net book value of HK\$55,260,000 (2003: Nil);
- (b) the pledge of certain time deposits and investment securities of the Group amounting to HK\$3,009,000 (2003: HK\$ Nil) and HK\$3,198,000 (2003: Nil) respectively;
- (c) first legal charges over properties of certain independent third parties;
- (d) corporate guarantee executed by certain independent third parties; and
- (e) personal guarantee executed by certain directors of the Group's subsidiaries.

## 25. FINANCE LEASE PAYABLES

The Group leases certain of its machinery and equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group	<b>Minimum lease payments 2004 HK\$'000</b>	Minimum lease payments 2003 HK\$'000	<b>Present value of minimum lease 2004 HK\$'000</b>	Present value of minimum lease 2003 HK\$'000
Amounts payable:				
Within one year	1,929	–	1,836	–
In the second year	320	–	313	–
	<u>2,249</u>	<u>–</u>	<u>2,149</u>	<u>–</u>
Total minimum finance lease payments	2,249	–	<u>2,149</u>	<u>–</u>
Future finance charges	(100)	–		
	<u>2,149</u>	<u>–</u>		
Total net finance lease payables	2,149	–		
Portion classified as current liabilities	(1,836)	–		
	<u>313</u>	<u>–</u>		
Long term portion	<u>313</u>	<u>–</u>		

# Notes to financial statements

For the year ended 31 December 2004

## 26. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder was unsecured, bears interest at the prevailing market interest rate as quoted by a bank in Mainland China, which approximates to 5.04% per annum and has no fixed terms of repayment. During the year, the outstanding balance was fully settled with the minority shareholder.

## 27. DEFERRED TAXATION

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

#### Group

	<b>Excess of allowable tax losses over accelerated tax depreciation</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
1 January	–	–
Acquisition of subsidiaries	452	–
Deferred tax charged to the profit and loss account during the year (note 8)	244	–
	<u>696</u>	<u>–</u>
31 December	<u><u>696</u></u>	<u><u>–</u></u>

### Deferred tax liabilities

#### Group

	<b>Revaluation of investment properties</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
1 January	–	–
Deferred tax debited to investment property revaluation reserve during the year	739	–
	<u>739</u>	<u>–</u>
31 December	<u><u>739</u></u>	<u><u>–</u></u>

# Notes to financial statements

For the year ended 31 December 2004

## 28. SHARE CAPITAL

	Company	
	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
25,000,000,000 (2003: 25,000,000,000) ordinary shares of HK\$0.01 each	<u>250,000</u>	<u>250,000</u>
50 (2003: 50) convertible preference shares of HK\$1,000,000 each	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
13,001,818,226 (2003: 7,986,818,226) ordinary shares of HK\$0.01 each	<u>130,018</u>	<u>79,868</u>

- (a) On 12 January 2004 and 21 April 2004, 720,000,000 and 900,000,000 ordinary shares were issued at the agreed prices of HK\$0.012 and HK\$0.02 per share, respectively, and recorded at prices of HK\$0.018 and HK\$0.015 per share, respectively, (which were the closing prices quoted on the Stock Exchange at the date of completion of acquisitions) as part of the consideration for the acquisition of subsidiaries. On 9 August 2004, another 455,000,000 ordinary shares were issued at HK\$0.011 per share as part of the consolidation for the acquisition of subsidiaries.
- (b) On 11 February 2004 and 13 February 2004, 85,000,000 and 170,000,000 ordinary shares, respectively, were issued at the price of HK\$0.0198 per share and on 12 May 2004, 465,000,000 ordinary shares were issued at the price of HK\$0.0144 per share for a total cash consideration of HK\$11,745,000 upon the exercise of share options granted to the staff, directors of the Company and business partners of the Group.
- (c) Pursuant to a placing agreement and a subscription agreement both dated 6 July 2004, Ample Glory Limited, a substantial shareholder of the Company, agreed to place 1,000,000,000 ordinary shares of the Company through a placing agent to independent investors at HK\$0.011 per share and, at the same time, to subscribe for 1,000,000,000 new shares in the Company at the same price (the "Top-up Placement"). The net proceeds from the subscription after deducting expenses was approximately HK\$10.64 million. The Top-up Placement was completed on 20 July 2004.

# Notes to financial statements

For the year ended 31 December 2004

## 28. SHARE CAPITAL *(Continued)*

- (d) On 29 November 2004, Ample Glory Limited had entered into a placing agreement and a subscription agreement for the placing of 1,170,000,000 ordinary shares of the Company at the price of HK\$0.015 per share and the subscription of 1,170,000,000 new shares of the Company at a subscription price of HK\$0.015 per share (the Second Top-up Placement<sup>2</sup>). The net proceeds of the Second Top-up Placement of approximately HK\$17,100,000 were used for general working capital of the Group and as an investment funding to the Group on possible future acquisition.
- (e) On 30 December 2004, 50,000,000 ordinary shares were issued at the price of HK\$0.0198 per share for a total cash consideration of HK\$990,000 upon the exercise of share options granted to a director of the Company.

