

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries, associate and jointly controlled entity are set out in notes 16, 17 and 18, respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK\$127 million at 31st December, 2004. The directors of the Company have taken steps to improve the liquidity of the Group (as discussed in note 41). Subsequent to the balance sheet date, the Group has obtained consent from two banks and a finance company to extend their loans to the Group for another year in the aggregate amount of approximately HK\$88 million when they fall due from June to August 2005. In order to further enhance the Group's liquidity, the directors are also negotiating with banks to obtain additional banking facilities and pursuing the disposal of certain of the Group's non-core assets. The directors are satisfied that the Group will have sufficient resources to be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

As explained in note 36, the Group is the subject of a winding up petition brought by Asian Power (as defined in note 31). Based on legal advice, if the Company discharges the alleged debts (see note 36) before the substantive hearing, Asian Power will have no right to proceed with the winding up proceedings and the petition would then be dismissed. Accordingly, the directors are satisfied that notwithstanding the winding up petition, this matter will not affect the going concern status of the Group.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants 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 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st 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 presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

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

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

NEGATIVE GOODWILL

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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

INVESTMENTS IN SUBSIDIARIES

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

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTERESTS IN AN ASSOCIATE

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in an associate are stated at the Group's share of the net assets of the associate plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

JOINTLY CONTROLLED ENTITIES

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

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

INVESTMENTS IN SECURITIES

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

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

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

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

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

REVENUE RECOGNITION

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

Sales of electricity are recognised when electricity has been transmitted to the customer and the right to receive payment has been established.

All transactions in securities dealings are recorded on a trade date basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Commission, brokerage and fees are recognised when the services is rendered.

The gain or loss arising on trading in securities is determined as the difference between the net sales proceeds and the carrying amount of the investment and is recognised in the income statement on a trade date basis.

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

Sales of investments in securities are recognised when the sales contract becomes unconditional.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant leases.

INVESTMENT PROPERTIES

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Construction in progress is stated at cost, which includes all related costs attributable to such projects less accumulated impairment losses. Construction in progress is not depreciated or amortised until completion of construction. Costs on completed construction works are transferred to the relevant category of property, plant and equipment.

Property, plant and equipment other than construction in progress are stated at cost less accumulated 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 and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2% – 18%
Leasehold improvement	Over the period of the lease
Furniture and fixtures	20%
Motor vehicles	20%
Plant and machinery	5% – 23%

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.

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. An 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.

INVENTORIES

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

CONVERTIBLE BONDS

Convertible bonds are regarded as liabilities unless conversion actually occurs. The related finance costs are charged to the income statement on a straight line basis over the period from the date of issue of the convertible bonds to the date of redemption or conversion.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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 tax profit nor the accounting profit.

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

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

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.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TRADING RIGHT

Trading right represents the right of trading on the Stock Exchange. Trading right is stated at cost less accumulated amortisation and accumulated impairment losses.

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 such currencies are re-translated at the rates prevailing on the balance sheet date. Gains 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 overseas 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.

OPERATING LEASES

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

RETIREMENT BENEFITS COSTS

Payments to state-managed retirement benefits schemes/Mandatory Provident Fund Scheme are charged as expenses as they fall due.

5. TURNOVER

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales of goods	64,734	389,391
Sales of electricity	67,325	15,907
Securities dealing and brokerage income	3,170	–
Interest income from provision of finance	2,808	6,238
Sale proceeds from disposal of other investments	–	4,052
Rental income and property management	2,580	2,760
	140,617	418,348

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into five operating divisions – power generation, trading of goods, provision of finance, property investment and management and brokerage and securities investment. These divisions are the basis on which the Group reports its primary segment information.

INCOME STATEMENT

For the year ended 31st December, 2004

	Continuing operations						Consolidated HK\$'000
	Power generation HK\$'000	Trading HK\$'000	Provision of finance HK\$'000	Property investment and management HK\$'000	Brokerage and securities investment HK\$'000	Eliminations HK\$'000	
TURNOVER							
External sales	67,325	64,734	2,808	2,580	3,170	–	140,617
Inter-segment sales*	–	–	–	661	8,721	(9,382)	–
Total	67,325	64,734	2,808	3,241	11,891	(9,382)	140,617
RESULTS							
Segment results	353	(1,030)	(2,800)	7,296	(10,786)	–	(6,967)
Unallocated corporate expenses							(7,986)
Loss from operations							(14,953)
Finance costs							(6,118)
Share of loss of an associate							(389)
Amortisation of goodwill of an associate							(1,156)
Share of profit of a jointly controlled entity							6,016
Gain on deemed disposal of a subsidiary							8,825
Loss before taxation							(7,775)
Taxation							(1,630)
Loss before minority interests							(9,405)
Minority interests							2,234
Net loss for the year							(7,171)

