

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing, property development, information technology related and provision of travel related businesses and agriculture production.

In the opinion of the directors, the Company’s ultimate holding company is South China Holdings Limited (“SCH”), a company incorporated in the Cayman Islands with its shares also listed on the Stock Exchange.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKAS”) (hereinafter collectively referred to as “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, except for the following new HKFRSs as further explained below:

| | |
|---------|-----------------------|
| HKFRS 3 | Business combinations |
| HKAS 17 | Leases |
| HKAS 36 | Impairment of assets |
| HKAS 40 | Investment property |

Notes to the Financial Statements

For the year ended 31 December 2004

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 3 “Business combinations” and HKAS 36 “Impairment of assets”

HKFRS 3 applies to accounting for business combination for which the agreement date is on or after 1 January 2005. The early adoption of HKFRS 3 and HKAS 36 from 1 January 2004 has resulted in the Group ceasing annual amortisation of goodwill and to test for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). Discount on acquisition is credited to the income statement in the period of acquisition. The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amount of the accumulated amortisation by approximately HK\$3,036,000 with a corresponding entry to the cost of goodwill. In addition, the Group's negative goodwill at 1 January 2004 with a carrying amount of HK\$1,114,000 has been derecognised at 1 January 2004, with a corresponding adjustment to the Group's accumulated profits at 1 January 2004. As a result of this change in accounting policy, the profit of the Group for the year has been increased by approximately HK\$14,009,000.

HKAS 17 “Leases” and HKAS 40 “Investment property”

HKAS 17 requires the finance lease methodology be used for investment properties held under leases. The standard requires the land and buildings elements be considered separately when classifying a lease of land and buildings. Separate measurement of the land and buildings elements is not required if the interest in both the land and buildings is classified as an investment property in accordance with HKAS 40 and the fair value model is adopted.

HKAS 40 introduces both cost model and fair value model for the measurement of investment property. For fair value model, HKAS 40 requires fair value changes be recognised in the income statement in the period in which they arise. The Group has elected to apply the fair value model in measuring its investment property and recognises the fair value changes to the income statement in the period in which they arise. HKAS 40 allows a property interest that is held under an operating lease and that the property meets the definition of an investment property and the lessee recognises the asset by using the fair value model set out in the standard be classified and accounted for as investment property. HKAS 40 has been applied retrospectively. Comparative amounts have been restated accordingly.

Notes to the Financial Statements

For the year ended 31 December 2004

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 17 "Leases" and HKAS 40 "Investment property" (Continued)

As a result of this change in policy, the balance on the Group's investment property revaluation reserve at 1 January 2003 has been decreased by HK\$15,281,000 and the Group's accumulated profits at 1 January 2003 has been increased by HK\$15,281,000, which is the cumulative effect of the change arising on the adoption of HKAS 40 prior to 1 January 2003. The change has resulted in a decrease in the profit of HK\$5,412,000 and an increase in the profit of HK\$25,833,000 for the year ended 31 December 2003 and 2004 respectively. In addition, properties leased to fellow subsidiaries of the Group as at 1 January 2003 with carrying amount of HK\$22,525,000 which were classified as land and buildings previously, are reclassified to investment properties as a result of the adoption of HKAS 40. As a result, the balance on the Group's property, plant and equipment as at 1 January 2003 has been decreased by HK\$22,525,000 and the Group's investment properties at 1 January 2003 has been increased by HK\$22,525,000. As the carrying amount of the properties as at 1 January 2003 and 31 December 2003 approximates to their fair values, no prior year adjustment was made.

For those new HKFRSs, that the Group has not early adopted in the financial statements for the year ended 31 December 2004, the Group has commenced considering the potential impact of those new HKFRSs but is not yet in a position to determine whether those HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. Those HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, certain investments in securities, leasehold land and building and biological assets. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies are as follows:

Basis of consolidation

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will not recognise that goodwill in profit and loss when the Group disposes of all or part of the business to which the goodwill relates or when a cash generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisitions after 1 January 2001 and before 31 December 2003 is capitalised and amortised on a straight-line basis over its useful economic life. From 1 January 2004 onwards, the Group has ceased annual amortisation of goodwill and to test for impairment at least annually. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisition after 1 January 2004 represents the excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition.

Goodwill is tested annually for impairment, and whenever there is an indication that the cash generating unit to which the goodwill is allocated may be impaired. An impairment loss is determined by comparing the carrying amount of the cash generating unit, including the goodwill, with the recoverable amount of the cash generating unit. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Reversal of impairment loss of goodwill is prohibited.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For acquisitions after 1 January 2004, any deficiency of the cost of acquisition below the Group's share of the fair values of the assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

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.

Biological assets

Fruit trees are measured at their fair value less estimated point-of-sale costs. The fair value of fruit trees is determined based on market prices of fruit trees of similar age. Fruit trees are perennial plants which have growth cycles of more than one year.

Litchi and longan fruits are initially measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of litchi and longan fruits is determined based on market prices in the local area.

Property, plant and equipment

Property, plant and equipment other than certain land and buildings and construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Certain land and buildings are stated in the balance sheet at amounts based on revaluations performed prior to 30 September 1995, less any subsequent accumulated depreciation and amortisation and impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

The Group has taken advantage of the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the HKICPA from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Properties in the course of construction-in-progress for production are carried at cost less any identified impairment loss. Cost includes the original cost of land, construction expenditures incurred, and other costs attributable to the construction of the buildings. Depreciation of these costs, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment other than construction in progress 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:

| | |
|--------------------------------------|----------------------|
| Land | Over the lease terms |
| Buildings | 2% to 5% |
| Furniture and leasehold improvements | 20% |
| Machinery and equipment | 10% to 25% |
| Moulds and tools | 20% to 25% |
| Motor vehicles and vessels | 20% to 25% |

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

A property interest that is held under an operating lease and that the property interest meets the definition of an investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in the profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the year.

Agricultural produce

Agricultural produce comprises litchi and longan fruits of fruit trees.

Self-grown litchi and longan fruits are measured in the balance sheet at their respective fair values less estimated point-of-sale costs.

Fair value represents the estimated purchase cost that the Group has to procure such inventories in the market on an arm's length basis. Gain or loss arising on initial recognition of litchi and longan fruits at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributed to the unsold properties.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income and management fees are recognised when services are provided.

Sale of completed properties is recognised on the execution of a binding sale agreement.

Rental income from properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

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' right to receive payment have been established.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets (other than goodwill) 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 standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. 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 period in which the operation is disposed of.

