

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in generation and sale of electricity through the operation of a coal-fired electricity power plant (the "Power Plant") located in Fujian Province, the People's Republic of China excluding Hong Kong (the "PRC"). During the year, the Group sold its garments business through disposal of its entire interest in Royalink Industrial Limited ("Royalink") (note 8).

The financial year end date of the Company was changed from 31 March to 31 December with effect from 25 August 2003. The comparative figures of these financial statements cover a period of nine months from 1 April 2003 to 31 December 2003. Accordingly, the comparative amounts presented for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statements and related notes are not for comparable time period.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 18 to 66 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention, except for the periodic remeasurement of short term investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its associates and jointly controlled entities.

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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

In respect of acquisition of associates and jointly controlled entities, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. The cost of goodwill less accumulated amortisation and impairment is included in the carrying amount of the interest in associates or jointly controlled entities.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the goodwill. It is amortised from the date of initial recognition. The estimated useful life is approximately 15 years.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(e) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of net assets of the associates.

Goodwill arising from the acquisition of associates is included as part of the Group's interest in associates.

An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer existed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The consolidated income statement includes the Group's share of the results of jointly-controlled entity for the year, and the consolidated balance sheet includes the Group's share of net assets of the jointly-controlled entity less any impairment loss and goodwill (net of accumulated amortisation) on acquisition.

(g) Jointly-controlled entities

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

(h) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	4%
Plant and machineries	4%
Furniture, fixtures, equipment and leasehold equipments	20%
Motor vehicles	20%

Long term leasehold land is amortised over the shorter of the remaining unexpired period of the lease or 25 years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

(ii) *Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

Construction in progress represents buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(j) Inventories

Inventories comprise coal, diesel, spare parts and consumable stores for own consumption purposes. Coal and diesel are stated at weighted average cost whereas spare parts and consumable stores are stated at first-in first-out or weighted average basis as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at fair value on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(l) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(m) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 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 joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Income tax (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 profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. 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 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.

(n) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Impairment (Continued)

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(q) Employee benefits

(i) Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance which are available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to income statement represents contributions payable by the Group to the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(ii) Share option scheme

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

(r) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are delivered to the customers.

Revenue from sale of electricity is recognised, on consumption recorded by meters read during the year and terms agreed with the relevant PRC governmental electricity supply bureau.

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(s) Borrowing costs

All borrowing costs are charged to the income statement in the period in which they are incurred.

(t) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Contingent liabilities and contingent assets (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's by-laws grant the directors the authority to declare interim dividends.

Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(v) Related parties

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

(w) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(x) Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, which represents a separate major line of business or geographical area of operations.

(y) Recently issued accounting standards

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

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the garments segment involves the sale of garments (note 8);
- (b) the generation and sale of electricity segment involves the sale of electricity; and
- (c) the "others" segment comprises, principally, the Group's trading and distribution of leather, fur and garment accessories and the trading and holding of equity investments.

In determining the Group's geographical segments, revenue are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

No intersegment sales and transfers were transacted during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments

	Discontinued operation		Continuing operation					
	Garments		Generation and sale of electricity		Others		Consolidated	
	Period from 1 April 2003 to 31 December 2003		Period from 1 April 2003 to 31 December 2003		Period from 1 April 2003 to 31 December 2003		Period from 1 April 2003 to 31 December 2003	
	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	1,300	27,763	118,711	–	–	–	120,011	27,763
Other revenue and gains	4	195	959	–	–	21,717	963	21,912
Total	1,304	27,958	119,670	–	–	21,717	120,974	49,675
Segment results	(6,442)	(67)	24,074	–	(2,911)	17,760	14,721	17,693
Unallocated other revenue and gains							204	1,278
Unallocated expenses							(10,350)	(7,841)
Profit from operating activities							4,575	11,130
Finance costs							(4,966)	(751)
Share of profits and losses of associates			23,302	25,728			23,302	25,728
Amortisation of goodwill on acquisition of associates			(2,046)	(3,069)			(2,046)	(3,069)
							21,256	22,659
Profit before taxation							20,865	33,038
Taxation							(447)	(8,611)
Profit before minority interests							20,418	24,427
Minority interests							(5,720)	761
Net profit for the year							14,698	25,188

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Discontinued operation		Continuing operation					
	Garments		Generation and sale of electricity		Others		Consolidated	
	Period from 1 April		Period from 1 April		Period from 1 April		Period from 1 April	
	Year ended 31 December 2004	2003 to 31 December 2003	Year ended 31 December 2004	2003 to 31 December 2003	Year ended 31 December 2004	2003 to 31 December 2003	Year ended 31 December 2004	2003 to 31 December 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	-	13,380	423,723	-	2,970	7,093	426,693	20,473
Interests in jointly-controlled entities	-	-	-	-	-	-	62,623	59,491
Interests in associates	-	-	-	181,794	-	-	-	181,794
Unallocated assets	-	-	-	-	-	-	80,270	25,130
Total assets							569,586	286,888
Segment liabilities	-	4,140	182,469	-	726	748	183,195	4,888
Unallocated liabilities	-	-	-	-	-	-	21,018	24,136
Total liabilities							204,213	29,024
Other segment information:								
Depreciation	-	448	10,970	-	360	388	11,330	836
Amortisation of goodwill	-	-	4,989	3,069	-	-	4,989	3,069
Other non-cash expenses	-	-	-	-	6,689	2,243	6,689	2,243
Unallocated non-cash expenses	-	-	-	-	-	-	1,031	152
Capital expenditure	-	58	316,161	-	1,419	4	317,580	62