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

BALANCE SHEET

At 31st December, 2004

	Continuing operations					Consolidated HK\$'000
	Power generation HK\$'000	Trading HK\$'000	Provision of finance HK\$'000	Property investment and management HK\$'000	Brokerage and securities investment HK\$'000	
ASSETS						
Segment assets	453,455	1,104	35,624	69,006	63,966	623,155
Interest in an associate						315,242
Interest in a jointly controlled entity						37,712
Unallocated corporate assets						66,104
Consolidated total assets						1,042,213
LIABILITIES						
Segment liabilities	80,205	6,093	250	1,683	16,568	104,799
Unallocated corporate liabilities						391,470
Consolidated total liabilities						496,269

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

OTHER INFORMATION

For the year ended 31st December, 2004

	Continuing operations						Corporate HK\$'000	Consolidated HK\$'000
	Power generation	Trading	Provision of finance	Property investment and management	Brokerage and securities investment			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Amortisation of goodwill of a subsidiary	-	-	-	-	59	-	59	
Amortisation of goodwill of an associate	-	-	-	-	-	1,156	1,156	
Depreciation and amortisation	10,818	-	-	-	241	473	11,532	
Loss on disposal of property, plant and equipment	658	-	-	-	-	516	1,174	
Allowance for short-term loan receivables	-	-	3,000	-	-	-	3,000	
Unrealized loss on other investments	-	-	-	-	8,281	-	8,281	

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

INCOME STATEMENT

For the year ended 31st December, 2003

	Continuing operations					Discontinued operation		Consolidated
	Power generation	Trading	Provision of finance	Property investment and management	Securities investment	Manufacture and trading of chemical fibers	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	15,907	117,307	6,238	2,760	4,052	272,084	-	418,348
Inter-segment sales*	-	-	-	501	-	-	(501)	-
Total	15,907	117,307	6,238	3,261	4,052	272,084	(501)	418,348
RESULTS								
Segment results	3,585	3,266	6,138	3,150	3,656	8,294	-	28,089
Unallocated corporate expenses								(8,528)
Profit from operations								19,561
Finance costs								(13,066)
Share of loss of an associate								(1,989)
Amortisation of goodwill of an associate								(1,156)
Share of profit of a jointly controlled entity								4,964
Profit on disposal of a discontinued operation								6,044
Profit before taxation								14,358
Taxation								(1,424)
Profit before minority interests								12,934
Minority interests								710
Net profit for the year								13,644

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

BALANCE SHEET

At 31st December, 2003

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Power generation HK\$'000	Trading HK\$'000	Provision of finance HK\$'000	Property investment and management HK\$'000	Securities investment HK\$'000	Manufacture and trading of chemical fibers HK\$'000	
ASSETS							
Segment assets	308,700	6,139	64,031	53,074	26,871	–	458,815
Interests in an associate							316,787
Interests in a jointly controlled entity							37,984
Unallocated corporate assets							76,380
Consolidated total assets							889,966
LIABILITIES							
Segment liabilities	88,601	12,513	150	1,518	10	–	102,792
Unallocated corporate liabilities							240,642
Consolidated total liabilities							343,434

Notes to the Financial Statements

For the year ended 31st December, 2004

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

OTHER INFORMATION

For the year ended 31st December, 2003

	Continuing operations					Discontinued operation		Consolidated
	Power generation	Trading	Provision of finance	Property investment and management	Securities investment	Corporate	Manufacture and trading of chemical fibers	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of goodwill of an associate	-	-	-	-	-	1,156	-	1,156
Depreciation and amortisation	2,566	-	-	-	-	391	20,252	23,209
Impairment loss on property, plant and equipment	-	-	-	-	-	-	4,750	4,750

GEOGRAPHICAL SEGMENTS

The majority of the activities of the Group are based in the PRC and the majority of the Group's turnover, (loss) profit before taxation, assets and liabilities are derived from the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

7. (LOSS) PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration	14,652	11,630
– Retirement benefits scheme contributions	1,066	140
Total staff costs	15,718	11,770
Auditors' remuneration		
– current year	1,150	720
– underprovision in a prior year	160	70
Depreciation and amortisation of property, plant and equipment	11,532	23,209
Loss on disposal of property, plant and equipment	1,174	–
Amortisation (included in administrative expenses) of:		
– goodwill of a subsidiary	59	–
– trading right	338	–
Cost of inventories recognised as expenses	96,605	338,925
and after crediting:		
Property rental income, net of outgoings of HK\$224,000 (2003: HK\$185,000)	2,171	2,310
Interest income, other than from investments	487	54
Release of negative goodwill to other operating income	2,101	780

Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Independent non-executive	184	163
	184	163
Other emoluments of executive directors:		
Salaries and other benefits	3,505	2,838
Retirement benefits schemes contributions	122	71
	3,627	2,909
	3,811	3,072

None of the directors have waived any emoluments during the year.