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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

Retirement benefits scheme

Payments to the Group's Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Sales of merchandise from manufacturing and trading business | 1,929,720 | 1,991,527 |
| Sales of travel-related products | 1,463,498 | 1,079,335 |
| Service income from information and technology related business | 41,041 | 2,416 |
| Sales of computer hardware and software products | 23,153 | 34,962 |
| Rental income | 11,632 | 10,905 |
| Sales of agriculture produce | 1,127 | - |
| | 3,470,171 | 3,119,145 |

Notes to the Financial Statements

For the year ended 31 December 2004

5. FAIR VALUE OF LITCHI AND LONGAN FRUITS

Fair value and saleable output of litchi and longan fruits at the point of harvest are analysed as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Fair value less estimated point-of-sale costs: | | |
| Litchi fruits | 115 | – |
| Longan fruits | 8 | – |
| | 123 | – |
| | Tons | Tons |
| Saleable output: | | |
| Litchi fruits | 76 | – |
| Longan fruits | 3 | – |
| | 79 | – |

6. RESTRUCTURING COSTS

The amount represented costs incurred in connection with the reorganisation of the Group's operations during the year ended 31 December 2003.

7. DISCOUNT ON ACQUISITION OF AN ADDITIONAL INTEREST IN A SUBSIDIARY

The amount represents the discount on further acquisition of approximately 9% interest of Wah Shing International Holdings Limited for a consideration of approximately HK\$22,000,000.

Notes to the Financial Statements

For the year ended 31 December 2004

8. PROFIT FROM OPERATIONS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Profit from operations has been arrived at after charging (crediting): | | |
| Allowance for inventories made (included in cost of sales) (note) | 40,605 | 6,874 |
| Amortisation of goodwill included in administrative expenses | – | 1,705 |
| Auditors' remuneration | 1,391 | 1,459 |
| Depreciation and amortisation on | | |
| – owned assets | 35,697 | 49,603 |
| – assets held under finance leases | 6,282 | 1,185 |
| Net (gain) loss on disposal of property, plant and equipment | (1,056) | 631 |
| Dividend income from listed investments | (325) | – |
| Staff costs (including directors' emoluments) | 401,694 | 414,575 |

Note: The amount represents a write-down of inventories to their estimated net realisable values.

9. DIRECTORS' EMOLUMENTS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Directors' fees: | | |
| Executive | 90 | 84 |
| Non-executive | 7 | – |
| Independent non-executive | 77 | 70 |
| Other emoluments of executive directors: | | |
| Salaries and other benefits | 2,878 | 1,158 |
| Discretionary bonus | 50 | 7,000 |
| Contributions to retirement benefits scheme | 120 | 59 |
| Total emoluments | 3,222 | 8,371 |

Notes to the Financial Statements

For the year ended 31 December 2004

9. DIRECTORS' EMOLUMENTS (Continued)

The emoluments of the directors were within the following bands:

| | 2004 Number of Directors | 2003 Number of Directors |
|--------------------------------|--------------------------------|--------------------------------|
| Up to HK\$1,000,000 | 10 | 6 |
| HK\$3,500,001 to HK\$4,000,000 | – | 2 |
| | 10 | 8 |

10. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, none (2003: two) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining five (2003: three) individuals were as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 7,339 | 4,389 |
| Discretionary bonus | 2,213 | 141 |
| Retirement benefits scheme contributions | 104 | 76 |
| | 9,656 | 4,606 |

Notes to the Financial Statements

For the year ended 31 December 2004

10. EMPLOYEES' EMOLUMENTS (Continued)

The emoluments were within the following bands:

| | 2004 Number of employees | 2003 Number of employees |
|--------------------------------|--------------------------------|--------------------------------|
| HK\$1,000,001 to HK\$1,500,000 | 1 | 2 |
| HK\$1,500,001 to HK\$2,000,000 | 2 | 1 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | – |
| HK\$2,500,001 to HK\$3,000,000 | 1 | – |
| | 5 | 3 |

During each of the two years ended 31 December 2004, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments during the year.

11. FINANCE COSTS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interest expense on: | | |
| – bank loans and overdrafts wholly repayable within five years | 8,381 | 8,951 |
| – finance lease | 1,294 | 310 |
| | 9,675 | 9,261 |
| Total borrowing costs | 9,675 | 9,261 |

Notes to the Financial Statements

For the year ended 31 December 2004

12. INCOME TAX EXPENSE

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Current tax: | | |
| Hong Kong Profits Tax Current year | 2,575 | 8,000 |
| (Over)underprovision in prior years | (1,604) | 288 |
| Other jurisdictions | 969 | 686 |
| | 1,940 | 8,974 |
| Deferred taxation (<i>note 35</i>) | 991 | – |
| Taxation attributable to the Company and its subsidiaries | 2,931 | 8,974 |
| Share of taxation attributable to an associate | (552) | (1,481) |
| | 2,379 | 7,493 |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year. The PRC enterprise income tax is calculated at the rates prevailing in the relevant regions.

Notes to the Financial Statements

For the year ended 31 December 2004

12. INCOME TAX EXPENSE (Continued)

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 123,226 | 100,754 |
| Tax at the domestic income tax rate of 17.5% (2003: 17.5%) | 21,565 | 17,632 |
| Tax effect of share of results of associates | 1,401 | (514) |
| Tax effect of expenses that are not deductible in determining taxable profit | 2,602 | 4,411 |
| Tax effect of income that is not taxable in determining taxable profit | (21,061) | (15,545) |
| Tax effect of utilisation of tax losses not previously recognised | (5,589) | (2,340) |
| Tax effect of unrecognised deferred tax asset in respect of tax losses | 4,336 | 3,216 |
| (Over)underprovision of tax expenses in prior years | (1,604) | 680 |
| Effect of different tax rates of operations in other jurisdictions | 729 | (47) |
| Tax expense for the year | 2,379 | 7,493 |

13. DIVIDEND

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Final dividend proposed – 5.7 HK cents (2003: 2 HK cents) per share | 30,229 | 10,607 |

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of approximately HK\$100,896,000 (2003: HK\$66,514,000) and on the number of 530,335,000 (2003: 530,335,000) shares in issue during the year.

No diluted earnings per share is presented as there was no dilutive potential ordinary shares in existence during both years.

Notes to the Financial Statements

For the year ended 31 December 2004

15. BIOLOGICAL ASSETS

| | THE GROUP | |
|--|------------------------------|------------------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Reconciliation of the carrying amounts of fruit trees: | | |
| Litchi fruit trees | | |
| Carrying amount at the beginning of the year | 51,300 | – |
| Increase due to acquisition of a subsidiary | – | 54,187 |
| Gain (loss) arising from changes in fair value less estimated point-of-sale costs | 115 | (2,887) |
| Decrease due to harvest | (115) | – |
| Carrying amount at end of the year | 51,300 | 51,300 |
| Longan fruit trees | | |
| Carrying amount at the beginning of the year | 16,700 | – |
| Increase due to acquisition of a subsidiary | – | 17,640 |
| Gain (loss) arising from changes in fair value less estimated point-of-sale costs | 8 | (940) |
| Decrease due to harvest | (8) | – |
| Carrying amount at end of the year | 16,700 | 16,700 |
| Total carrying amount at end of the year | 68,000 | 68,000 |
| | No. of trees '000 | No. of trees '000 |
| Quantities of fruit trees: | | |
| Litchi fruit trees | 333 | 333 |
| Longan fruit trees | 108 | 108 |
| | 441 | 441 |

