



1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entity and associate are set out in notes 13, 14 and 15 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") 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 commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and investments in securities and 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.

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of a jointly controlled entity plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative Goodwill

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

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as 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.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a surplus subsequently arises, this increase is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated 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 land	Over the shorter of the term of the lease, or 50 years
Buildings	2%
Leasehold improvements	Over the lease term
Furniture and fixtures	20% – 25%
Motor vehicles	30%
Office equipment	25%

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



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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 Statement of Standard Accounting Practice ("SSAP") issued by the HKICPA, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Films in progress

Films in progress are stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Costs are transferred to film rights upon completion.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or 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 of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

Turnover represents rental and management fee income but excludes intra-group transactions.

Revenue recognition

Rental and management fee income is recognised on a straight line basis over the relevant lease terms.

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

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

Leases

Rentals payable under operating leases are charged to income statement on a straight line basis over the relevant lease terms.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

4. SEGMENTAL INFORMATION

The Group is principally engaged in property leasing and building management services and therefore no business segment information is presented.

No geographical segment information is presented as over 90% of the Group's segment revenue and assets are derived from operations carried out in Hong Kong. The jointly controlled entity is not a reportable segment as defined by SSAP 26 "Segment reporting". Further details of the location and principal activities of the jointly controlled entity are set out in note 14.



5. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration (note 6):		
– Salaries, wages and other benefits (Note)	10,242	9,000
– Retirement benefit scheme contributions	180	170
Total staff costs	<u>10,422</u>	<u>9,170</u>
Auditors' remuneration	350	270
Costs incurred in the provision of rental and management services (Note)	2,799	2,689
Depreciation of property, plant and equipment	196	142
Loss on disposal of property, plant and equipment	1	–
Loss on disposal of investment properties	1,427	–
Minimum lease payments under operating leases for land and buildings	841	594
Revaluation deficit of investment properties	2,800	–
and after crediting:		
Gross rents from investment properties	12,736	13,910
Less: outgoings	<u>(597)</u>	<u>(618)</u>
	<u>12,139</u>	<u>13,292</u>
Dividend income from investments in securities	50	54
Interest income from bank deposits	236	202
Interest income from investments in securities	37	–
Other interest income	47	–
Unrealised holding gain on investments in securities	<u>75</u>	<u>190</u>

Note: Staff costs of HK\$1,889,000 (2003: HK\$1,430,000) are included in costs incurred in the provision of rental and management services.

Notes to the Financial Statements

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6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	127	66
Independent non-executive directors	80	120
	207	186
Salaries and other benefits:		
Executive directors	2,858	2,635
Non-executive directors	11	–
Independent non-executive directors	15	–
	2,884	2,635
Retirement benefit scheme contributions:		
Executive directors	22	5
Total directors' emoluments	3,113	2,826

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	8	8
HK\$1,000,001 to HK\$1,500,000	1	1
	9	9

No director waived any emoluments in both years.



6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	2,142	1,764
Contributions to retirement benefits schemes	35	36
	2,177	1,800

The aggregate emoluments of each of the highest paid employees were within the emolument band ranging from HK\$Nil to HK\$1,000,000 for both years.

7. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	1,860	2,530
Other finance costs	255	377
	2,115	2,907

Notes to the Financial Statements

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8. TAXATION

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong		
Provision for the year	276	303
Overprovision in prior years	(345)	(5)
	<u>(69)</u>	<u>298</u>
Deferred taxation (note 20):		
Current year	(3,190)	559
Attributable to a change in tax rate	–	250
	<u>(3,190)</u>	<u>809</u>
Taxation attributable to the Company and its subsidiaries	(3,259)	1,107
Share of taxation attributable to:		
A jointly controlled entity	(1,200)	(1,803)
An associate	18	(1,186)
	<u>(4,441)</u>	<u>(1,882)</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.



8. TAXATION (continued)

The tax credit for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>78,078</u>	<u>26,599</u>
Tax at Hong Kong Profits Tax rate of 17.5%	13,664	4,655
Tax effect on share of result of a jointly controlled entity	11,294	(825)
Tax effect on share of result of an associate	1,039	(2,420)
Tax effect of expenses not deductible for tax purpose	1,391	1,124
Tax effect of income not taxable for tax purpose	(31,600)	(5,158)
Overprovision in prior years	(345)	(5)
Tax effect of deferred tax assets not recognised	1,481	738
Tax effect of utilisation of deferred tax assets previously not recognised	(1,365)	(241)
Increase in opening deferred tax liabilities resulting from an increase in Hong Kong Profits Tax rate	<u>–</u>	<u>250</u>
Tax credit for the year	<u>(4,441)</u>	<u>(1,882)</u>

9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim – HK39.9 cents per share, by way of distribution in specie (note 15)	<u>374,740</u>	<u>–</u>

Notes to the Financial Statements

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10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$82,583,000 (2003: HK\$28,481,000) and on the weighted average of 926,043,210 shares (2003: 852,689,832 shares) in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both years.

11. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2004	236,000
Disposals	(140,800)
Revaluation deficit	(2,800)
At 31 December 2004	<u>92,400</u>

Investment properties were valued at their open market value at 31 December 2004 by AA Property Services Limited, an independent professional valuer, and are rented out under operating leases.

The Group's investment properties have been pledged to banks to secure general banking facilities granted to the Company.

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
The carrying amount of investment properties comprises leasehold land and buildings in Hong Kong as follows:		
Long lease	92,400	87,650
Medium-term lease	–	148,350
	<u>92,400</u>	<u>236,000</u>



12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold land and buildings	Leasehold improvements	Other fixed assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
At 1 January 2004	3,143	126	3,569	6,838
Additions	–	247	693	940
Disposals	–	–	(76)	(76)
	<u>3,143</u>	<u>373</u>	<u>4,186</u>	<u>7,702</u>
At 31 December 2004	<u>3,143</u>	<u>373</u>	<u>4,186</u>	<u>7,702</u>
DEPRECIATION				
At 1 January 2004	551	126	3,492	4,169
Provided for the year	56	47	93	196
Eliminated on disposals	–	–	(75)	(75)
	<u>607</u>	<u>173</u>	<u>3,510</u>	<u>4,290</u>
At 31 December 2004	<u>607</u>	<u>173</u>	<u>3,510</u>	<u>4,290</u>
NET BOOK VALUES				
At 31 December 2004	<u>2,536</u>	<u>200</u>	<u>676</u>	<u>3,412</u>
At 31 December 2003	<u>2,592</u>	<u>–</u>	<u>77</u>	<u>2,669</u>

The Group's leasehold land and buildings are situated in Hong Kong held under long leases.

Notes to the Financial Statements

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13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	231,154	231,154
Amounts due from subsidiaries	102,008	399,883
	333,162	631,037

The balances with subsidiaries are unsecured and in the opinion of directors, the balances will not be receivable within one year from the balance sheet date, and are therefore shown as non-current. Except for amounts due from subsidiaries of approximately HK\$13,202,000 (2003: HK\$13,819,000) which bears interest at 3% per annum, the remaining balances are interest free.



13. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
<i>Direct subsidiary</i>				
SCG Investment (B.V.I.) Limited	British Virgin Islands ("BVI")	HK\$100,000	100%	Investment holding
<i>Indirect subsidiaries</i>				
四方源創國際影視文化傳播(北京)有限公司	PRC	RMB7,945,000	80%	Production of films and television drama series
首方實業發展(深圳)有限公司	PRC	RMB65,887,400	100%	Investment holding
Dunley Developments Limited	BVI	US\$1	100%	Investment holding
Ecko Limited	Hong Kong	HK\$2	100%	Property management
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	100%	Property investment
Grand Award Limited	BVI	US\$1	100%	Investment holding
Grand Park Investment Limited	Hong Kong	HK\$2	100%	Property investment
Grand Phoenix Limited	BVI	US\$1	100%	Investment holding

Notes to the Financial Statements

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13. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital	Proportion of nominal value of issued share capital held by the Company	Principal activities
Jeckman Holdings Limited	BVI	US\$16	100%	Investment holding
Linksky Limited	Hong Kong	HK\$2	100%	Property holding
Long Cosmos Investment Limited	Hong Kong	HK\$2	100%	Provision of management services
Lyre Terrace Management Limited	Hong Kong	HK\$1,000,000	100%	Investment holding and property investment
On Hing Investment Company, Limited	Hong Kong	HK\$1,000 (ordinary) HK\$2,000,000 (non-voting deferred)	100%	Property investment
SCG Financial Investment Limited	BVI	US\$1,000	100%	Investment holding
SCG Leasing Corporation Limited	Hong Kong	HK\$2	100%	Property investment
Strenbeeche Limited	BVI/ Hong Kong	HK\$147,000,008	100%	Property investment
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	100%	Property investment
Upper Nice Assets Ltd.	BVI	US\$1	100%	Investment holding

Note: All issued share capital are ordinary shares unless otherwise stated.



13. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	118,022	188,174
Goodwill (Note)	–	23,408
	118,022	211,582
<i>Note:</i>		
GOODWILL		HK\$'000
COST		
At 1 January 2003, 31 December 2003 and 31 December 2004		33,710
AMORTISATION		
1 January 2003		8,429
Charge for the year		1,873
At 31 December 2003 and 1 January 2004		10,302
Charge for the year		937
Impairment loss for the year		22,471
At 31 December 2004		33,710
NET BOOK VALUE		
At 31 December 2004		–
At 31 December 2003		23,408

Goodwill is amortised over a period of 18 years.



14. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

During the year, the directors reviewed the carrying amount of the net assets of the Group's jointly controlled entity, Beijing Dongzhimen International Apartment Co., Ltd. 北京東直門國際公寓有限公司 ("Beijing Dongzhimen"), in the light of current market condition and with reference to the financial results and business operated by Beijing Dongzhimen. The directors identified an impairment loss in respect of its share of net assets and goodwill of approximately HK\$67,529,000 and HK\$22,471,000 respectively with reference to the valuation report of the underlying properties of Beijing Dongzhimen, such amounts were dealt with in the income statement.

At 31 December 2004, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation and operation	Proportion of nominal value of issued ordinary share capital indirectly held by the Company	Principal activities
Beijing Dongzhimen	Sino-foreign equity joint venture	PRC	44%	Property holding and provision of residential service apartments

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). The extension of the initial JV term for a further period of 15 years from the date of expiry of the initial JV term to 17 August 2016 has been approved by the relevant authorities.

Beijing Dongzhimen has obtained approval from relevant authorities to further extend the land use right of the residential service apartments for 40 years following the expiry of the initial JV term.

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14. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

A summary of the results and financial position of Beijing Dongzhimen is set out below:

Results

	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>98,765</u>	<u>87,250</u>
Loss before taxation	<u>(162,265)</u>	<u>(12,689)</u>
Loss before taxation attributable to the Group	<u>(71,397)</u>	<u>(5,583)</u>

Financial position

	2004	2003
	HK\$'000	HK\$'000
Non-current assets	473,475	712,158
Current assets	15,848	11,498
Current liabilities	(98,601)	(100,443)
Non-current liabilities	<u>(122,491)</u>	<u>(195,545)</u>
Net assets	<u>268,231</u>	<u>427,668</u>
Net assets attributable to the Group	<u>118,022</u>	<u>188,174</u>



15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	249,394
Loan to an associate	27,900	27,900
Due from an associate	3,589	3,589
	31,489	280,883
Less: Allowance for doubtful debts	(31,489)	(31,489)
	–	249,394
Associates include:		
Share of net assets of a Hong Kong listed company	–	249,394
Market value of listed shares	–	393,948

The loan of HK\$27,900,000 (2003: HK\$27,900,000) to an associate is unsecured, interest-bearing at 15% per annum and has no fixed terms of repayment. The amount "Due from an associate" is unsecured, interest-free and has no fixed terms of repayment. Both of these amounts have been fully provided against at the balance sheet date.

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15. INTEREST IN AN ASSOCIATE (continued)

As at 31 December 2004, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation/ registration and operation	Proportion of nominal of value issued share capital held by the Group	Principal activities
Top Pearl International Development Limited	Incorporated	BVI/PRC	50%	Property development

On 13 February 2004, the directors of the Company declared to distribute a special dividend to be satisfied by the distribution in specie of the Group's entire shareholding of approximately 31.02%, representing 371,029,995 shares in an associate, Shougang Concord Technology Holdings Limited ("Shougang Technology"), to the Company's shareholders on a pro-rata basis (the "Distribution"). The Distribution was completed on 23 March 2004 and the market price of Shougang Technology's share at that date was HK\$1.01 per share. Total special dividend distributed amounted to approximately HK\$374,740,000.

Pursuant to the completion of the Distribution, the interest of an associate is considered disposed of accordingly. Total net gain of approximately HK\$189,210,000, after expenses incurred of approximately HK\$929,000 arisen on the Distribution was dealt with in the income statement.