The number of directors whose remuneration falls within the following bands are set out below:

	No. of directors	
	2004	2003
Nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$2,000,000	2	1

EMPLOYEES

The five highest paid individuals in the Group included five directors (2003: four directors) of the Company, details of whose remuneration are set out above. The remuneration of the remaining one highest paid employee for the year ended 31st December, 2003 is as follows:

	2003 <i>HK\$'000</i>
Salaries and allowances	909
Retirement benefits scheme contributions	31
	940

Notes to the Financial Statements

For the year ended 31st December, 2004

9. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	6,147	7,920
Bank loans wholly repayable after five years	446	–
Other loans wholly repayable within five years	2,718	4,890
Convertible bonds (<i>note 27</i>)	1,200	256
	10,511	13,066
Less: interest capitalised in construction in progress	(4,393)	–
Total borrowing costs	6,118	13,066

Borrowing costs capitalised during the year were related to a specific bank loan obtained for the purpose of financing the Group's power plant.

10. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax		
– current year	–	63
PRC income tax		
– current year	–	22
– overprovision in prior years	–	(97)
	–	(75)
Deferred tax (<i>note 33</i>)		
– current year	(354)	(194)
Share of PRC income tax of a jointly controlled entity	1,984	1,630
	1,630	1,424

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for the year.

Hong Kong Profits Tax for the year ended 31st December, 2003 was calculated at 17.5% of the estimated assessable profit for that year.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. TAXATION (Continued)

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

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

	2004	2003
	HK\$'000	HK\$'000
(Loss) profit before taxation	(7,775)	14,358
Tax at the applicable rate of 15% (2003: 15%)	(1,166)	2,154
Tax effect of expenses not deductible for tax purpose	3,144	98
Tax effect of income not taxable for tax purpose	(2,650)	(2,455)
Tax effect of tax losses not recognised	2,243	1,081
Utilisation of tax losses previously not recognised	–	(325)
Overprovision in respect of prior year	–	(97)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	–	13
Effect of different tax rates of subsidiaries, an associate and a jointly controlled entity operating in other jurisdictions	59	955
Tax charge for the year	1,630	1,424

Details of deferred taxation are set out in note 33.

Notes to the Financial Statements

For the year ended 31st December, 2004

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Net (loss) profit for the year	(7,171)	13,644
Interest on convertible bond		207
Earnings for the purposes of diluted earnings per share		13,851
Number of ordinary shares in issue during the year	1,214,115,987	1,214,115,987
Effect of dilutive potential ordinary shares on convertible bonds		27,540,983
Weighted average number of ordinary shares for the purposes of diluted earnings per share		1,241,656,970

The computation of diluted loss per share for the year ended 31st December, 2004 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

12. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
FAIR VALUE	
At 1st January, 2004	52,000
Capitalisation of improvement works	418
Surplus arising on revaluation	15,582
At 31st December, 2004	68,000

Investment properties were revalued at 15th November, 2004 on an open market value basis by A A Property Services Ltd., an independent firm of professional property valuers. The surplus arising on revaluation amounted to HK\$15,582,000, of which HK\$6,216,000 has been credited to the consolidated income statement and the balance of HK\$9,366,000 has been credited to investment properties revaluation reserve. In the opinion of the directors, the open market value of these properties as at 31st December, 2004 would not be significantly different from 15th November, 2004.

The Group's investment properties are held under medium-term leases in Hong Kong and certain of which are leased out under operating leases.

Notes to the Financial Statements

For the year ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1st January, 2004	139,598	609	873	1,741	131,477	31,957	306,255
Additions	744	1,060	654	1,083	24,287	62,937	90,765
Acquired on acquisition of a subsidiary	-	-	161	-	-	-	161
Deemed disposal of a subsidiary	-	-	(126)	-	-	-	(126)
Disposals	-	-	(199)	(1,198)	(1,026)	-	(2,423)
At 31st December, 2004	140,342	1,669	1,363	1,626	154,738	94,894	394,632
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st January, 2004	888	172	173	235	6,313	-	7,781
Provided for the year	2,595	295	246	350	8,046	-	11,532
Eliminated on deemed disposal of a subsidiary	-	-	(21)	-	-	-	(21)
Eliminated on disposals	-	-	(117)	(417)	(411)	-	(945)
At 31st December, 2004	3,483	467	281	168	13,948	-	18,347
NET BOOK VALUE							
At 31st December, 2004	136,859	1,202	1,082	1,458	140,790	94,894	376,285
At 31st December, 2003	138,710	437	700	1,506	125,164	31,957	298,474

At 31st December, 2004, borrowing cost of HK\$11,779,000 (2003: HK\$7,386,000) was capitalised and included in construction in progress.

At the balance sheet date, the Group's land and buildings are situated in the PRC and are held under medium-term leases.