Notes to the Financial Statements

For the year ended 31 December 2004

16. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Furniture and leasehold improvements HK\$'000 | Machinery and equipment HK\$'000 | Moulds and tools HK\$'000 | Motor vehicles and vessels HK\$'000 | Total HK\$'000 |
|---|--------------------------------------|---|---|------------------------------------|---|-------------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1 January 2004 | | | | | | |
| – as previously reported | 283,891 | 204,635 | 266,131 | 31,903 | 24,818 | 811,378 |
| – adjustment on adoption of HKAS 40 (note 2) | (38,793) | – | – | – | – | (38,793) |
| – as restated | 245,098 | 204,635 | 266,131 | 31,903 | 24,818 | 772,585 |
| Additions | 3,146 | 16,848 | 11,967 | 2,972 | 2,379 | 37,312 |
| Acquired on acquisition of subsidiaries | 2,422 | 503 | 303 | 871 | 41 | 4,140 |
| Transfer from investment properties | 2,804 | – | – | – | – | 2,804 |
| Disposals | – | (821) | (6,798) | (8,680) | (1,171) | (17,470) |
| At 31 December 2004 | 253,470 | 221,165 | 271,603 | 27,066 | 26,067 | 799,371 |
| Comprising: | | | | | | |
| At cost | 205,961 | 221,165 | 271,603 | 27,066 | 26,067 | 751,862 |
| At valuation | | | | | | |
| – 1988 | 31,112 | – | – | – | – | 31,112 |
| – 1989 | 5,220 | – | – | – | – | 5,220 |
| – 1992 | 204 | – | – | – | – | 204 |
| – 1994 | 10,973 | – | – | – | – | 10,973 |
| | 253,470 | 221,165 | 271,603 | 27,066 | 26,067 | 799,371 |
| DEPRECIATION AND AMORTISATION AND IMPAIRMENT | | | | | | |
| At 1 January 2004 | | | | | | |
| – as previously reported | 78,747 | 164,611 | 221,683 | 26,126 | 17,384 | 508,551 |
| – adjustment on adoption of HKAS 40 (note 2) | (16,268) | – | – | – | – | (16,268) |
| – as restated | 62,479 | 164,611 | 221,683 | 26,126 | 17,384 | 492,283 |
| Provided for the year | 8,008 | 16,479 | 11,951 | 2,993 | 2,548 | 41,979 |
| Eliminated on disposals | – | (784) | (6,508) | (8,332) | (1,103) | (16,727) |
| At 31 December 2004 | 70,487 | 180,306 | 227,126 | 20,787 | 18,829 | 517,535 |
| NET BOOK VALUE | | | | | | |
| At 31 December 2004 | 182,983 | 40,859 | 44,477 | 6,279 | 7,238 | 281,836 |
| At 31 December 2003 – as restated | 182,619 | 40,024 | 44,448 | 5,777 | 7,434 | 280,302 |

Notes to the Financial Statements

For the year ended 31 December 2004

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of land and buildings held by the Group at the balance sheet date comprises:

| | 2004 HK\$'000 | 2003 HK\$'000 (as restated) |
|---|------------------|-----------------------------------|
| Hong Kong | | |
| – held under medium-term lease | 45,831 | 44,232 |
| – held under long-term lease | 16,807 | 17,150 |
| The PRC | | |
| – held under medium-term land use rights | 89,406 | 89,546 |
| – in the process of applying land use rights certificates | 30,939 | 31,691 |
| | 182,983 | 182,619 |

Had land and buildings been carried at cost less accumulated depreciation and impairment loss, the net book value of the Group's land and buildings as at 31 December 2004 would have been approximately HK\$155,000,000 (2003: HK\$155,000,000).

The carrying amount of the Group's plant and equipment includes an amount of approximately HK\$23,682,000 (2003: HK\$16,081,000) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31 December 2004

17. INVESTMENT PROPERTIES

| | THE GROUP HK\$'000 |
|--|-----------------------|
| VALUATION | |
| At 1 January 2003 | |
| – as previously reported | 192,920 |
| – adjustment on adoption of HKAS 40 (note 2) | 22,525 |
| | <hr/> 215,445 |
| – as restated | 215,445 |
| Transfer from land and buildings | 848 |
| Transfer to land and buildings | (24,966) |
| Decrease in fair value during the year | (5,412) |
| | <hr/> 185,915 |
| At 31 December 2003 | 185,915 |
| Transfer to land and buildings | (2,804) |
| Increase in fair value during the year | 25,833 |
| | <hr/> 208,944 |
| At 31 December 2004 | 208,944 |

Investment properties of the Group were valued at their open market value at 31 December 2004 by BMI Appraisals Limited, an independent firm of qualified valuers.

As at 31 December 2004, certain of the Group's investment properties with carrying value of approximately HK\$184,514,000 (2003: HK\$119,000,000) are rented out under operating leases.

Notes to the Financial Statements

For the year ended 31 December 2004

17. INVESTMENT PROPERTIES (Continued)

The carrying amount of investment properties comprises:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------|------------------|------------------|
| Hong Kong | | |
| Long-term leases | 3,700 | 2,800 |
| Medium-term leases | 195,584 | 173,455 |
| | 199,284 | 176,255 |
| The PRC | | |
| Medium-term land use rights | 9,660 | 9,660 |
| | 208,944 | 185,915 |

18. LAND PENDING DEVELOPMENT

| | THE GROUP HK\$'000 |
|-----------------------------------|-----------------------|
| At 1 January 2004 | 5,000 |
| Less: Written off during the year | (5,000) |
| At 31 December 2004 | – |

The land pending development of the Group is situated in the PRC and held under medium-term land use rights.

In the opinion of the Directors, the land is still vacant and the relevant PRC authority may resume the land accordingly. Therefore, a write off of HK\$5 million is recognised in the income statement in the current year.

Notes to the Financial Statements

For the year ended 31 December 2004

19. INTERESTS IN SUBSIDIARIES

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------|------------------|------------------|
| Unlisted shares, at cost | 234,018 | 234,018 |
| Loans to subsidiaries | 844,061 | 831,365 |
| | 1,078,079 | 1,065,383 |

The loans to subsidiaries are unsecured and have no fixed repayment terms. Other than an advance of approximately HK\$15 million to a subsidiary which carries interest at 4% above the Hong Kong prime lending rate per annum, the remaining balances are interest free. In the opinions of the directors, loans to subsidiaries will not be repaid in the next twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Details of the principal subsidiaries are set out in note 47.

20. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Share of net assets | | |
| – Listed associate in Hong Kong | 86,224 | 98,795 |
| – Unlisted associates | 44,012 | 34,463 |
| | 130,236 | 133,258 |
| Less: Impairment loss recognised | (3,341) | (3,341) |
| | 126,895 | 129,917 |
| Advances to associates | 292,917 | 299,893 |
| Less: Allowance for advances to associates | (19,094) | (77,721) |
| | 273,823 | 222,172 |
| | 400,718 | 352,089 |
| Market value of listed associate | 57,059 | 68,471 |

Notes to the Financial Statements

For the year ended 31 December 2004

20. INTERESTS IN ASSOCIATES (Continued)

The advances to associates are unsecured and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and accordingly, they are shown in the balance sheet as non-current. Except for the advances to Firm Wise Investment Limited ("FWIL") (before provision) of approximately HK\$293 million (2003: HK\$291 million) which carries interest at 0.5% per annum, the remaining balances are interest-free.

