1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Profit Harbour Investments Limited ("Profit Harbour"), a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27.

As announced by the Company on 17 June 2003, following allegations about certain former directors of the Company, two receivers were appointed by the High Court of Hong Kong ("High Court") on 17 June 2003 (the "Receivers") to assume the powers to manage the affairs of the Company.

On 26 April 2004, the present executive directors of the Company were appointed and on 2 July 2004, the powers to manage the affairs of the Company were returned to the present directors (the "Directors") after the discharge of the Receivers.

2. Basis of Preparation of Financial Statements for the Year Ended 31 December 2003

Following the assumption of powers to manage the affairs of the Company on 2 July 2004, the Directors have found that the Group's accounting records and supporting vouchers for the year ended 31 December 2003 were incomplete. Accordingly, the financial statements of the Company and of the Group for the year ended 31 December 2003 had been prepared based on the management accounts prepared by the Receivers on the basis of the information available to them. However, the Receivers were not in a position to verify the validity or authenticity of any of such information or records made available to them or to give representation that all transactions affecting the Group have been included in the management accounts. The Receivers therefore disclaimed all liabilities in respect of the completeness and accuracy of the management accounts of the Group for the year ended 31 December 2003.

In addition, the Receivers had only limited access to the books and records of certain of the Company's subsidiaries, Park Well International Group Limited ("Park Well") and its subsidiaries (the "Park Well Group"). Accordingly, the management accounts of Park Well Group as at 31 March 2003 were used by the Receivers in the preparation of the Group's management accounts for the year ended 31 December 2003.

Against this background, the Directors do not represent that the comparative figures extracted from the financial statements for the year ended 31 December 2003 are free from material misstatement.

During the year under review, efforts have been made by the Directors to recover and reconstruct the books and records of the Group. An independent professional accounting firm was appointed to perform an entry by entry review and reconstruct where necessary the financial information prepared by the Receivers for the period from 1 January 2004 to 1 July 2004.

2. Basis of Preparation of Financial Statements for the Year Ended 31 December 2003 (Continued)

Based on the work conducted as described above, the Directors are satisfied that the financial statements for the year ended 31 December 2004 are free from material omissions or misstatements except that the Directors had no access to the books and records of Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong") since 1 April 2003, a company established in the People's Republic of China with its entire equity interest held by the Group. Chaoyang Hua Loong was de-consolidated from the Group's consolidated financial statements with effect from 1 January 2004.

In light of the above, except for the reserves relating to Chaoyang Hua Loong, the Directors are satisfied that the opening reserves of the Company and the Group as at 1 January 2004 are free from material misstatement.

3. Potential Impact Arising from the Recently Issued Accounting Standards

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (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.

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.

4. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention 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.

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

Investments in subsidiaries

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

4. Significant Accounting Policies (Continued)

Property, plant and equipment

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

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, 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	Over the shorter of the term of the lease, or 50 years
Plant and machinery	12%
Furniture, fixtures and equipment	20-33$\frac{1}{3}$%

The gain or loss arising on the 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.

Investments in securities

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

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

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

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

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 loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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.

4. Significant Accounting Policies (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed or when the relevant sales contracts become unconditional.

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

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 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 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 (other than in a business combination) 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, 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.

4. 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 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.

Retirement benefits costs

Payments to retirement benefits scheme are charged as an expense as they fall due.

5. Turnover

Turnover represents the amount received and receivable for goods sold by the Group to outsider customers, less returns and allowances for the year, and is analysed as follows:

	2004 **HK$'000**	2003 HK$'000
Trading – base metals	**13,522**	53,827
– fabric products and other merchandises	**8,783**	8,371
	22,305	62,198

6. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into two operating divisions–trading in base metals and trading in fabric products and other merchandises. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Continuing operations:

Trading in base metals	–	trading in base metals
Trading in fabric products and other merchandises	–	trading in fabric products and other merchandises

Discontinued operation:

Fabric processing	–	processing of raw fabric and the sale of finished fabric

In 2002, former directors of the Company determined to cease the Group's fabric processing operation. As a result, no results were contributed to the Group by the fabric processing operation during the year ended 31 December 2003 and the carrying amounts of the assets and liabilities of the fabric processing operation represented the assets and liabilities of Chaoyang Hua Loong at 31 December 2003. Chaoyang Hau Loong was de-consolidated from the Group with effect from 1 January 2004, hence, except for the gain on de-consolidation of a subsidiary and allowance made on advance to an investee company, no results, assets and liabilities were attributable to the fabric processing operation during the year ended 31 December 2004. Details are set out in note 13.