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For the year ended 31st December, 2004

14. GOODWILL

	THE GROUP HK\$'000
<hr/>	
COST	
At 1st January, 2004	–
Arising on acquisition of a subsidiary	641
At 31st December, 2004	641
<hr/>	
AMORTISATION	
At 1st January, 2004	–
Charge for the year	59
At 31st December, 2004	59
<hr/>	
NET BOOK VALUE	
At 31st December, 2004	582
<hr/>	
At 31st December, 2003	–

Goodwill is capitalised and amortised on a straight-line basis over a period of ten years, the estimated useful life of the major assets acquired.

15. NEGATIVE GOODWILL

	THE GROUP HK\$'000
<hr/>	
GROSS AMOUNT	
At 1st January, 2004 and at 31st December, 2004	21,011
<hr/>	
RELEASE TO INCOME	
At 1st January, 2004	834
Released during the year	2,101
At 31st December, 2004	2,935
<hr/>	
CARRYING AMOUNT	
At 31st December, 2004	18,076
<hr/>	
At 31st December, 2003	20,177

The negative goodwill is released to income on a straight-line basis over a period of ten years, the estimated useful life of the major non-monetary assets acquired.

Notes to the Financial Statements

For the year ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	38,906	41,059
Less: Impairment losses recognised	(19)	(19)
	38,887	41,040
Amounts due from subsidiaries	700,572	702,000
Less: allowances recognised	(131,913)	(121,313)
	568,659	580,687
	607,546	621,727
Amounts due to subsidiaries	(2,734)	(10,120)

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

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

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Asian Wealth Group Limited	British Virgin Islands ("BVI")	US\$1	–	100%	Investment holding
Broadmeadow Investments Limited	BVI	US\$1	100%	–	Investment holding
China Group Limited	BVI	US\$1	–	100%	Investment holding
Citi Merit Limited	BVI	US\$100	–	100%	Investment holding
Eastern Prosper Developments Ltd.	BVI	US\$1	100%	–	Securities investment
Equal Link Investments Limited	Hong Kong	HK\$2	–	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Henan APD Tian Yuan Power Company Limited (note 1)	PRC	RMB90,620,000	–	80%	Power generation
Henan CGL Tian Yuan Power Company Limited (note 2)	PRC	RMB92,000,000	–	80%	Power generation
Hua Xia Securities Hong Kong Limited	Hong Kong	HK\$30,000,000	–	100%	Securities brokerage
Lolliman Finance Limited	Hong Kong	HK\$1,000,000	100%	–	Financial services
Lolliman Property Nominees Limited	Hong Kong	HK\$2	100%	–	Property management
Marvellous Development Limited	Hong Kong	HK\$100	100%	–	Property investment
Poly Genesis Limited	BVI	US\$1	–	100%	Investment holding
Poly Power Group Limited	BVI	US\$1	–	100%	Investment holding
Silver & Rainbow International Trading Limited	Hong Kong	HK\$100,000	–	100%	Trading of iron ore
Success Harbour International Limited	BVI	US\$100	–	80%	Investment holding
Sunstar Management Limited	Hong Kong	HK\$2	100%	–	Provision of management services
Time Profit Investments Limited	Hong Kong	HK\$100	100%	–	Property investment
Treasure Well Associates Limited	BVI	US\$1	100%	–	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Notes:

1. This subsidiary is a sino-foreign equity joint venture established for a term of 20 years commencing from 25th September, 1997.
2. This subsidiary is a sino-foreign equity joint venture established for a term of 20 years commencing from 14th October, 1997.

The above table only lists those subsidiaries of the Company which, in the opinion of the 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.

All the above subsidiaries, except Eastern Prosper Developments Ltd. which operates principally in Hong Kong, operate in their respective places of incorporation/registration.

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

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted		
Share of an associate's net assets	306,569	306,958
Goodwill arising on acquisition (note)	8,673	9,829
	315,242	316,787

Note: Goodwill arising on acquisition is amortised on a straight-line basis over its estimated useful life of ten years.

Notes to the Financial Statements

For the year ended 31st December, 2004

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17. INTEREST IN AN ASSOCIATE (Continued)

GOODWILL ARISING ON ACQUISITION

	<i>HK\$'000</i>
THE GROUP	
COST	
At 31st December, 2003 and 31st December, 2004	11,564
AMORTISATION	
At 31st December, 2003	1,735
Provided for the year	1,156
At 31st December, 2004	2,891
NET BOOK VALUE	
At 31st December, 2004	8,673
At 31st December, 2003	9,829

The Group's investment represents a 46.29% indirect equity interest in Xi'an Gaoxin Hospital Co., Ltd. ("Gaoxin Hospital") which is a sino-foreign equity joint venture established in the PRC for a term of twenty years, commencing on 29th September, 2002. Gaoxin Hospital is principally engaged in the provision of hospital services including medical consultation, health care and related consultation services in the PRC.

The following details have been extracted from the unaudited management accounts of Gaoxin Hospital.