16. PAYMENT FOR ACQUISITION OF AN ASSOCIATE

THE GROUP

During the year, the Group entered into an agreement with an independent third party and paid a total consideration of approximately HK\$12,995,000, comprising the consideration of approximately HK\$2,861,000 to acquire 40% equity interest in 南方國際租賃有限公司 South China International Leasing Company Limited (“South China Leasing”) and the assignment of a shareholder’s loan of approximately HK\$10,134,000, which is unsecured, interest bearing at prevailing market rate and repayable on demand and is classified as other receivables as at 31 December 2004. South China Leasing is a company established in the PRC with principal activities in the provision of finance leasing including the leasing of machinery, equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties, in the PRC. It is a sino-foreign equity joint venture established in the PRC on 20 May 1989 with an operation term of 40 years expiring in 2029 and registered capital amounted to US\$5,000,000. Since the acquisition of 40% equity interest in South China Leasing by the Group was in September 2004, South China Leasing has applied to the relevant PRC authorities for approval of the change in shareholder. Such approval and relevant significant influence to South China Leasing by the Group has been obtained and established in January 2005. Accordingly, South China Leasing was not considered as an associate for the year and the amount was classified as payment for acquisition of an associate as at 31 December 2004.

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Listed equity investments in Hong Kong, at market value	13,776	1,020
Unlisted debt securities in the PRC, at cost	9,369	–
	23,145	1,020

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in other receivables was an amount of approximately HK\$10,843,000 (2003: HK\$Nil) due from Global Digital Creations Holdings Limited (“GDC”), whose shares are listed on the Growth Enterprise Market operated by the Stock Exchange. The Group has granted GDC an unsecured loan facility of up to an aggregate principal amount of HK\$20,000,000 in December 2004 to be used solely for fulfilling GDC’s working capital requirements and repayments of short-term borrowings for corporate requirements. This amount is unsecured, interest bearing at prevailing market rate and repayable on demand.

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19. BANK BORROWINGS

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Secured	105,040	109,520
Unsecured	760	1,880
	105,800	111,400
The maturity of the bank borrowings is as follows:		
On demand or within one year	15,800	5,600
More than one year, but not exceeding two years	20,000	15,800
More than two years, but not exceeding five years	70,000	90,000
	105,800	111,400
Less: Amounts due within one year shown under current liabilities	(15,800)	(5,600)
	90,000	105,800



20. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (asset) recognised and movements thereon during the current and prior years:

THE GROUP

	Investment properties HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2003	2,628	34	–	2,662
Charge to income statement	557	2	–	559
Effect of a change in tax rate – charge to income statement	247	3	–	250
At 31 December 2003 and 1 January 2004	3,432	39	–	3,471
(Credit) charge to income statement	(2,753)	5	(442)	(3,190)
At 31 December 2004	<u>679</u>	<u>44</u>	<u>(442)</u>	<u>281</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	723	3,471
Deferred tax asset	(442)	–
	<u>281</u>	<u>3,471</u>

At the balance sheet date, the Group has unused tax losses of HK\$70,992,000 (2003: HK\$67,511,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$2,527,000 (2003: HK\$Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$68,465,000 (2003: HK\$67,511,000) due to the unpredictability of future profit streams.

At the balance sheet date, the Group has deductible temporary differences of approximately HK\$1,097,000 (2003: HK\$1,384,000) attributable to the difference between tax allowances and depreciation. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Financial Statements

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21. SHARE CAPITAL

	2004		2003	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January and 31 December	<u>2,000,000,000</u>	<u>20,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:				
At 1 January	<u>857,867,914</u>	<u>8,579</u>	827,867,914	8,279
Share issued at premium (<i>Note</i>)	<u>81,448,753</u>	<u>814</u>	<u>30,000,000</u>	<u>300</u>
At 31 December	<u>939,316,667</u>	<u>9,393</u>	<u>857,867,914</u>	<u>8,579</u>

Note: During the year, 81,448,753 shares of HK\$0.01 each were issued upon the exercise of 53,811,339 and 27,637,414 share options at subscription prices of HK\$0.73 and HK\$0.76 per share respectively. The shares issued during the year rank pari passu with the then existing shares in all respects.



22. RESERVES

THE GROUP

The contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange.