6. Business and Geographical Segments (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

2004

	Continuing operations: Trading in base metals HK$'000	Continuing operations: Trading in fabric products and other merchandises HK$'000	Discontinued operation: Fabric processing HK$'000	Consolidated HK$'000
Results				
Turnover				
External sales	13,522	8,783	–	22,305
Results				
Segment profit	121	393	–	514
Unallocated corporate expenses				(23,265)
Interest on bank and other borrowings wholly repayable within five years				(335)
Allowance for advance to an investee company	–	–	(24,806)	(24,806)
Gain on de-consolidation of a subsidiary	–	–	11,624	11,624
Loss before taxation				(36,268)
Income tax expense				(31)
Loss for the year				(36,299)
Balance Sheet				
Assets				
Segment assets	622	6,635	–	7,257
Unallocated corporate assets				50,271
Consolidated total assets				57,528
Liabilities				
Segment liabilities	1,287	3,467	–	4,754
Unallocated corporate liabilities				37,394
Consolidated total liabilities				42,148

6. Business and Geographical Segments (Continued)

Business segments (Continued)

2003

	Continuing operations		Discontinued operation	
	Trading in base metals HK$'000	Trading in fabric products and other merchandises HK$'000	Fabric processing HK$'000	Consolidated HK$'000
Results				
Turnover				
External sales	53,827	8,371	–	62,198
Results				
Segment (loss) profit	(7,509)	81	–	(7,428)
Unallocated corporate expenses				(47,389)
Interest on bank borrowings wholly repayable within five years				(118)
Loss for the year				(54,935)
Balance Sheet				
Assets				
Segment assets	688	–	23,743	24,431
Unallocated corporate assets				52,341
Consolidated total assets				76,772
Liabilities				
Segment liabilities	724	563	515	1,802
Unallocated corporate liabilities				23,291
Consolidated total liabilities				25,093

6. Business and Geographical Segments (Continued)

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2004	2003
	HK$'000	HK$'000
Hong Kong	**14,788**	62,198
Africa	**7,517**	–
	22,305	62,198

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**7,257**	688	**–**	2
The PRC	**–**	23,743	**–**	–
	7,257	24,431	**–**	2

7. Loss from Operations

	2004 HK$'000	2003 HK$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**430**	350
Depreciation and amortisation	**17**	77
Loss on disposal of property, plant and equipment	**112**	–
Staff costs, including directors' emoluments (Note 8)	**496**	1,173
Retirement benefits scheme contributions, net of nil (2003: Nil) forfeited contributions	**15**	28
and after crediting:		
Interest income from bank deposits	**4**	35

8. Directors' and Employees' Emoluments

	2004 HK$'000	2003 HK$'000
Directors fees:		
Executive directors	**–**	–
Independent non-executive directors	**60**	–
Total emoluments	**60**	–

Of the five individuals with the highest emoluments in the Group, one (2003: none) individual was a director of the Company whose emoluments are included in the disclosure set out above. The aggregate emoluments of the five highest paid individuals were as follows:

	2004 HK$'000	2003 HK$'000
Salaries and allowances	**456**	907
Retirement benefits scheme contributions	**15**	25
	471	932

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

9. Income Tax Expense

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

In the absence of complete books and records of the Group for the year ended 31 December 2003, the Directors are unable to quantify the effect and make appropriate disclosures in respect of deferred taxation in accordance with the requirements of Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" issued by the HKICPA for that year.

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

	2004 **HK$'000**
Loss before taxation	**(36,268)**
Tax at Hong Kong Profits Tax rate of 17.5%	**(6,347)**
Tax effect of expenses not deductible for tax purpose	**8,309**
Tax effect of income not taxable for tax purpose	**(2,051)**
Tax effect of tax loss not recognised	**120**
Tax charge for the year	**31**

At 31 December 2004, the Group had unused tax losses of approximately HK$23,702,000 (2003: HK$23,018,000) 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 streams. The tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation during the year or at the balance sheet date.