INCOME STATEMENT

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	93,774	76,907
Loss before taxation	(840)	(4,297)
Taxation	-	-
Loss for the year	(840)	(4,297)
Group's share of loss for the year	(389)	(1,989)

Notes to the Financial Statements

For the year ended 31st December, 2004

17. INTEREST IN AN ASSOCIATE (Continued)

NET ASSETS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets	546,214	581,193
Current assets	290,180	299,645
Current liabilities	(107,011)	(147,624)
Non-current liabilities	(67,103)	(70,093)
Net assets	662,280	663,121
Net assets attributable to the Group	306,569	306,958

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets of a jointly controlled entity	37,712	37,984

The Group's investment represents a 30% indirect equity interest in 上海虹橋友誼商城有限公司 Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") which is established in the PRC for a term of twenty years commencing on 30th March, 1993. Shanghai Hong Qiao is engaged in the business of retail sales of high end consumer goods and is currently operating two shopping centres in Shanghai and Suzhou, the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	Other investments		Other investments	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities in Hong Kong	21,111	26,742	9,222	–
Market value of listed securities	21,111	26,742	9,222	–
Unlisted equity securities in elsewhere (<i>note</i>)	9,562	–	2,152	–
Carrying amount analysed for reporting purposes as:				
Current	21,111	26,742	9,222	–
Non-current	9,562	–	2,152	–
	30,673	26,742	11,374	–

Note: The carrying amount of the unlisted equity securities of HK\$9,562,000 is based on the share of net assets of a subsidiary attributable to the Group as at the date on which the subsidiary ceased to be a subsidiary of the Company through deemed disposal and reclassified as other investments. Gain on deemed disposal of HK\$8,825,000 has been directly recognised in the consolidated income statement in the current year.

20. OTHER ASSETS

Other assets are statutory deposits paid to government regulators in relation to the Group's licensed activities in the securities market in Hong Kong.

Notes to the Financial Statements

For the year ended 31st December, 2004

21. TRADING RIGHT

	<i>HK\$'000</i>
COST	
Arising on acquisition of a subsidiary and balance at 31st December, 2004	778
AMORTISATION	
Amortisation for the year and balance at 31st December, 2004	338
NET BOOK VALUE	
At 31st December, 2004	440
At 31st December, 2003	–

The recoverable amount of the trading right at 31st December, 2004 was determined by the directors with reference to the current market condition.

Trading right is amortised, on a straight-line basis, over the remaining useful life of two years.

22. INVENTORIES

At the balance sheet date, inventories were raw materials carried at cost.

23. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables arising from securities dealing business:		
Clearing house	8,214	–
Cash clients	7,767	–
Margin clients	4,739	–
Trade receivables arising from other businesses:		
0 – 60 days	3,622	13,884
61 – 90 days	1,987	1,762
Over 90 days	31	9
	26,360	15,655
Other receivables and prepayments	24,678	15,148
	51,038	30,803

Notes to the Financial Statements

For the year ended 31st December, 2004

24. BANK BALANCES, DEPOSITS AND CASH

The Group maintains trust accounts with authorized institutions as a result of its normal business transactions. At 31st December, 2004, trust moneys not dealt with in these accounts amounted to HK\$17,168,000 (2003: Nil).

25. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade payable arising from securities dealing business:		
Cash clients	6,074	–
Margin clients	9,756	–
Trade payables arising from other businesses:		
0 – 60 days	5,755	3,813
61 – 90 days	2,272	21
Over 90 days	12,280	5,247
	36,137	9,081
Other payables	68,194	91,948
Value added tax payables	196	1,137
	104,527	102,166

26. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	169,658	56,536	–	–
Other loans	73,594	32,509	10,500	9,509
	243,252	89,045	10,500	9,509
Analysed as:				
Secured	234,752	79,536	2,000	–
Unsecured	8,500	9,509	8,500	9,509
	243,252	89,045	10,500	9,509

Notes to the Financial Statements

For the year ended 31st December, 2004

26. BANK AND OTHER BORROWINGS (Continued)

The maturity profile of the above loans is as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
On demand or within one year	124,522	89,045	10,500	9,509
More than one year, but not exceeding two years	53,080	–	–	–
Two to five years	53,240	–	–	–
Over five years	12,410	–	–	–
	243,252	89,045	10,500	9,509
Less: Amount due within one year shown under current liabilities	(124,522)	(89,045)	(10,500)	(9,509)
	118,730	–	–	–

Bank loans and other loans of the Group and the Company bear interest at prevailing market rates.

27. CONVERTIBLE BONDS

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Original maturity dates		
15th October, 2004	40,000	40,000
15th April, 2006	40,000	40,000
Total convertible bonds	80,000	80,000
Less: Amount due within one year shown under current liabilities	(80,000)	(40,000)
	–	40,000

The convertible bonds bear interest at 1.5% per annum and can be converted in whole into the shares of the Company at any time during the period of 14 days ending on the date immediately before and excluding the maturity date (the "Conversion Period"), at the options of the bondholder at the initial conversion price of HK\$0.5 per share (subject to adjustment but not less than the par value of the share of the Company).