A total guarantee amount of HK\$174,000,000, in which HK\$139,922,000 was utilised as at 31 December 2004, is given by the Group to secure banking facilities granted to FWIL and is to be matured in August 2008. The advances to FWIL and guarantees given were used to finance a property development project in Hong Kong.

Allowance for advances to associates of approximately HK\$58 million (2003: HK\$41 million) was written back during the year with reference to the valuation of the properties held by an associate performed by an independent professional qualified valuer.

The following details have been extracted from the unaudited financial statements of the Group's significant associate, FWIL, adjusted for the fair value of the investment property as at 31 December 2004 based on the valuation performed by an external qualified professional valuer.

Financial position

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------------|--------------------|--------------------|
| Investment property | 1,410,000 | 1,250,000 |
| Other assets | 18,998 | 24,698 |
| | 1,428,998 | 1,274,698 |
| Trade and other payables | (58,088) | (62,747) |
| Bank borrowings | (463,316) | (504,408) |
| Due to shareholders | (977,589) | (972,726) |
| | (1,498,993) | (1,539,881) |
| Net liabilities | (69,995) | (265,183) |
| Net liabilities shared by the Group | - | - |

Details of the principal associates are set out in note 48.

Notes to the Financial Statements

For the year ended 31 December 2004

21. GOODWILL

| | THE GROUP HK\$'000 |
|--|-----------------------|
| COST | |
| At 1 January 2004 | |
| – as previously reported | 8,029 |
| – adjustment on adoption of HKFRS 3 – elimination of accumulated amortisation (<i>note 2</i>) | (3,036) |
| | <hr/> 4,993 |
| Acquisition of subsidiaries | 3,504 |
| | <hr/> |
| At 31 December 2004 | 8,497 |
| AMORTISATION | |
| At 1 January 2004 | |
| – as previously reported | 3,036 |
| – adjustment on adoption of HKFRS 3 – written off against cost (<i>note 2</i>) | (3,036) |
| | <hr/> |
| As restated and as at 31 December 2004 | – |
| CARRYING AMOUNTS | |
| At 31 December 2004 | 8,497 |
| | <hr/> |
| At 31 December 2003 | 4,993 |
| | <hr/> |

In the opinion of the directors, no material impairment loss is identified for goodwill as at 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

22. NEGATIVE GOODWILL

| | THE GROUP HK\$'000 |
|--|-----------------------|
| GROSS AMOUNT | |
| At 1 January 2004 | 1,114 |
| Adoption of HKFRS 3 – transfer to accumulated profits (<i>note 2</i>) | (1,114) |
| <hr/> | |
| Restated balance as at 1 January 2004 and balance as at 31 December 2004 | – |
| <hr/> | |
| CARRYING AMOUNT | |
| At 31 December 2004 | – |
| <hr/> | |
| At 31 December 2003 | 1,114 |
| <hr/> | |

23. NON-TRADING SECURITIES

| | THE GROUP | |
|--|-----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Equity securities listed in Hong Kong, at market value | 29,844 | 62,588 |
| Club membership | 1,903 | 1,903 |
| <hr/> | | |
| | 31,747 | 64,491 |
| <hr/> | | |

24. INVENTORIES

| | THE GROUP | |
|------------------|-----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 125,863 | 98,168 |
| Work in progress | 118,725 | 105,867 |
| Finished goods | 77,382 | 60,100 |
| <hr/> | | |
| | 321,970 | 264,135 |
| <hr/> | | |

Notes to the Financial Statements

For the year ended 31 December 2004

24. INVENTORIES (Continued)

Included above are finished goods of approximately HK\$13,430,000 (2003: HK\$9,449,000) carried at net realisable value.

The cost of inventories recognised as expenses in the consolidated income statement was approximately HK\$1,727,824,000 (2003: HK\$1,768,839,000).

25. PROPERTIES HELD FOR SALE

The properties of the Group are situated in the PRC and are analysed as follows:

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Held under medium-term land use rights | 19,221 | 19,221 |

26. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group are trade receivables of HK\$224,927,000 (2003: HK\$240,184,000) and their aged analysis is as follows:

| | THE GROUP | |
|-----------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within 90 days | 211,198 | 222,806 |
| 91 to 180 days | 7,386 | 16,943 |
| 181 to 365 days | 6,343 | 435 |
| | 224,927 | 240,184 |

The Group has a policy of granting credit period ranging from 30 days to 90 days to its customers. The credit period granted depends on a number of factors including trade practices, collection history and location of customers.

Notes to the Financial Statements

For the year ended 31 December 2004

27. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts due from/to fellow subsidiaries of the Group and the Company are unsecured, interest free and repayable on demand.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$360,199,000 (2003: HK\$359,168,000) and their aged analysis is as follows:

| | THE GROUP | |
|-----------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within 90 days | 275,422 | 284,848 |
| 91 to 180 days | 69,937 | 63,002 |
| 181 to 365 days | 8,227 | 5,080 |
| Over 365 days | 6,613 | 6,238 |
| | 360,199 | 359,168 |

29. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount is unsecured, bears interest at prevailing market rate and has no fixed repayment terms.

Notes to the Financial Statements

For the year ended 31 December 2004

30. BANK BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Bank overdrafts | 25,702 | 35,259 | – | – |
| Bank loans | 117,220 | 139,195 | 1,170 | 2,003 |
| Trust receipt loans | 88,774 | 66,943 | – | – |
| | 231,696 | 241,397 | 1,170 | 2,003 |
| Analysed as: | | | | |
| Secured | 222,278 | 237,815 | – | – |
| Unsecured | 9,418 | 3,582 | 1,170 | 2,003 |
| | 231,696 | 241,397 | 1,170 | 2,003 |
| The maturity profile of the above borrowings is as follows: | | | | |
| Within one year | 186,063 | 166,287 | 874 | 830 |
| More than one year, but not exceeding two years | 12,346 | 29,502 | 296 | 872 |
| More than two years, but not exceeding five years | 33,287 | 31,646 | – | 301 |
| Over five years | – | 13,962 | – | – |
| | 231,696 | 241,397 | 1,170 | 2,003 |
| Less: Amounts due within one year shown under current liabilities | (186,063) | (166,287) | (874) | (830) |
| | 45,633 | 75,110 | 296 | 1,173 |

Notes to the Financial Statements

For the year ended 31 December 2004

31. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|--------------|---|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| THE GROUP | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | 9,790 | 5,544 | 9,266 | 5,096 |
| In the second to fifth year inclusive | 7,944 | 8,125 | 7,753 | 7,776 |
| | 17,734 | 13,669 | 17,019 | 12,872 |
| Less: Future finance charges | (715) | (797) | – | – |
| Present value of lease obligations | 17,019 | 12,872 | 17,019 | 12,872 |
| Less: Amount due for settlement within 12 months shown under current liabilities | | | (9,266) | (5,096) |
| Amount due for settlement after 12 months | | | 7,753 | 7,776 |

The average lease term is 3 to 5 years (2003: 3 to 5 years). For the year ended 31 December 2004, the average effective borrowing rates ranged from 1.70% to 4.38% (2003: 1.85% to 4.25%) per annum. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Hong Kong dollar.