10. Loss Per Share

The calculation of the basic loss per share is based on the loss for the year of HK$36,299,000 (2003: HK$54,935,000) and on 413,000,000 (2003: a weighted average number of 391,082,192) shares in issue during the year.

Diluted loss per share has not been presented for the year ended 31 December 2004 as there were no potential dilutive shares outstanding during the year.

Diluted loss per share had not been presented for the year ended 31 December 2003 as the share options outstanding during that year had an anti-dilutive effect on the basic loss per share.

11. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
The Group				
Cost				
At 1 January 2004	47,578	24,985	1,017	73,580
Disposals	–	–	(201)	(201)
De-consolidation of a subsidiary	(47,578)	(24,985)	–	(72,563)
At 31 December 2004	–	–	816	816
Depreciation, Amortisation and Impairment Loss				
At 1 January 2004	33,030	15,790	865	49,685
Provided for the year	–	–	17	17
Eliminated on disposals	–	–	(89)	(89)
De-consolidation of a subsidiary	(33,030)	(15,790)	–	(48,820)
At 31 December 2004	–	–	793	793
Net Book Value				
At 31 December 2004	–	–	23	23
At 31 December 2003	14,548	9,195	152	23,895

The leasehold land and buildings of the Group were situated in the PRC and held under medium-term land use rights.

12. Interests in Subsidiaries

	The Company	
	2004	2003
	HK$'000	HK$'000
Unlisted investments	**75,274**	75,274
Amounts due from subsidiaries, less allowances	**32,121**	46,508
	107,395	121,782
Less: Impairment loss	**(75,274)**	(75,274)
	32,121	46,508

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

At the balance sheet date, the Directors had reviewed the carrying value of the investments in subsidiaries and identified that the recoverable amounts of certain subsidiaries were estimated to be lower than the carrying values of the investment in the respective subsidiary. The recoverable amount was determined by the Directors with reference to the existing operation plan and the recoverable value of the underlying assets and liabilities of the respective subsidiaries.

Particulars of the Company's subsidiaries at 31 December 2004 are set out in note 27.

13. Investment in Security

	The Group	
	2004	2003
	HK$'000	HK$'000
Overseas unlisted investment security (Note 19)	**–**	–
Advance to an investee company	**24,806**	–
Less: Allowance	**(24,806)**	–
	–	–

13. Investment in Security (Continued)

The investment represents a 100% equity interest in the registered capital of Chaoyang Hua Loong, a company established in the PRC which is engaged in fabric processing and manufacturing. On 12 April 2003, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of Park Well, including the 100% equity interest in Chaoyang Hua Loong held by a wholly-owned subsidiary of Park Well, to Show Goods Inc., a company incorporated in the British Virgin Islands, (the "Park Well Disposal Agreement"). Based on the Receivers' investigations, they are of the view that despite the Park Well Disposal Agreement, the purported disposal of Park Well was rescinded and not completed and therefore the Company remains to be the beneficial owner of Park Well. The Receivers had since then taken steps to secure control over various companies comprising the Park Well Group. However, Chaoyang Hua Loong remains not under the control of the Company. Having obtained legal advice, in the opinion of the Directors, the Group is still unable to exercise control over the financial and operating decisions of Chaoyang Hua Loong. Accordingly, Chaoyang Hua Loong was not regarded as a subsidiary of the Company with effect from 1 January 2004 and was accounted for as an investment security and stated in the consolidated balance sheet at 31 December 2004 at nil value. Details of this are set out in note 19.

The advance to Chaoyang Hua Loong is unsecured, non-interest bearing and has no fixed terms of repayment. Despite the efforts placed by the Directors to secure control over Chaoyang Hua Loong and its related assets and in light of the events described above, the Directors have made full allowance against the advance to Chaoyang Hua Loong in the interests of prudence.

14. Trade and Other Receivables

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2004	2003
	HK$'000	HK$'000
Trade receivables – 0 to 30 days	**7,249**	–
Other receivables	**35,327**	36,046
	42,576	36,046

The balance at the balance sheet date includes an amount of approximately HK$35.1 million (2003: HK$35.1 million) receivable from Great Center Limited. Details of this debt, and related litigations, are set out in notes 22(i) to (iii).

15. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2004	2003
	HK$'000	HK$'000
Trade payables		
0 to 30 days	**3,069**	–
Over 365 days	**1,287**	1,287
	4,356	1,287
Other payables	**22,737**	13,736
	27,093	15,023

16. Secured Other Loans

The secured other loans are secured, bear interest at the rate of 12% per annum and are wholly repayable within one year from the balance sheet date. Details of the assets pledged are set out in note 23.

17. Share Capital

	Number of ordinary shares of HK$0.10 each	Amount
		HK$'000
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	288,000,000	28,800
Shares issued in March 2003 (Note)	125,000,000	12,500
At 31 December 2003 and 31 December 2004	413,000,000	41,300

Note: Pursuant to a subscription agreement dated 6 March 2003, Angel Field Limited ("Angel Field"), the former substantial shareholder of the Company, subscribed for 125,000,000 shares of HK$0.10 each in the Company at a price of HK$0.40 per share. These new shares were approved by the independent shareholders of the Company by way of an ordinary resolution passed on 2 April 2003 and they ranked pari passu with the other shares then in issue in all respects. The issued price of HK$0.40 represented a premium of approximately 3.2% to the average closing price of HK$0.3787 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 March 2003.

18. Share Options Schemes

(i) The 2002 scheme

A share option scheme was adopted by the Company pursuant to a resolution passed on 7 June 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 6 June 2012 (the "2002 Scheme"). Under the 2002 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Pursuant to an ordinary resolution passed on 22 September 2004, the 2002 Scheme was terminated.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 7 June 2002, being the date of passing of the resolution regarding the 2002 Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

As explained in note 2, in light of the incomplete books and records maintained by the Company, the Directors do not have sufficient information relating to the movements of the share options prior to their appointment. The following movements of the share options granted to the former directors and employees have been prepared with reference to the circular issued by the Company dated 7 October 2003 and an announcement made by Profit Harbour dated 21 October 2003:

				Number of share options			
Category of participant	**Date of grant** (Note a)	**Exercisable period**	**Exercise price** HK$	**Balance as at 1 January 2003**	**Granted during the year ended 31 December 2003**	**Surrendered/ lapsed during the year ended 31 December 2003** (Note b)	**Balance as at 31 December 2003 and 2004**
Former directors	28.6.2002	2.7.2002-1.7.2007	0.556	7,440,000	–	(7,440,000)	–
Former employees	28.6.2002	2.7.2002-1.7.2007	0.556	2,400,000	–	(2,400,000)	–
				9,840,000	–	(9,840,000)	–

18. Share Options Schemes (continued)

(i) The 2002 scheme (continued)

Notes:

(a) The vesting period of share options is from the date of the grant until the commencement of the exercise period.

(b) As advised by the legal advisor to the Company, the share options granted under the 2002 Scheme lapsed on the closing date of the mandatory unconditional cash offers by Profit Harbour on 21 October 2003.

(ii) The 2004 scheme

A new share option scheme was adopted by the Company pursuant to an ordinary resolution passed on 22 September 2004 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 21 September 2014 (the "2004 Scheme"). Under the 2004 Scheme, the board of directors of the Company may grant options to eligible persons, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares in respect of which options may be granted under the 2004 Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 September 2004, being the date of passing of the resolution regarding the 2004 Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the 2004 Scheme since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. 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. Share options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

19. De-consolidation of a Subsidiary

As set out in note 13, having obtained legal advice, in the opinion of the Directors the Group is not in a position to exercise control over the financial and operating decisions of Chaoyang Hua Loong. Accordingly, Chaoyang Hua Loong was not regarded as a subsidiary of the Company with effect from 1 January 2004 and was excluded from the consolidated financial statements of the Company on the same date.

	2004	2003
	HK$'000	HK$'000
Net liabilities de-consolidated:		
Property, plant and equipment	**23,743**	–
Trade and other payables	**(515)**	–
Advance from Park Well	**(24,806)**	–
Taxation payable	**(10,046)**	–
	(11,624)	–
Gain on de-consolidation of a subsidiary	**(11,624)**	–
Reclassification of investment in a subsidiary to investment security (Note 13)	–	–

Chaoyang Hua Loong was de-consolidated during the year and it did not contribute to the turnover, operating results or cash flows of the Group.

20. Major Non-cash Transaction

Other receivables amounting to HK$14,134,000, which were offset against other payables of the same amount in prior year by the Receivers, were carried at their respective gross amounts during the year ended 31 December 2004.