Notes to the Financial Statements

For the year ended 31st December, 2004

27. CONVERTIBLE BONDS (Continued)

The convertible bonds are redeemable by the Company at any time between the date of issue of the bonds and prior to the commencement of the Conversion Period. Any convertible bonds not converted or redeemed shall be repaid to the bondholder, together with interest accrued thereon on the respective maturity dates.

During the year, the Company raised disputes regarding certain representations and warranties provided by Asian Power (as defined in note 31) relating to the Acquisition (as defined in note 31) and did not repay the convertible bond which matured on 15th October, 2004. Details of litigations between the Company and Asian Power are set out in note 36. As a result of the alleged default in payments, in the preparation of these financial statements, all convertible bonds are classified as current liabilities.

28. SHARE CAPITAL

	2004 & 2003
	HK\$'000
<i>Authorised:</i>	
1,800,000,000 ordinary shares of HK\$0.50 each	900,000
<i>Issued and fully paid:</i>	
1,214,115,987 ordinary shares of HK\$0.50 each	607,058

There were no movements in the share capital of the Company during both years.

29. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January, 2003	2,252	3,547	(87,696)	(81,897)
Loss for the year	–	–	(3,121)	(3,121)
At 31st December, 2003	2,252	3,547	(90,817)	(85,018)
Profit for the year	–	–	2,113	2,113
At 31st December, 2004	2,252	3,547	(88,704)	(82,905)

The Company did not have any distributable profit as at the balance sheet date.

Capital reserve of the Company represents the amount of initial payment from certain shareholders to subscribe new shares in the Company and the amount was subsequently forfeited as a result of non-payment of the remaining committed contribution.

Notes to the Financial Statements

For the year ended 31st December, 2004

30. SHARE OPTION SCHEME

The share option scheme of the Company was approved and adopted by the shareholders at the extraordinary general meeting held on 19th June, 2001 (the "2001 Scheme"). The primary purpose of the 2001 Scheme is to provide incentives to eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.

Pursuant to the 2001 Scheme, which will expire on 18th June, 2011, the Company may grant options to executive directors and employees of the Company and its subsidiaries to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Share options granted should be accepted within 21 days from the offer date. Share options granted are exercisable during the period commencing on the date of grant and expiring on the date ten years after the date of grant. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2001 Scheme.

The exercise price per share is determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the shares for the five business days immediate preceding the offer date.

The total number of shares in respect of which may be granted to an eligible employee under the 2001 Scheme is not permit to exceed 25% of the aggregate number of shares for the time being issued and issuable under the 2001 Scheme.

There were no share options granted during the year ended 31st December, 2004 and there were no outstanding share options as at 1st January, 2004 and 31st December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

31. ACQUISITION OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	161	299,220
Trading right	778	–
Other assets	2,405	–
Deferred tax assets	–	4,548
Inventories	–	2,658
Trade and other receivables	18,762	20,871
Bank balances and cash	13,871	7,311
Trade and other payables	(17,517)	(65,078)
Bank borrowings	–	(56,535)
Deferred tax liabilities	–	(2,391)
Amount due to a minority shareholder	–	(6,938)
Amount due to shareholders	–	(226,631)
Minority interests	–	(23,390)
Net assets (liabilities) acquired	18,460	(46,355)
Goodwill (negative goodwill) arising on acquisition	641	(16,682)
	19,101	(63,037)
Satisfied by:		
Convertible bonds	–	80,000
Cash consideration paid	19,040	62,072
Deferred cash consideration (<i>note</i>)	–	20,000
Related expenses paid on acquisition	61	1,522
Assignment of shareholders' loan	–	(226,631)
	19,101	(63,037)
Net cash outflow arising on acquisition:		
Cash paid on acquisition	(19,101)	(63,594)
Bank balances and cash acquired	13,871	7,311
	(5,230)	(56,283)

Note: The deferred cash consideration was paid during the year ended 31st December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

31. ACQUISITION OF SUBSIDIARIES (Continued)

2004

In February 2004, the Group acquired the entire issued share capital of Hua Xia Securities Hong Kong Limited ("Hua Xia", formerly known as Chun Yick Securities Limited) for a cash consideration of approximately HK\$19 million. Hua Xia carries on the business of securities dealing and brokerage and margin financing.