## 29. SHARE OPTION SCHEME

A previous share option scheme was adopted by the Company on 16 September 1992 and expired on 15 September 2002. On 28 January 2004, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme"). The purpose of the New Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest ("Invested Entity"). Eligible participants of the New Scheme include mainly the directors, employees, suppliers of goods or services, customers, shareholders, business partners and professional advisers of the Company or any Invested Entity. The New Scheme became effective on 29 January 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Scheme is 870,681,822 shares, being an amount equivalent, upon their exercise, to 10% of the shares of the Company at 28 January 2004, being the date of the shareholders of the Company approving the New Scheme. The maximum number of shares issuable under the share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.



# Notes to financial statements

For the year ended 31 December 2004

## 29. SHARE OPTION SCHEME *(Continued)*

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

The offer of a grant of share option may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and the period commences on the date of which the offer is made and ends on a date which is not later than 10 years from the date of the offer of the share options subject to any provisions of the New Scheme determining the rights of the grantees.

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

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

# Notes to financial statements

For the year ended 31 December 2004

## 29. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the New Scheme during the year:

Name of category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2004				At grant date of options HK\$	At exercise date of options HK\$
Directors											
Lee Tiong Hock	-	85,000,000	(85,000,000)	-	-	-	10-Feb-04	10-Feb-04 to 9-Feb-05	0.0198	0.0200	0.0200
Yu Won Kong, Dennis	-	50,000,000	(50,000,000)	-	-	-	13-Feb-04	13-Feb-04 to 12-Feb-05	0.0198	0.0200	0.0490
Other employees											
In aggregate	-	70,000,000	-	-	-	70,000,000	11-Feb-04	11-Feb-04 to 10-Feb-05	0.0198	0.0200	-
	-	340,000,000	(340,000,000)	-	-	-	12-May-04	12-May-04 to 11-May-05	0.0144	0.0130	0.0130
	-	410,000,000	(340,000,000)	-	-	70,000,000					
Others											
In aggregate	-	115,000,000	(85,000,000)	-	-	30,000,000	11-Feb-04	11-Feb-04 to 10-Feb-05	0.0198	0.0200	-
	-	85,000,000	(85,000,000)	-	-	-	12-Feb-04	12-Feb-04 to 11-Feb-05	0.0198	0.0200	0.0200
	-	125,000,000	(125,000,000)	-	-	-	12-May-04	12-May-04 to 11-May-05	0.0144	0.0130	0.0130
	-	325,000,000	(295,000,000)	-	-	30,000,000					
	-	870,000,000	(770,000,000)	-	-	100,000,000					

# Notes to financial statements

For the year ended 31 December 2004

## 29. SHARE OPTION SCHEME *(Continued)*

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The 770,000,000 share options exercised during the year resulted in the issue of 770,000,000 ordinary shares of the Company and new share capital of HK\$7,700,000 and share premium of HK\$5,045,000 (before issue expenses).

At the balance sheet date, the Company had 100,000,000 share options outstanding under the Scheme (which represented approximately 0.77% of the Company's shares in issue as at that date). The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 100,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,000,000 and share premium of HK\$980,000 (before issue expenses).

# Notes to financial statements

For the year ended 31 December 2004

## 30. RESERVES

### (a) Group

	Share premium account HK\$'000	Translation reserve HK\$'000	PRC statutory reserves* HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
1 January 2003:								
As previously reported	542,584	3,413	11,159	31	191,389	–	(617,545)	131,031
Prior year adjustment	–	–	–	–	–	–	(11,088)	(11,088)
As restated	542,584	3,413	11,159	31	191,389	–	(628,633)	119,943
Share issue expenses	(1,650)	–	–	–	–	–	–	(1,650)
Exchange difference arising on translation of overseas subsidiaries	–	(413)	–	–	–	–	–	(413)
Appropriations to reserve funds by PRC subsidiaries	–	–	834	–	–	–	(834)	–
Net loss for the year	–	–	–	–	–	–	(36,693)	(36,693)
31 December 2003	540,934	3,000	11,993	31	191,389	–	(666,160)	81,187
Issue of shares	22,326	–	–	–	–	–	–	22,326
Share issue expenses	(717)	–	–	–	–	–	–	(717)
Released upon disposal of subsidiaries	–	(6,238)	(11,083)	–	–	–	11,083	(6,238)
Surplus on revaluation	–	–	–	–	–	3,484	–	3,484
Net loss for the year	–	–	–	–	–	–	(50,682)	(50,682)
31 December 2004	<u>562,543</u>	<u>(3,238)</u>	<u>910</u>	<u>31</u>	<u>191,389</u>	<u>3,484</u>	<u>(705,759)</u>	<u>49,360</u>
Reserves retained by:								
Company and subsidiaries	562,543	173	910	31	191,389	3,484	(692,133)	66,397
Associates	–	(3,411)	–	–	–	–	(13,626)	(17,037)
31 December 2004	<u>562,543</u>	<u>(3,238)</u>	<u>910</u>	<u>31</u>	<u>191,389</u>	<u>3,484</u>	<u>(705,759)</u>	<u>49,360</u>
Company and subsidiaries	540,934	6,411	11,993	31	191,389	–	(652,534)	98,224
Associates	–	(3,411)	–	–	–	–	(13,626)	(17,037)
31 December 2003	<u>540,934</u>	<u>3,000</u>	<u>11,993</u>	<u>31</u>	<u>191,389</u>	<u>–</u>	<u>(666,160)</u>	<u>81,187</u>