21. Operating Lease Commitments

The Group as lessee

	2004 HK$'000	2003 HK$'000
Minimum lease payments under operating leases in respect of rented premises during the year	**748**	1,377

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

	The Group	
	2004 HK$'000	2003 HK$'000
Within one year	**252**	705
In the second to fifth year inclusive	**–**	252
	252	957

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years.

The Company had no operating lease commitment at the balance sheet date.

22. Litigation and Contingent Liabilities

At 31 December 2004, the Group had the following litigation and contingent liabilities:

(i) Having obtained legal advice, the Receivers commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center"), a company incorporated in the British Virgin Islands, for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank accounts of Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings ("the Great Center Action"). In order to prevent the dissipation of Great Center's assets, an injunction order was applied for, and successfully obtained on 30 June 2003, from the High Court to restrict Great Center from, inter alia, disposing of or otherwise dealing with or diminishing assets of Great Center up to the value of US$4.5 million (the "Injunction Order"). The relevant bank, the lawyers of Great Center and other relevant persons have been notified of the Injunction Order. The Injunction Order remained valid up to and including 11 July 2003 on which date the Injunction Order was continued until further order or final determination of the Great Center Action.

22. Litigation and Contingent Liabilities (Continued)

(ii) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US$4.5 million was amended on 10 July 2004 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from a bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK$22.0 million remitted from a bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK$69.9 million (the "Great Center Claim"). The Amended Writ also includes a bank in Hong Kong, Modern Shine, certain former executive directors, officers and employees of the Group, and all directors or authorised signatories of Great Center and Modern Shine as defendants (the "Defendants") for the purposes of seeking orders against them for the disclosure of documents and/or information. An application was made on 10 July 2003 to the High Court for an order (the "Disclosure Order") that the Defendants disclose to the Company and Merchants HK all relevant information and documents relating to the transfers of the amounts comprising the Great Center Claim. The Disclosure Order was granted by the High Court on 18 July 2003.

(iii) Solicitors instructed by the Directors have pursued the claim against Great Center and Modern Shine further and obtained the following directions from the court:

(a) The Company do file and serve its list of documents by 21 March 2005;

(b) Great Center and Modern Shine do file and serve their lists of documents by 28 March 2005;

(c) There be inspection of documents by 11 April 2005;

(d) The parties do exchange signed witness statements of facts within 25 April 2005; and

(e) The application for leave to set the case down for trial be adjourned to 25 April 2005 at 10:00 a.m. before the Listing Clerk for fixing an appointment before the Listing Master.

The Company and Great Center have exchanged their lists of documents and solicitors for the Company have received copy documents from Great Center's solicitors for inspection. Modern Shine has failed to comply with the direction to file and serve its list of documents. Solicitors for the Company have taken out an application against Modern Shine for an order that it must serve and file its list of documents within 7 days of the order, failing which solicitors for the Company will further apply for an order that unless Modern Shine do comply with the direction of the court within 14 days, judgment be entered against it for the full amount claimed. Solicitors for the Company anticipate that judgment against Modern Shine could be entered by end of May 2005. After that it will be for the Company to trace the assets of Modern Shine in order to recover the judgment sum.

22. Litigation and Contingent Liabilities (Continued)

(iv) As a result of the information provided to the Company and Merchants HK under the Disclosure Order, the Receivers have discovered that, together with certain funds out of the Great Center Claim, an aggregate amount of approximately HK$37 million was transferred, by a series of transfers, by Great Center and Modern Shine to Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong and Mr. Chau Ching Ngai, former substantial shareholder of the Company and the spouse of Ms. Mo Yuk Ping, and Ms. Mo Yuk Ping, former chairman of the Company, are the registered shareholders of 49% and 51%, respectively, of the issued share capital of Win Victory, without apparent legitimate commercial reason. Having obtained legal advice, the Receivers commenced legal proceedings on 23 August 2003 against Win Victory (the "Win Victory Action") for the repayment of the HK$37 million, interest thereon, damages and costs of legal proceedings (the "Win Victory Claim"). It should be noted that should any of the amount claimed against Win Victory be recovered from Great Center and/or Modern Shine in the Great Center Claim such amounts will be taken into account in the Win Victory Action. In order to prevent the dissipation of Win Victory's assets, the Company applied for, and obtained on 22 August 2003, from the High Court an injunction order against Win Victory (the "Win Victory Injunction Order") to restrict Win Victory from, among other things, disposing of or otherwise dealing with or diminishing the value of its assets up to the value of HK$37 million. On 29 August 2003, the Win Victory Injunction Order was continued until further order or final determination of the Win Victory Action.