2003

On 27th September, 2003, the Group entered into an agreement (the "Agreement") with Asian Power Development Limited ("Asian Power") for the acquisition of the entire issued share capital of and the shareholder's loans to Asian Wealth Group Limited ("AWG") and China Group Limited ("CGL") (the "Acquisition") for a total consideration of HK\$160,000,000 (subject to adjustments). Each of AWG and CGL owns 80% equity interests in a sino-foreign equity joint venture established in the PRC. One of these two PRC joint ventures, Henan ADP Tian Yuan Power Company Limited ("ADP Tian Yuan") operates a power plant in the PRC. The other PRC joint venture Henan CGL Tian Yuan Power Company Limited ("CGL Tian Yuan") owns a power plant in the PRC that was under development.

The completion of the Acquisition took place in October 2003. The total consideration of HK\$160,000,000 was settled in the following manner:

- (a) cash consideration of HK\$60,000,000 was paid on the completion date;
- (b) cash consideration of HK\$20,000,000 was paid during the year ended 31st December, 2004; and
- (c) remaining consideration of HK\$80,000,000 was satisfied by the issue of two convertible bonds:
 - (i) the first convertible bond of HK\$40,000,000 with maturity on 15th October, 2004; and
 - (ii) the second convertible bond of HK\$40,000,000 with maturity on 15th April, 2006.

No significant turnover, results and cash flows were contributed by the subsidiary acquired during the year.

For the year ended 31st December, 2003, the subsidiaries acquired contributed HK\$15,907,000 to the Group's turnover, and HK\$3,585,000 to the Group's profit from operations for that year.

No significant cashflows were contributed by the subsidiaries acquired during the year ended 31st December, 2003.

32. DISPOSAL OF SUBSIDIARIES

On 13th January, 2003, the Company entered into an agreement to dispose of the entire issued share capital in Grandace Investment Ltd. ("Grandace"), a wholly-owned subsidiary of the Company, and an unsecured, interest-free shareholder's loan of approximately HK\$74,621,000 due from Grandace to the Company for an aggregate cash consideration of HK\$49,057,000 (after adjustment). Grandace and its subsidiaries (the "Grandace Group") were engaged in the manufacturing and trading of chemical fibers in the PRC. Completion of the aforesaid transaction took place on 26th September, 2003 and the Group's manufacturing and trading of chemical fibers business were discontinued.

The net assets of subsidiaries disposed of at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	230,309
Investment in securities	568
Inventories	49,934
Trade and other receivables	46,518
Bank balances and cash	20,580
Trade and other payables	(63,196)
Amount due to a shareholder	(74,621)
Bank and other borrowings	(156,542)
Amounts due to minority shareholders	(55,755)
Minority interests released on disposal	(22,963)
	(25,168)
Group's share of net liabilities disposed of	(25,168)
Translation reserve released on disposal	(6,440)
Profit on disposal	6,044
	(25,564)
Satisfied by:	
Cash consideration	49,057
Assignment of a shareholder's loan	(74,621)
	(25,564)
Net cash inflow arising on disposal:	
Cash consideration	49,057
Bank balances and cash disposed of	(20,580)
	28,477

Notes to the Financial Statements

For the year ended 31st December, 2004

32. DISPOSAL OF SUBSIDIARIES (Continued)

The results of the discontinued operation, which have been included in the consolidated financial statements for the year ended 31st December, 2003, were as follows:

	<i>HK\$'000</i>
Turnover	272,084
Operating costs	(242,903)
Other operating income	973
Administrative expenses	(17,110)
Impairment loss on property, plant and equipment	(4,750)
Finance costs	(9,196)
Loss before taxation	(902)
Taxation	75
Net loss for the period	(827)

During the year ended 31st December, 2003, the Grandace Group contributed HK\$6,061,000 to the Group's net operating cash flows, generated HK\$14,904,000 in respect of investing activities, and paid HK\$40,365,000 in respect of financing activities.

33. DEFERRED TAXATION

THE GROUP

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

	Accelerated tax depreciation <i>HK\$'000</i>	Pre-operating expenses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002 and 1st January, 2003	–	–	–	–
Acquired on acquisition of subsidiaries	3,266	(4,333)	(1,090)	(2,157)
Charge (credit) to income	331	(30)	(495)	(194)
At 1st January, 2004	3,597	(4,363)	(1,585)	(2,351)
(Credit) charge to income	(1,264)	620	290	(354)
At 31st December, 2004	2,333	(3,743)	(1,295)	(2,705)

Notes to the Financial Statements

For the year ended 31st December, 2004

33. DEFERRED TAXATION (Continued)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances not offset for financial reporting purposes:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax liabilities	1,953	2,307
Deferred tax assets	(4,658)	(4,658)
	(2,705)	(2,351)

At the balance sheet date, the Group had unused tax losses of HK\$104,697,000 (2003: HK\$89,749,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating lease rentals in respect of land and buildings	1,176	509

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	866	318
In the second to fifth year inclusive	1,390	–
Over five years	–	–
	2,256	318

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for a term of two years with fixed rentals.

The Group as lessor:

Property rental income earned during the year was approximately HK\$2.4 million (2003: HK\$2.4 million). The property held has committed tenants for a term ranging from six months to four years.