The fair value of the Group's lease obligations approximates to their carrying amounts.

The Group's obligations under finance leases are secured by the lessor's charge over the Group's leased assets.

Notes to the Financial Statements

For the year ended 31 December 2004

32. SHARE CAPITAL

| | Number of shares | Share capital HK\$'000 |
|---|---------------------|------------------------------|
| Ordinary shares of HK\$0.1 each | | |
| Authorised: | | |
| At 1 January 2003, 31 December 2003 and 31 December 2004 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2003, 31 December 2003 and 31 December 2004 | 530,335,000 | 53,033 |

33. RESERVES

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
|----------------------------|------------------------------|--|------------------------------------|------------------------------------|-------------------|
| THE COMPANY | | | | | |
| At 1 January 2003 | 193,410 | 223 | 195,775 | 149,079 | 538,487 |
| Net loss for the year | - | - | - | (8,201) | (8,201) |
| At 31 December 2003 | 193,410 | 223 | 195,775 | 140,878 | 530,286 |
| Final dividend – 2003 | - | - | - | (10,607) | (10,607) |
| Net loss for the year | - | - | - | (217) | (217) |
| At 31 December 2004 | 193,410 | 223 | 195,775 | 130,054 | 519,462 |

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation in 1992.

Notes to the Financial Statements

For the year ended 31 December 2004

33. RESERVES (Continued)

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2004 amounted to approximately HK\$519,239,000 (2003: HK\$530,063,000).

34. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

35. DEFERRED TAXATION

THE GROUP

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

| | Accelerated tax depreciation | Tax losses | Total |
|------------------------------|---|-----------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2003 | 3,844 | (3,091) | 753 |
| Charge (credit) to income | 1,685 | (1,685) | - |
| Effect of change in tax rate | | | |
| - charge to income | 360 | (360) | - |
| At 31 December 2003 | 5,889 | (5,136) | 753 |
| Charge(credit) to income | 2,466 | (1,475) | 991 |
| At 31 December 2004 | 8,355 | (6,611) | 1,744 |

Notes to the Financial Statements

For the year ended 31 December 2004

35. DEFERRED TAXATION *(Continued)*

THE GROUP *(Continued)*

At 31 December 2004, the Group has unused estimated tax losses of HK\$693,595,000 (2003: HK\$692,327,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$37,777,000 (2003: HK\$29,349,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$655,818,000 (2003: HK\$662,978,000) due to the unpredictability of future profit streams.

THE COMPANY

At 31 December 2004, the Company has unused estimated tax losses of HK\$21,093,000 (2003: HK\$20,864,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream.

36. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

37. ACQUISITION OF SUBSIDIARIES

On 31 March 2004, the Group acquired the remaining 51% issued share capital of Deep Treasure Investments Limited ("Deep Treasure") for a consideration of HK\$5,500,000. Deep Treasure is an investment holding company. Its subsidiaries are principally engaged in the information and technology related business.

During 2003, the Group acquired the entire issued share capital of Spring Joy Industrial Limited ("Spring Joy") from SCH for a consideration of HK\$10,000,000. Spring Joy is an investment holding company, and its subsidiary is principally engaged in the cultivation and sale of agricultural produce in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2004

37. ACQUISITION OF SUBSIDIARIES (Continued)

| | Carrying amounts and fair values | |
|--|-------------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| NET (LIABILITIES) ASSETS ACQUIRED: | | |
| Property, plant and equipment | 4,140 | 1,487 |
| Biological assets | – | 71,827 |
| Interests in associates | 835 | – |
| Inventories | 7,730 | – |
| Trade and other receivables | 10,632 | 158 |
| Bank balances and cash | 1,864 | 29 |
| Trade and other payables | (9,426) | (1,942) |
| Bank borrowings | (6,165) | – |
| Amounts due to group companies | (10,526) | – |
| Amount due to a related company | – | (61,559) |
| Amount due to a minority shareholder of a subsidiary | (733) | – |
| Minority interests | (3,109) | – |
| | (4,758) | 10,000 |
| Reclassified from interests in associates | 6,754 | – |
| Goodwill on acquisition | 3,504 | – |
| Total consideration | 5,500 | 10,000 |
| SATISFIED BY | | |
| Cash | 500 | 10,000 |
| Other receivables | 5,000 | – |
| | 5,500 | 10,000 |
| Net cash inflow (outflow) from acquisition of subsidiaries is as follows: | | |
| Bank balances and cash | 1,864 | 29 |
| Cash consideration paid | (500) | (10,000) |
| Net inflow (outflow) of cash and cash equivalents in respect of acquisition of subsidiaries | 1,364 | (9,971) |

Notes to the Financial Statements

For the year ended 31 December 2004

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

The subsidiaries acquired during the year contributed HK\$49,697,000 to the Group's turnover and a profit of HK\$1,426,000 to the Group's profit from operations. The subsidiaries acquired in 2003 had no significant contributions to the Group's turnover and profit from operations.

Pro forma unaudited Group's revenue and results

If the acquisition had been completed on 1 January 2004, unaudited Group's revenue and Group's profit attributable to the equity holders of the Company for the year ended 31 December 2004 would have been HK\$52,778,000 and HK\$2,195,000 respectively. The pro forma information is presented for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2004, nor is not intended to be a projection of future results.

Notes to the Financial Statements

For the year ended 31 December 2004

38. RELATED PARTY DISCLOSURES

(a) Transactions

Other than those disclosed in note 36, during the year, the Group had significant transactions with related parties as follows:

| Name of related party | Nature of transaction | 2004 HK\$'000 | 2003 HK\$'000 |
|---|--|------------------|------------------|
| SCH Group (note i) | Rental income received (note ii) | 2,324 | 2,170 |
| | Interest income received (note iii) | – | 1,493 |
| | Brokerage fee paid (note v) | 92 | 159 |
| | Interest expense paid (note iii) | 55 | 31 |
| | Purchase of plant and equipment (note ii) | 2 | – |
| | Repair and maintenance income received (note ii) | 9 | – |
| | Management fees paid (note ii) | – | 6,000 |
| | Promotion and marketing fees paid (note ii) | – | 6,240 |
| Associates | Interest income (note iv) | 1,457 | 1,425 |
| | Management fees received (note ii) | – | 2,273 |
| Jessica Management Limited (note vi) | Rental income received (note ii) | 241 | 241 |
| | Subscription of magazines paid (note ii) | 11 | – |
| Capital Publishing Management Ltd (note vi) | Rental income received (note ii) | 240 | 171 |

Notes:

- (i) SCH is the ultimate holding company of the Company. SCH together with its subsidiaries (other than shareholders of the Group) are collectively referred to as the "SCH Group".
- (ii) These transactions were carried out on terms determined and agreed by both parties.
- (iii) Interest was charged at rates agreed between the parties.