(v) Having obtained legal advice, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds that Win Victory is unable to pay its debts and/or it is just and equitable for Win Victory to be wound up and obtained an order from the High Court on 24 September 2003, among other things, appointing Messrs. Desmond Chung Seng Chiong and Roderick John Sutton of Ferrier Hodgson Limited of 14th Floor, Hong Kong Club Building, 3A Chater Road, Hong Kong as the provisional liquidators of Win Victory. In the first instance, this order would remain valid up to and including 7 October 2003, on which date the matter would be heard again by the High Court.

(vi) The appointment of Provisional Liquidators is continued by an order of the court made by Madam Justice Kwan on 7 October 2003 until the determination of the Winding Up Petition, which has been adjourned. Due to the lack of funds in Win Victory, the Provisional Liquidators have not undertaken an extensive investigation. The continuation of the Petition will enable a more thorough investigation of the flow of funds in and out of Win Victory. The Petition is being opposed by Mr. Chau Ching Ngai. Solicitors for the Company will continue with the Winding Up proceedings.

22. Litigation and Contingent Liabilities (Continued)

(vii) Solicitors for the Company issued a writ of Summons on 17 December 2004 against Mr. Tsoi Hon Chung and his son Mr. Tsoi Chun Bun for the return of all statutory books, records and documents of Park Well Group on the basis that on 15 July 2003, those documents were sent by Secretaries Limited to Mr. Tsoi Chun Bun as the agent of Mr. Tsoi Hon Chun, who was at the material times the sole director of Park Well. The Company has a copy of the signed receipt by Mr. Tsoi Chun Bun for the above documents. Both Mr. Tsoi Hon Chun and Mr. Tsoi Chun Bun deny the receipt and/or receipt as agent of such statutory books and records in their Defence filed in February 2005. Solicitors for the Company have taken out a Summons for Directions for the exchange of lists of documents and witness statements in order to set the case down for trial.

23. Pledge of Assets

	The Group		The Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Banking facilities of HK$8 million (2003: Nil) granted by a bank and secured by bank deposits of the Group	**8,000**	–	**–**	–
(b) Other loan facilities of HK$15 million (2003: Nil) granted by a financial institution and secured by floating charges over:				
– Trade and other receivables	**6,853**	–	**218**	–
– Bank balances and cash	**6,917**	–	**5,566**	–
	13,770	–	**5,784**	–
	21,770	–	**5,784**	–

In addition, at 31 December 2004, the Company's interests in its subsidiaries had been pledged under floating charges to secure the other loan facilities granted by a financial institution to the Group.

24. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of HK$15,000 (2003: HK$28,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which was available to reduce the contribution payables in the future years.

25. Related Party Transactions

The Group's significant transactions with related parties are as follows:

(i) On 21 November 2002, a sub-tenancy agreement (the "Sub-tenancy Agreement") was entered into between Worldmark (Far East) Limited ("Worldmark"), a wholly-owned subsidiary of the Company, and Profitex Investments Limited ("Profitex"), a wholly-owned subsidiary of Shanghai Land Holdings Limited ("Shanghai Land"), in respect of the sub-leasing of 2,487 square feet of the office premises located at 67th Floor, The Center, 99 Queen's Road Central, Hong Kong, by Profitex to Worldmark for a term commencing on 4 August 2002 and expiring on 19 June 2005 inclusive at the following rentals:

Period	**Monthly rent** (approximately HK$)
4 August 2002-31 May 2004	74,610
1 June 2004-30 June 2004	63,667
1 July 2004-31 May 2005	44,766
1 June 2005-19 June 2005	28,352

A rent free period (the "Rent Free Period") of 6 months in total, by stages in an aggregate amount of HK$447,660 had been granted by Profitex to Worldmark pursuant to a supplement agreement to the Sub-tenancy Agreement dated 17 January 2003. The first 3 months of the Rent Free Period were granted and ratified for the period from 1 September 2002 to 30 November 2002 and the remaining 3 months of the Rent Free Period were granted for the period from 1 June 2003 to 31 August 2003.