\* The balance included the entire share of net profit of associates, which were disposed of during the year.

# Notes to financial statements

For the year ended 31 December 2004

## 30. RESERVES (Continued)

### (b) Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 January 2003	542,584	192,083	(647,246)	87,421
Share issue expenses	(1,650)	–	–	(1,650)
Net loss for the year	<u>–</u>	<u>–</u>	<u>(37,319)</u>	<u>(37,319)</u>
31 December 2003	540,934	192,083	(684,565)	48,452
Issue of shares	22,326	–	–	22,326
Share issue expenses	(717)	–	–	(717)
Net loss for the year	<u>–</u>	<u>–</u>	<u>(3,489)</u>	<u>(3,489)</u>
31 December 2004	<u><u>562,543</u></u>	<u><u>192,083</u></u>	<u><u>(688,054)</u></u>	<u><u>66,572</u></u>

\* Pursuant to the relevant laws and regulations for Sino-Foreign joint venture enterprises, a portion of the profits of the Company's subsidiaries in Mainland China has been appropriated to PRC statutory reserves which are restricted as to use. The amount of the appropriation is at the discretion of the respective boards of directors.

The contributed surplus of the Group represents:

- (i) the excess of the nominal value of the subsidiary's shares acquired over the nominal value of the Company's shares issued in exchange at the time of the group re-organisation prior to the listing of the Company's shares in 1992; and
- (ii) the credit arising from the reduction of the nominal value of the shares of the Company from HK\$0.10 each to HK\$0.01 each in a prior year.

The Company's contributed surplus represents the excess of the nominal value of the share capital of the subsidiaries at the date on which they were acquired by the Company over the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992, less dividends paid out and an amount utilised on a redemption of shares in a prior year, and the credit arising from the reduction in nominal value of HK\$0.09 of the Company's shares detailed above.

# Notes to financial statements

For the year ended 31 December 2004

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transaction

During the year ended 31 December 2003, wine jugs, which were previously classified as inventories were transferred to property, plant and equipment as a result of the change in use from being held for resale to being used for storage purpose. At date of transfer, the net carrying amount of the wine jugs amounted to HK\$34,213,000 (see note 12).

### (b) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	83,739	–
Investment securities	3,198	–
Deferred taxation	452	–
Inventories	14,990	–
Trade receivables	77,243	–
Prepayments and other debtors	48,086	–
Tax refundable	180	–
Pledged bank deposits	10,733	–
Cash and cash equivalents	365	–
Trade payables	(29,146)	–
Accrued liabilities and other payables	(7,481)	–
Bank overdrafts	(20,840)	–
Interest-bearing bank and other borrowings	(176,844)	–
Finance lease payables	(3,183)	–
Minority interests	(951)	–
	<u>541</u>	<u>–</u>
Goodwill on acquisition	<u>146,755</u>	<u>–</u>
	<u><u>147,296</u></u>	<u><u>–</u></u>
Satisfied by:		
Cash	116,286	–
Issue of shares	31,010	–
	<u><u>147,296</u></u>	<u><u>–</u></u>

# Notes to financial statements

For the year ended 31 December 2004

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

### (b) Acquisition of subsidiaries *(Continued)*

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(116,286)	–
Cash and bank balances acquired	365	–
Bank overdrafts acquired	(20,840)	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(136,761)</u>	<u>–</u>