Notes to the Financial Statements

For the year ended 31 December 2004

38. RELATED PARTY DISCLOSURES (Continued)

(a) Transactions (Continued)

- (iv) Interest was charged at 0.5% per annum on the outstanding advances to an associate.
- (v) These transactions were chargeable at rate agreed between the parties.
- (vi) Mr. Ng Hung Sang, Robert, a director of the Company, is also a director and substantial shareholder of these companies.

(b) Balances

Details of the balances with related companies at the balance sheet date are set out in notes 27, 29 and 36.

(c) Guarantee

Details of a guarantee given by the Group to an associate are set out in note 41.

39. OPERATING LEASES ARRANGEMENTS

The Group as lessee

The minimum lease payments of the Group paid for premises under operating leases during the year were HK\$12,365,000 (2003: HK\$9,998,000).

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

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | 8,562 | 7,415 |
| In the second to fifth year inclusive | 26,253 | 26,397 |
| Over five years | 77,813 | 83,387 |
| | 112,628 | 117,199 |

Operating leases payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a range of 3 months to 50 years and rentals are fixed for an average of 1 to 50 years.

Notes to the Financial Statements

For the year ended 31 December 2004

39. OPERATING LEASES ARRANGEMENTS (Continued)

The Group as lessor

Property rental income earned by the Group during the year was approximately HK\$11,632,000 (2003: HK\$10,905,000). The properties are expected to generate rental yield of 5% on an ongoing basis. All of the properties held have committed tenants up to the next five 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 | 7,524 | 8,218 |
| In the second to fifth year inclusive | 5,154 | 5,227 |
| | 12,678 | 13,445 |

40. CAPITAL COMMITMENTS

| | THE GROUP | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Capital expenditure contracted but not provided for in the financial statements in respect of acquisition of: | | |
| – property, plant and equipment | 3,984 | 16,189 |
| – land use rights | 4,192 | 5,660 |
| | 8,176 | 21,849 |

As at 31 December 2004, the Company did not have any material capital commitments (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

41. CONTINGENT LIABILITIES

(i) Guarantees

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Guarantees to banks in respect of banking facilities utilised by | | | | |
| – FWIL | 139,922 | 151,322 | – | – |
| – subsidiaries | – | – | 126,420 | 112,181 |
| Undertaking to a former associate for banking facilities utilised by to the associate | 13,526 | 13,526 | 13,526 | 13,526 |
| Undertaking to a subsidiary to guarantee a minimum net profit | – | – | – | 6,000 |
| | 153,448 | 164,848 | 139,946 | 131,707 |

(ii) Outstanding litigations

In the course of its normal business, the Group also had outstanding claims and counter claims arising from its investment and operating activities. In the opinion of the directors, ultimate resolution of these claims and counter claims will not have a material impact on its financial position or the results for the year.

Notes to the Financial Statements

For the year ended 31 December 2004

42. PLEDGES OF ASSETS

At 31 December 2004, certain of the Group's assets were pledged to secure the banking facilities granted to the Group, as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Net book value of pledged assets: | | |
| Property, plant and equipment | 94,607 | 86,212 |
| Investment properties | 196,484 | 151,630 |
| Inventories | 88,773 | 66,943 |
| Bank deposits | 14,450 | 11,900 |
| | 394,314 | 316,685 |

43. NON-CASH TRANSACTIONS

Additions to plant and equipment during the year amounting to approximately HK\$12,338,000 (2003: HK\$15,166,000) were financed by new finance leases.

44. SHARE OPTION SCHEMES

The directors and employees of the Company, its holding companies and its subsidiaries are entitled to participate in share option schemes operated by the Company, its holding companies and its subsidiaries. Details of these schemes are as follows:

The Company, SCH and SCB share option schemes

In order to provide the Company, SCH and SCB (collectively the "Companies") with a flexible means of giving incentives to or rewarding to the participants for their contribution to the Companies and to enable the Companies to attract and retain employees of appropriate qualifications and with necessary experience to work for the Companies and any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of the respective Companies have approved the adoption of the share option schemes (the "Share Option Schemes") at the respective annual general meetings held on 31 May 2002.

Notes to the Financial Statements

For the year ended 31 December 2004

44. SHARE OPTION SCHEMES (Continued)

The Company, SCH and SCB share option schemes (Continued)

According to the Companies' Share Option Schemes, the respective board may, at its absolute discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares:

- (i) any executive director, employee or proposed employee (whether full time or part time) of any member of the relevant group or any Invested Entity or substantial shareholder;
- (ii) any non-executive directors (including any independent non-executive directors) of any member of the relevant group or any Invested Entity or substantial shareholder;
- (iii) any individual for the time being seconded to work for any member of the relevant group or any Invested Entity or substantial shareholder;
- (iv) any shareholder of any member of the relevant group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the relevant group or any Invested Entity or substantial shareholder;
- (v) any business partner, consultant or contractor of any member of the relevant group or any Invested Entity or substantial shareholder;
- (vi) any supplier of goods or services to any member of the relevant group or any Invested Entity or substantial shareholder;
- (vii) any customer of any member of the relevant group or any Invested Entity or substantial shareholder;
- (viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the relevant group or any Invested Entity or substantial shareholder; and
- (ix) any company wholly owned by one or more persons belonging to any of the above classes of participants.

The Share Option Schemes will remain in force for a period of 10 years commencing on the date on which it became unconditional on 18 June 2002 (the "Effective Date").

Notes to the Financial Statements

For the year ended 31 December 2004

44. SHARE OPTION SCHEMES *(Continued)*

The Company, SCH and SCB share option schemes *(Continued)*

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the respective Share Option Schemes to each participant in any 12-month period must not exceed 1% of the issued share capital of the respective Companies for the time being respectively unless otherwise approved by the shareholders and the shareholders of the holding company, if applicable. An amount of HK\$1 for each lot of share options granted is payable upon acceptance of the options within 5 business days from the date of offer of the option.

The respective board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the Effective Date. The respective board may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

The exercise price is determined by the respective board, and shall be at least the highest of: (i) the closing price of the respective Companies' shares as stated in the Stock Exchange's daily quotations sheet on the date of offer; (ii) the average closing price of the respective Companies' shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the respective Companies' shares.

There is no specific requirement under the Share Option Schemes that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Schemes provide that the respective board has the discretion to impose a minimum period at the time of grant of any particular option.

The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes and any other share option schemes of the respective Companies shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

A total of 53,033,474 shares of the Company are available for issue under the Company's Share Option Scheme, which represents 10% of the issued share capital of the Company as at the date of this report.

A total of 182,340,137 shares of SCH are available for issue under the SCH Share Option Scheme, which represents 10% of the issued share capital of SCH as at the date of this report.

Notes to the Financial Statements

For the year ended 31 December 2004

44. SHARE OPTION SCHEMES *(Continued)*

The Company, SCH and SCB share option schemes *(Continued)*

A total of 486,193,674 shares of SCB are available for issue under the SCB Share Option Scheme, which represents approximately 10% of the issued shares capital of SCB as at the date of this report.