Notes to the Financial Statements

For the year ended 31st December, 2004

34. OPERATING LEASE ARRANGEMENTS (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Within one year	2,857	1,723
In the second to fifth year inclusive	3,540	491
	6,397	2,214

35. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure authorised but not provided for in the financial statements in respect of acquisition of property, plant and equipment	10,432	52,027
Capital expenditure contracted but not provided for in respect of acquisition of additional equity interest in subsidiaries	18,350	18,350

36. LITIGATIONS

As explained in note 31, in October 2003, the Group acquired two power plants from Asian Power. The consideration of the acquisition was in part settled by the issue by the Company of convertible bonds with an aggregate principal amount of HK\$80 million, of which HK\$40 million matured in October 2004 with the balance due to mature in April 2006 (see note 27). In view of breaches of representations and warranties given by Asian Power under the sale and purchase agreement, the Company did not repay the HK\$40 million repayable in October 2004 with the result that Asian Power alleged the whole of the HK\$80 million became immediately repayable on demand.

On 17th November, 2004, the Company was served with a writ of summons by Asian Power for a claim in the sum of HK\$81,628,000 together with interest and costs (the "Claim") in respect of the alleged default in payments by the Company as mentioned above (the "Writ Action"). On 13th December, 2004, a notice of discontinuance was filed by Asian Power and the Writ Action was discontinued. On the same day, a winding up petition (the "Petition") was issued against the Company by Asian Power in relation to the Claim. The Company filed a Notice of Intention to Appear on Petition indicating its intention to oppose the Petition on 16th December, 2004. The proceedings are now ongoing and the Company is preparing affirmations in opposition to the Petition. A directions hearing has been scheduled to be heard on 9th May, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2004

36. LITIGATIONS (Continued)

Although the Company has classified the two convertible bonds as current liabilities and accrued interest up to the balance sheet date, the Company considers that Asian Power has acted in breach of its representations and warranties given under the sale and purchase agreement pursuant to which the convertible bonds were issued. The breaches of representations and warranties relate to the non-compliance with contractual obligations. Arbitration proceedings have been commenced in relation to breaches of the sale and purchase agreement. While the final outcome of the Petition and the arbitration cannot be determined at this stage, the Company is vigorously opposing the Petition and pursuing its legal rights under the sale and purchase agreement including withholding payment or cancelling the convertible bonds and/or the right to set-off. Based on legal advice, if the Company discharges the alleged debts before the substantive hearing, Asian Power will have no right to proceed with the winding up proceedings. In the opinion of the directors, any eventual settlement will not have a material adverse impact on the financial position of the Company or the Group.

37. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group and the Company are pledged to secure credit facilities granted to the Group and the Company:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Investment properties	68,000	52,000	–	–
Property, plant and equipment	82,025	75,998	–	–
Investment in securities	9,200	–	9,200	–
	159,225	127,998	9,200	–

In addition, at 31st December, 2004, the Group's equity interest in Equal Link Investments Limited, a wholly-owned subsidiary of the Company which in turn holds the Group's interest in a jointly controlled entity, was pledged to an entity for credit facility granted to the Group. As at 31st December, 2004, HK\$25,000,000 of such facility has been utilised.

38. OTHER RESTRICTION OF ASSETS

During the year, the Group entered into a long-term bank loan agreement. Pursuant to terms of this agreement, a subsidiary of the group engaged in the power generation business has pledged its right of collection of tariff to a bank to secure credit facilities granted to the Group. As at 31st December, 2004, the Group's right of collection of tariff from power generation business amounted to HK\$5,545,000.

In addition, as at 31st December, 2004, disposition of the Company's assets would require an appropriate validation order by the court since the Petition detailed in note 36 has yet to be heard and decided by the court.

Notes to the Financial Statements

For the year ended 31st December, 2004

39. RETIREMENT BENEFITS SCHEMES

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

The employees in the subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is the required contributions under the scheme.

40. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Non-current:		
Elegant Base (notes i and iii)	62,915	62,915
Sanmenxia Tian Yuan (notes ii and iii)	3,622	6,938
	66,537	69,853

Notes:

- (i) Elegant Base Development Limited ("Elegant Base") is a 20% shareholder of Success Harbour International Limited ("Success Harbour"), a non-wholly owned subsidiary of the Company which holds a 46.29% equity interest in Gaoxin Hospital.
- (ii) Sanmenxia Tian Yuan Aluminum Industries Group Company Limited ("Sanmenxia Tian Yuan") is a 20% shareholder of ADP Tian Yuan and CGL Tian Yuan, non-wholly owned subsidiaries of the Company.
- (iii) The balances are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has obtained consent from two banks and a finance company to extend their loans to the Group for another year in the aggregate amount of approximately HK\$88 million when they fall due from June to August 2005.