THE COMPANY

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
At 1 January 2003	192,744	362,731	(18,532)	536,943
Shares issued at premium	14,100	–	–	14,100
Net loss for the year	–	–	(2,568)	(2,568)
At 31 December 2003 and 1 January 2004	206,844	362,731	(21,100)	548,475
Shares issued at premium	59,473	–	–	59,473
Transfer (Note)	–	(362,731)	362,731	–
Net profit for the year	–	–	96,932	96,932
Dividend paid (Note 9)	–	–	(374,740)	(374,740)
At 31 December 2004	<u>266,317</u>	<u>–</u>	<u>63,823</u>	<u>330,140</u>

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22. RESERVES (continued)**THE GROUP (continued)**

The contributed surplus represented the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they are acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of a group reorganisation in 1991. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31 December 2004, the Company's reserves available for distribution consisted of contributed surplus and accumulated profits (losses) of HK\$63,823,000 (2003: HK\$341,631,000).

Note: On 4 March 2004, a resolution was passed by the directors to transfer HK\$362,731,000 from contributed surplus to accumulated profits for the purpose of dividend distribution in specie.

23. MAJOR NON CASH TRANSACTIONS

During the year, the Company declared to distribute special dividend in specie of the Group's entire shareholding in an associate. Details of the Distribution are set out in note 15.

24. OPERATING LEASES

The Group as lessor

The Group's property rental income earned during the year was HK\$12,736,000 (2003: HK\$13,910,000). The Group's investment properties have committed tenants for the next one to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	2,934	7,119
In the second to fifth year inclusive	1,240	1,782
	4,174	8,901

25. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The Group's share of the jointly controlled entity's capital commitments:		
Contracted but not provided for	7,066	11,814

The Company had no significant capital commitment at the balance sheet date.

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26. OTHER COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Expenditure contracted for but not provided in the financial statements in respect of:		
Film production costs	11,207	—

The Company had no significant other commitment at the balance sheet date.

27. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group and the Company to secure banking facilities:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Investment properties	92,400	236,000	—	—
Leasehold land and buildings	2,536	2,592	—	—
Bank deposits	65,500	—	65,500	—
	160,436	238,592	65,500	—



28. SHARE OPTIONS SCHEMES

On 7 June 2002, the share option scheme (the "Old Scheme") of the Company adopted on 8 September 1993 ceased to operate and a new share option scheme (the "New Scheme") has been adopted to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. No share options under the Old Scheme were outstanding as at 1 January 2002 and no share option was granted by virtue of the Old Scheme for the period from 1 January 2002 and up to 7 June 2002, being the date of termination of the Old Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or its associated companies. Eligible participants of the New Scheme included directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates. The New Scheme became effective on 7 June 2002, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of the passing of such resolution. At 8 June 2004, the total number of shares available for issue under the New Scheme was 93,931,666, which represented approximately 10% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, 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 and 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.

Notes to the Financial Statements

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28. SHARE OPTIONS SCHEMES (continued)

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the New Scheme at any time within 10 years from the date of the options granted.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange's 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 the Company's ordinary shares.

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

The following table discloses the details of the share options and movements in such holdings during the years ended 31 December 2004 and 2003:

Grantees	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				
				At 1.1.2004	Transfer during the year (Note)	Exercised during the year	Granted during the year	At 31.12.2004
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	31,431,112	(6,455,735)	(24,975,302)	-	75
	6.3.2003	6.3.2003 – 5.3.2013	0.76	10,762,283	(1,822,944)	(8,938,735)	-	604
	8.6.2004	8.6.2004 – 7.6.2014	0.82	-	-	-	71,202,000	71,202,000
Former directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	16,557,358	8,278,679	(24,836,037)	-	-
	6.3.2003	6.3.2003 – 5.3.2013	0.76	-	8,278,679	(8,278,679)	-	-
Employees	23.8.2002	23.8.2002 – 6.6.2012	0.73	4,000,000	(4,000,000)	-	-	-
	6.3.2003	6.3.2003 – 5.3.2013	0.76	5,120,000	(3,460,000)	(330,000)	-	1,330,000
	8.6.2004	8.6.2004 – 7.6.2014	0.82	-	-	-	14,584,000	14,584,000
Others	23.8.2002	23.8.2002 – 6.6.2012	0.73	1,822,944	2,177,056	(4,000,000)	-	-
	6.3.2003	6.3.2003 – 5.3.2013	0.76	13,085,735	(2,995,735)	(10,090,000)	-	-
				<u>82,779,432</u>	<u>-</u>	<u>(81,448,753)</u>	<u>85,786,000</u>	<u>87,116,679</u>