Details of the principal terms of the Share Option Schemes are set out in the circulars of the respective Companies dated 30 April 2002 respectively.

No share options have been granted under the Share Option Schemes since their adoption. No valuation of share options was made as no option has been granted under the Share Option Schemes.

45. RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% respectively of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The funded contributions made by the Group and related accrued interest are used to reduce the employer's contribution.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Notes to the Financial Statements

For the year ended 31 December 2004

45. RETIREMENT BENEFITS SCHEMES (Continued)

The employees of the Group's subsidiaries in other regions of the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute 12% to 30% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

During the year, the aggregate employer's contribution made by the Group and charged to the consolidated income statement were approximately HK\$20,600,000 (2003: HK\$13,810,000) after deduction of forfeited contributions of approximately HK\$306,000 (2003: HK\$1,122,000). At the balance sheet dates, there were no material forfeited contributions, which arose upon employees leaving the ORSO Scheme, available to reduce the contributions payables in future years.

46. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into six operating divisions – trading and manufacturing, information technology, property development, investment holding, travel business and agriculture produce. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- | | | |
|---------------------------|---|---|
| Trading and manufacturing | – | trade and manufacture of merchandise including toys, compressors, shoes, metal tooling, leather products, motor, machinery, capacitors and clothing |
| Information technology | – | information technology related business |
| Property development | – | property development and investment |
| Investment holding | – | investment holding and others |
| Travel business | – | sales of travel-related products and services |
| Agriculture produce | – | cultivation of fruit trees and sales of fruits |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

2004

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| REVENUE | | | | | | | |
| External sales | 1,929,720 | 64,194 | 11,632 | - | 1,463,498 | 1,127 | 3,470,171 |
| RESULTS | | | | | | | |
| Segment results | 28,998 | (284) | 28,264 | 15,397 | 17,697 | (4,635) | 85,437 |
| Finance costs | | | | | | | (9,675) |
| Share of results of associates | (13,426) | (728) | 2,991 | - | - | - | (11,163) |
| Allowance for advances to associates written back | - | - | 58,627 | - | - | - | 58,627 |
| Profit before taxation | | | | | | | 123,226 |
| Income tax expense | | | | | | | (2,379) |
| Profit before minority interests | | | | | | | 120,847 |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2004

Balance Sheet

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|-----------------------------------|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| ASSETS | | | | | | | |
| Segment assets | 892,585 | 56,637 | 228,165 | 31,747 | 102,204 | 76,996 | 1,388,334 |
| Interests in associates | 126,835 | 1,754 | 272,129 | - | - | - | 400,718 |
| Unallocated corporate assets | | | | | | | 6,684 |
| Consolidated total assets | | | | | | | <u>1,795,736</u> |
| LIABILITIES | | | | | | | |
| Segment liabilities | 282,282 | 34,457 | 122,760 | - | 60,039 | 2,023 | 501,561 |
| Unallocated corporate liabilities | | | | | | | 256,763 |
| Consolidated total liabilities | | | | | | | <u>758,324</u> |

Other Information

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| Capital additions | 31,470 | 7,702 | - | - | 1,146 | 498 | 40,816 |
| Depreciation and amortisation of property, plant and equipment | 38,622 | 974 | 429 | 162 | 1,023 | 769 | 41,979 |
| Allowance for inventories made | 40,605 | - | - | - | - | - | 40,605 |
| Impairment loss recognised in the consolidated income statement | - | - | 5,000 | - | - | - | 5,000 |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2003

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| REVENUE | | | | | | | |
| External sales | 1,991,527 | 37,378 | 10,905 | - | 1,079,335 | - | 3,119,145 |
| RESULTS | | | | | | | |
| Segment results | 68,918 | (4,546) | 1,234 | 6,871 | 9,039 | (7,084) | 74,432 |
| Finance costs | | | | | | | (9,261) |
| Share of results of associates | (6,390) | (2,530) | 3,393 | - | - | - | (5,527) |
| Allowance for advances to associates write back | - | - | 41,110 | - | - | - | 41,110 |
| Profit before taxation | | | | | | | 100,754 |
| Income tax expense | | | | | | | (7,493) |
| Profit before minority interests | | | | | | | 93,261 |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2003

Balance Sheet

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|-----------------------------------|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| ASSETS | | | | | | | |
| Segment assets | 880,222 | 10,099 | 187,610 | 64,491 | 125,189 | 78,353 | 1,345,964 |
| Interests in associates | 139,027 | 3,237 | 209,825 | - | - | - | 352,089 |
| Consolidated total assets | | | | | | | <u>1,698,053</u> |
| LIABILITIES | | | | | | | |
| Segment liabilities | 256,186 | 4,959 | 87,522 | - | 116,159 | 2,486 | 467,312 |
| Unallocated corporate liabilities | | | | | | | <u>263,617</u> |
| Consolidated total liabilities | | | | | | | <u>730,929</u> |

Other Information

| | Trade and manufacturing HK\$'000 | Information technology HK\$'000 | Property development HK\$'000 | Investment holding HK\$'000 | Travel business HK\$'000 | Agriculture produce HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------------|-------------------|
| Capital additions | 58,387 | 45 | - | - | 667 | 95 | 59,194 |
| Depreciation and amortisation of property, plant and equipment | 46,588 | 476 | 2,278 | - | 875 | 571 | 50,788 |
| Impairment losses recognised in the consolidated income statement | - | - | - | 2,013 | - | - | 2,013 |
| Amortisation of goodwill | 499 | - | - | - | - | 1,206 | 1,705 |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The following table provides an analysis of the Group's sales and results by geographical market, irrespective of the origin of the goods/services:

| | Sales revenue by geographical market | | Profit from operations by geographical market | |
|--------------------------------------|---|------------------|---|--------------------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 (restated) |
| PRC including Hong Kong and Macau | 1,693,627 | 1,299,566 | 55,145 | 24,260 |
| The United States of America | 1,162,240 | 1,214,145 | 24,433 | 37,949 |
| Europe | 463,511 | 463,910 | 3,950 | 9,159 |
| Japan | 20,027 | 47,405 | 163 | 891 |
| Other | 130,766 | 94,119 | 1,746 | 2,173 |
| | 3,470,171 | 3,119,145 | 85,437 | 74,432 |

Notes to the Financial Statements

For the year ended 31 December 2004

46. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets as at | | Additions to property, plant and equipment and intangible assets as at | |
|--------------------------|---|------------------|--|---------------|
| | 31.12.2004 | 31.12.2003 | 31.12.2004 | 31.12.2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 551,399 | 595,441 | 4,869 | 8,033 |
| Other regions in the PRC | 836,073 | 750,523 | 35,511 | 51,161 |
| Macau | 862 | – | 436 | – |
| | 1,388,334 | 1,345,964 | 40,816 | 59,194 |