The substantial shareholders of Shanghai Land and the Company, respectively, at the time the relevant agreements were entered into were New Nongkai Global Investments Limited and Angel Field, which are both 100% beneficially owned by Mr. Chau Ching Ngai, the chairman of Shanghai Land.

25. Related Party Transactions (Continued)

The rent paid for the year amounted to approximately HK$748,000 (2003: HK$786,000). The rent charged to the income statement for the year amounted to approximately HK$748,000 (2003: HK$672,000) after taking into account the Rent Free Period. Worldmark, Profitex and the landlord had also entered into a guarantee and indemnity ("Guarantee and Indemnity") whereby, inter alia, Worldmark and Profitex agreed jointly and severally to observe and perform all the terms, covenants and conditions of the tenancy agreement entered into between the landlord and Profitex, and to guarantee the performance and observance of the guarantee and indemnity.

(ii) Details of the subscription of shares in the Company by Angel Field during the year ended 31 December 2003 are set out in note 17.

(iii) During the year ended 31 December 2003, sums totaling approximately HK$69.9 million were remitted from bank accounts of the Company and Merchants HK to bank accounts maintained in the name of Great Center and Modern Shine. Of the amount, amounts totaling approximately HK$37 million were subsequently transferred by Great Center and Modern Shine to Win Victory.

(iv) Worldmark and Profitex also entered into a management agreement for a term of three years commencing on 1 August 2002. Pursuant to the agreement, Profitex has agreed to provide management service to Worldmark for a fee. The management fee paid for the year amounted to HK$100,446 (2003: HK$168,400).

As Angel Field, Shanghai Land, Profitex and Win Victory ceased to be related parties to the Group in August 2003, any transactions with these companies subsequent to August 2003 are not regarded as related party transactions.

26. Post Balance Sheet Events

The following events took place subsequent to 31 December 2004.

(i) Merchants HK has held a meeting with its creditors on 28 February 2005, as pursuant to the Order of The Honourable Deputy Justice Poon of 2 February 2005 authorising the convening of such meeting, at which a scheme of arrangement (the "Scheme") allowing Merchants HK to compromise its debts with its creditors was duly approved by the creditors present thereat. A petition hearing before the High Court took place on 19 April 2005 at which the Court also sanctioned the Scheme, the Order for which was duly filed with the Registrar of Companies in Hong Kong on the same date whereupon the Scheme has become fully effective with the effect of reducing the Group's liabilities by approximately HK$15 million.

(ii) On 11 April 2005, the Company entered into a loan arrangement with a financial institution, pursuant to which a one year term loan facility at an amount of HK$15 million was granted to the Company commencing 28 April 2005. The facility is secured by floating charges over all assets of the Company and one of its subsidiaries.

27. Particulars of Subsidiaries

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

Name of subsidiary	Place/country of incorporation/ establishment and operations	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Asia Cheer Trading Limited	Hong Kong	HK$1 ordinary share	100	–	Trading in fabric products and other merchandises
First Landmark Limited	British Virgin Islands	US$1 ordinary share	100	–	Investment holding
Gold (Hong Kong) Limited	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Hillmark Limited	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Hua Loong Textiles Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Investment holding
Hua Loong Textiles Trading (Korea) Company Limited	Korea	50,000,000 Korean Won ordinary shares	–	100	Inactive
Merchants HK	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Merchants International Limited	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Park Well	British Virgin Islands	US$6 ordinary shares	100	–	Investment holding
Shanghai Merchants Trading Limited	British Virgin Islands	US$1 ordinary share	–	100	Inactive

27. Particulars of Subsidiaries (Continued)

Name of subsidiary	Place/country of incorporation/ establishment and operations	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Shanghai Trademark Limited	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Sino Chance Trading Limited	Hong Kong	HK$1 ordinary share	100	–	Trading in base metals
Sino Ease Trading Limited	Hong Kong	HK$1 ordinary share	100	–	Inactive
Sky Joy Management Limited	Hong Kong	HK$1 ordinary share	100	–	Provision of management services
V-Win Limited	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Worldmark	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Ying Wing (HK) Limited	Hong Kong	HK$10 ordinary shares	–	100	Inactive

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