28. SHARE OPTIONS SCHEMES (continued)

Grantees	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			At 31.12.2003
				At 1.1.2003	Granted during the year	Exercised during the year	
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	31,431,112	–	–	31,431,112
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	10,762,283	–	10,762,283
Former directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	16,557,358	–	–	16,557,358
Employees	23.8.2002	23.8.2002 – 6.6.2012	0.73	4,000,000	–	–	4,000,000
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	5,120,000	–	5,120,000
Others	23.8.2002	23.8.2002 – 6.6.2012	0.73	1,822,944	–	–	1,822,944
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	13,085,735	–	13,085,735
				<u>53,811,414</u>	<u>28,968,018</u>	<u>–</u>	<u>82,779,432</u>

Note: Transfer of share options upon the redemption/termination of services of certain directors and employees during the year.

Total consideration received during the year from employees for taking up the options granted amounted to HK\$5 (2003: HK\$7).

The closing price of the shares of the Company immediately before 8 June 2004, the date of grant of the share options, was HK\$0.60.

The weighted average closing price of the shares of the Company immediately before the dates on which share options were exercised was HK\$1.25.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such item as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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29. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund (“MPF”) scheme for all qualifying employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes HK\$1,000 or 5% of the relevant payroll costs, whichever is lower for each employee, to the scheme, which contribution is matched by employees.

30. POST BALANCE SHEET EVENTS

- (a) On 28 January 2005, the Group entered into a memorandum with China Life Insurance (Overseas) Company Limited (“China Life (Overseas)”), a wholly owned subsidiary of China Life Insurance (Group) Company established under the laws of the PRC with principal activities in the provision of life insurance business in Hong Kong, Macau and Singapore, in respect of a proposed subscription of 40% equity interest of China Life (Overseas) as enlarged by the proposed subscription. The initial subscription price is proposed to be HK\$800,000,000 which will be adjusted with reference to a valuation of China Life (Overseas) to be agreed by the parties. The formal subscription agreement has yet to be negotiated at the report date.
- (b) On 31 January 2005, a special resolution has been passed by the shareholders for the acquisition of all the issued shares of, through share exchange and cancellation of all the outstanding options of, GDC.
- (c) On 28 February 2005, the Group has revised the unsecured loan facility granted to GDC of up to an aggregate principal amount from HK\$20,000,000 to HK\$30,000,000 at prevailing market rate. As at 31 December 2004, GDC has withdrawn an aggregate amount of approximately HK\$10,843,000 from the Group.



30. POST BALANCE SHEET EVENTS (continued)

- (d) On 1 March 2005, the Group received valid acceptances in respect of 658,466,023 issued shares of GDC and 22,631,615 issued options of GDC ("GDC Options"), representing approximately 82.2% of the existing issued share capital of GDC and all the issued GDC Options respectively. GDC became a subsidiary of the Group subsequent to 31 December 2004.

- (e) On 10 March 2005, the Group acquired a further 20% equity interest in South China Leasing from another independent third party at a consideration of approximately HK\$6,527,000, comprising the consideration of approximately HK\$1,434,000 for the 20% equity interest and the assignment of a shareholder's loan of approximately HK\$5,093,000. South China Leasing will become a subsidiary of the Company subsequent to 31 December 2004.

- (f) On 15 March 2005, the Group entered into an agreement to participate in the increase in the registered capital of South China Leasing from US\$5,000,000 (equivalent to approximately HK\$39,000,000) to US\$24,000,000 (equivalent to approximately HK\$187,200,000) (the "Capital Increase Agreement"). According to the Capital Increase Agreement, the Group has committed to further contribute US\$11,400,000 (equivalent to approximately HK\$88,920,000) to South China Leasing. Up to the report date, no payment has yet been paid out by the Group.

- (g) On 24 March 2005, the Group has provided a corporate guarantee to a bank in the PRC to secure the banking facility of RMB13,000,000 granted to GDC.

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31. RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with Shougang Holding (Hong Kong) Limited ("Shougang Holding"), the intermediate holding company of the Group and with Shougang Holding's subsidiary.

	2004	2003
	HK\$'000	HK\$'000
Rental expenses charged by Winluck Properties Limited (<i>Note a</i>)	594	594
Consultancy expenses charged by Shougang Holding (<i>Note b</i>)	960	960

Notes:

- (a) The rental expenses were charged in accordance with the agreements between the Group and Winluck Properties Limited, a subsidiary of Shougang Holding.
- (b) The consultancy expenses were charged in accordance with the agreement between the Group and Shougang Holding.