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation or registration/ and operations | Class of share held | Issued and fully paid share capital/ registration capital | Percentage of issued capital held by the subsidiaries | Percentage of issued capital attributable to the Group (note a) | Principal activities |
|--------------------------------------|--|--|---|---|--|-----------------------|
| Buji Soft Toys Company (BVI) Limited | British Virgin Islands/ The PRC | Ordinary | US\$1,000 | 100% | 62.3% | Manufacturing of toys |
| Buji Soft Toys Company Limited | Hong Kong | Ordinary Non-voting Deferred (note b) | HK\$20 HK\$6,000,000 | 100% | 62.3% | Trading in toys |

Notes to the Financial Statements

For the year ended 31 December 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation or registration/ and operations | Class of share held | Issued and fully paid share capital/ registration capital | Percentage of issued capital held by the subsidiaries | Percentage of issued capital attributable to the Group (note a) | Principal activities |
|--|--|---------------------------------------|---|---|--|--|
| Chongqing Fortuna Information Technology Co. Ltd. (note c) | The PRC | Registered Capital | RMB3,330,000 | 88% | 80.8% | Information and technology related business |
| Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd. (note c) | The PRC | Registered Capital | RMB3,500,000 | 65% | 65% | Information and technology related business |
| Chongqing South China Zenith Information Technology Co. Ltd. (note c) | The PRC | Registered Capital | RMB20,000,000 | 60% | 60% | Information and technology related business |
| Copthorne Holdings Corp. | Republic of Panama/ Hong Kong | Ordinary | US\$200 | 100% | 62.3% | Property investment |
| Guangdong Huaxing Fruit Development Co. Ltd (note d) | The PRC | Registered Capital | USD6,305,688 | 100% | 100% | Fruit plantation |
| Hong Kong Four Seas Tours Limited | Hong Kong | Ordinary Non-voting Deferred (note b) | HK\$20,800,000 HK\$1,200,000 | 100% | 100% | Sale of air tickets and provision of travel related services |
| Man Wah Trading Limited | Hong Kong | Ordinary | HK\$10,000 | 100% | 62.3% | Investment in securities |
| Micon Limited | Hong Kong | Ordinary | HK\$2 | 100% | 100% | Investment holding |
| Shenyang Hung Kai Sheng Yip Real Estate Development Company Limited (note e) | The PRC | Unpaid Registered Capital | US\$10,000,000 | 100% | 62.3% | Real estate development and inactive during the year |
| Shenyang Shenglian Electronics Science & Technology Ltd. (note c) | The PRC | Registered Capital | RMB4,000,000 | 70% | 70% | Information and technology related business |

Notes to the Financial Statements

For the year ended 31 December 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation or registration/ and operations | Class of share held | Issued and fully paid share capital/ registration capital | Percentage of issued capital held by the subsidiaries | Percentage of issued capital attributable to the Group (note a) | Principal activities |
|---|--|---------------------|---|---|---|---|
| Shineway Investments Limited | Hong Kong | Ordinary | HK\$500,000 | 100% | 62.3% | Trading of shoes |
| South China Garments Company Limited | Hong Kong | Ordinary | HK\$500,000 | 100% | 100% | Trading of garments |
| South China Industries (BVI) Limited | British Virgin Islands/ Hong Kong | Ordinary | US\$10,000 | 100% | 100% | Investment holding |
| South China Leather Chemical Products Company (HK) Limited | Hong Kong | Ordinary | HK\$2 | 100% | 100% | Trading of leather chemical products |
| South China Leesheng Sporting Goods Co., Limited | Hong Kong | Ordinary | HK\$2 | 100% | 100% | Trading of sports products |
| South China Machinery Limited | Hong Kong | Ordinary | HK\$10,000 | 60% | 60% | Trading of machinery |
| South China Shoes Products Company Limited | Hong Kong | Ordinary | HK\$500,000 | 100% | 62.3% | Trading of shoes |
| South China Strategic Limited | Hong Kong | Ordinary | HK\$308,594,000 | 100% | 100% | Investment holding |
| South China Strategic Property Development Limited | Hong Kong | Ordinary | HK\$5,000,000 | 100% | 100% | Property development and investment holding |
| Strategic Finance Limited | Hong Kong | Ordinary | HK\$2 | 100% | 100% | Provision of financing services |
| Tianjin South China Leather Chemical Products Co. Ltd. (note c) | The PRC | Registered Capital | RMB19,681,600 | 80% | 80% | Manufacturing of leather products |
| Tianjin South China Li Sheng Sports Wears Co. Ltd. (note c) | The PRC | Registered Capital | RMB9,940,167 | 80% | 80% | Manufacturing of sports products |

Notes to the Financial Statements

For the year ended 31 December 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation or registration/ and operations | Class of share held | Issued and fully paid share capital/ registration capital | Percentage of issued capital held by the subsidiaries | Percentage of issued capital attributable to the Group (note a) | Principal activities |
|--|--|--|---|---|--|--|
| Tianjin South China Shoes Products Co. Ltd (note c) | The PRC | Registered Capital | RMB36,100,200 | 80% | 49.8% | Manufacturing of leather footwear products |
| Wah Shing Electronics Company Limited | Hong Kong/ The PRC | Ordinary | HK\$571,500 | 70% | 43.6% | Manufacturing of toys |
| Wah Shing International Holdings Limited (listed on The Singapore Exchange Securities Trading Limited) | Bermuda/ Hong Kong | Ordinary | HK\$54,432,000 | 62.3% | 62.3% | Investment holding |
| Wah Shing Toys Company Limited | Hong Kong | Ordinary Non-voting Deferred (note b) | HK\$2 HK\$3,020,002 | 100% | 62.3% | Trading of toys and investment holding |

Notes:

- Except South China Industries (BVI) Limited, the principal subsidiaries of the Group are all held indirectly by the Company.
- The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.
- These are sino-foreign equity joint venture established in the PRC.
- This is a wholly foreign owned equity enterprise established in the PRC.
- The official registered name is 瀋陽鴻基盛業房地產開發有限公司 and Shenyang Hung Kai Sheng Yip Real Estate Development Company Limited is used for identification only.

Notes to the Financial Statements

For the year ended 31 December 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above summary lists only the subsidiaries of the Group which, in the opinion of the Company's Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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

48. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2004 are as follows:

| Name of associates | Place of incorporation/ registration and operations | Class of share held | Percentage of equity interest indirectly held by the Group | Principal activities |
|---|---|---------------------|--|--|
| FWIL | Hong Kong | Ordinary | 30% | Property development |
| Giant Riches Limited | Hong Kong | Ordinary | 25% | Sale of properties |
| Nanjing South China Dafang Electric Co., Ltd. | PRC | Registered Capital | 51% | Manufacturing of electrical motors |
| Nority International Group Limited (listed on the Stock Exchange) | Cayman Islands/ PRC | Ordinary | 42.5% | Manufacturing of shoes and footwear products |
| Tianjin South China Tools (Holdings) Co., Ltd. | PRC | Registered Capital | 51% | Manufacturing of tools |

In determining whether an investment should be classified as an associate, the directors have also considered whether the Group is in a position to exercise significant influence over the investment even though its interest therein is less than 20% or whether the Group can exercise control over the investment even though its interest therein is more than 50%.

The above associates established in the PRC are sino-foreign equity joint venture companies.

The above summary lists only the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.