# Notes to financial statements

For the year ended 31 December 2004

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

### (c) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	175,019	–
Intangible assets	13,247	–
Inventories	149,842	–
Trade receivables	29,036	–
Prepayments, deposits and other receivables	92,515	–
Cash and cash equivalents	22,287	–
Trade payables	(14,887)	–
Accrued liabilities and other payables	(63,550)	–
Tax payable	(5,958)	–
Interest-bearing bank and other borrowings	(235,463)	–
Minority interests	(113,829)	–
Translation reserve	(6,238)	–
	<u>42,021</u>	–
Gain on disposal of subsidiaries	<u>3,278</u>	–
	<u><u>45,299</u></u>	<u><u>–</u></u>
Satisfied by:		
Cash	17,000	–
Prepayments, deposits and other receivables	<u>28,299</u>	–
	<u><u>45,299</u></u>	<u><u>–</u></u>

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	17,000	–
Cash and bank balances disposed of	<u>(22,287)</u>	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>(5,287)</u></u>	<u><u>–</u></u>



# Notes to financial statements

For the year ended 31 December 2004

## 32. PENDING LITIGATIONS

Claims for payment of commission were brought by several dealers against certain subsidiaries of the Group in respect of consignment services provided to the subsidiaries, together with interest and legal cost, etc. of approximately HK\$1,051,000 in aggregate. A full provision for HK\$1,051,000 has been made in these financial statements.

In the opinion of the directors, adequate provision has been made by the Group in respect of all the above claims in the Group's financial statements as at 31 December 2004.

## 33. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	63	–
In the second to fifth years, inclusive	57	–
	<u>120</u>	<u>–</u>

# Notes to financial statements

For the year ended 31 December 2004

## 33. OPERATING LEASE ARRANGEMENTS (Continued)

### (b) As lessee

The Group leases certain properties under operating lease arrangements. These leases are negotiated for terms ranging from one to two years.

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,009	854	–	–
In the second to fifth years, inclusive	–	612	–	–
	<u>1,009</u>	<u>1,466</u>	<u>–</u>	<u>–</u>

## 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the balance sheet date:

	Group	
	2004 HK\$'000	2003 HK\$'000
Capital commitments, contracted for acquisition of machinery and equipment	–	25,466

The Company had no significant commitments at the balance sheet date (2003: Nil).

# Notes to financial statements

For the year ended 31 December 2004

## 35. POST BALANCE SHEET EVENTS

- (a) On 20 January 2005, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "New Grand Vendor") for the acquisition of 30% equity interest in the share capital of New Grand Hotel Company Limited ("New Grand") at a consideration of HK\$50,000,000 (the "New Grand Acquisition"). New Grand is a company incorporated in Macau with limited liability which, as represented by the New Grand Vendor, has the right to use and occupy Grand Hotel for a period up to 2 April 2010 and, unless early terminated, such right will be automatically renewed for a further term under the laws of Macau. However the exact length of the renewable term has not been determined between the owner of Grand Hotel and New Grand. The consideration for the New Grand Acquisition was arrived at after arm's length negotiation between the Group and the New Grand Vendor and with reference to a valuation of New Grand on a fair market value basis as at 31 December 2004 issued by an independent professional qualified valuer.

The consideration shall be payable in full to the New Grand Vendor upon completion. A sum of HK\$1,000,000 was paid upon signing of the Agreement as refundable deposit for the acquisition and the remaining balance of HK\$49,000,000 will be satisfied either by way of cash or issuance and allotment of the ordinary shares of the Company at an issue price of HK\$0.05 each to the New Grand Vendor. The New Grand Acquisition constituted a discloseable transaction of the Company under the Listing Rules. The circular containing detailed information of the New Grand Acquisition will be despatched upon the completion of due diligence review.

- (b) On 20 December 2004, the Group entered into a sale and purchase agreement with independent third parties (the "Pacific Glory Vendor") for the acquisition of a 75% equity interest in Pacific Glory Holdings Ltd. (the "Pacific Glory") and 75% of shareholder's loan due from Pacific Glory to the Pacific Glory Vendor at a cash consideration of HK\$2,700,000 (the "Pacific Glory Acquisition"). Pacific Glory is an investment holding company and owns and operates through its subsidiaries, a restaurant in Tsim Sha Tsui, Kowloon under the trade name of "Suishaya Japanese Restaurant". The Pacific Glory Acquisition constituted a discloseable transaction of the Company under the Listing Rules and the details of which are set out in the Company's circular dated 10 January 2005. The Pacific Glory Acquisition was completed on 25 April 2005.
- (c) During the year, the Group entered into a sale and purchase agreement with an independent third party to dispose of an investment property situated in Hong Kong for a cash consideration HK\$15,250,000. This transaction was completed on 6 January 2005.
- (d) On 25 April 2005, the Group entered into an agreement with an independent third party to acquire an operation specialised in the production of upmarket ladies shoes in Mainland China at a consideration of HK\$1,360,000. The acquisition has yet to be completed.

# Notes to financial statements

For the year ended 31 December 2004

## **36. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group 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.

## **37. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 25 April 2005.