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3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		PRC		Australia		Israel		Other		Consolidated	
	Period from		Period from		Period from		Period from		Period from		Period from	
	1 April		1 April		1 April		1 April		1 April		1 April	
	Year ended	2003 to	Year ended	2003 to	Year ended	2003 to	Year ended	2003 to	Year ended	2003 to	Year ended	2003 to
31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue												
Sales to external												
customers	442	9,395	118,711	155	260	5,484	325	6,921	273	5,808	120,011	27,763
Other revenue												
and gains	4	21,912	959	-	-	-	-	-	-	-	963	21,912
Other segment												
information:												
Segment assets	156,246	40,195	413,340	244,815	-	1,063	-	407	-	408	569,586	286,888
Capital expenditure	1,419	62	316,161	-	-	-	-	-	-	-	317,580	62

NOTES TO THE FINANCIAL STATEMENTS

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4. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents (i) the net invoiced value of goods sold, after allowances for returns and trade discounts, and (ii) the sale of electricity, net of value added tax.

Revenue and gains recognised during the year/period are as follows:

	Year ended 31 December 2004 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000
Turnover		
Sale of electricity – continuing operation	118,711	–
Sale of goods – discontinued operation	1,300	27,763
	120,011	27,763
Other revenue		
Interest income	22	30
Others	1,071	1,443
	1,093	1,473
Gains		
Gain on disposal of property, plant and equipment	74	–
Gain on disposal of a long term investment	–	18,911
Net realised gains on trading of short term listed equity investments	–	2,703
Net unrealised holding gains on short term listed equity investments	–	103
	74	21,717
Other revenue and gains	1,167	23,190
Total revenue and gains	121,178	50,953

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5. PROFIT FROM OPERATIONS

	Year ended 31 December 2004 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000
Profit from operations is arrived at after charging:		
Cost of inventories sold [#]	87,531	26,504
Auditors' remuneration	720	523
Depreciation of owned assets	11,330	836
Amortisation of goodwill on acquisition of subsidiaries included in other operating expense	2,943	–
Operating lease charges in respect of land and buildings	649	721
Exchange losses	–	92
Staff costs, including directors' remuneration (note 27(a)) and pension scheme contributions	11,314	3,505
Pension scheme contributions	233	213
Provision for doubtful debts	6,689	2,243
Bad debts written off	–	152
Net realised losses on trading of short term listed equity investments	1,881	–
Net unrealised holding losses on short term listed equity investments	1,031	–
and crediting:		
Gain on discontinued operations (note 31(b))	2,876	–

[#] The costs of inventories sold for the year ended 31 December 2004 include the balances of staff costs and depreciation of approximately HK\$5,393,000 and HK\$10,461,000 respectively (period from 1 April 2003 to 31 December 2003: Nil and Nil respectively), which are also disclosed separately above.

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6. FINANCE COSTS

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Interest charge on:		
Bank loans wholly repayable within five years	4,485	391
Bank loans wholly repayable after five years	481	360
	4,966	751

7. TAXATION

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Current tax – the PRC	3,255	–
Over provision in prior years	(6,319)	–
Share of tax attributable to associates	3,511	8,611
Tax charge for the year/period	447	8,611

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits or has available tax losses brought forward from prior years to offset the assessable profits generated during the year (period from 1 April 2003 to 31 December 2003: Nil).

Pursuant to a circular of Min Guo Shui Fa (2002) Number 88 (閩國稅發【2002】88號) issued by the Fujian Provincial Government on 10 April 2002, the estimated assessable profits of Longyan Hengfa Electric Industry Co. Ltd (“Longyan Hengfa”) 龍岩恒發電業有限公司 arising in the PRC starting from 1 January 2003 were subject to an applicable corporate income tax rate of 24%. According to a circular of Min Guo Shui Xian (2004) Number 47 (閩國稅函【2004】47號) issued by the Fujian Office of National Tax Bureau on 3 February 2004, a preferential corporate income tax rate of 15% has been granted to Longyan Hengfa starting from February 2004.

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7. TAXATION (Continued)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Profit from ordinary activities before taxation	20,865	33,038
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerns	853	7,743
Tax effect of non-taxable income	–	(3,310)
Tax effect of non-deductible expenses	749	3,111
Tax losses not recognised	5,164	378
Tax effect of prior year's tax losses utilised in current year/period	–	(483)
(Over)/under provision in prior year/period	(6,319)	1,172
Total taxation	447	8,611

8. DISCONTINUED OPERATIONS

On 30 July 2004, Perfect Yield Holdings Limited ("Perfect Yield"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Disposal Agreement") with Mr. Leung Yuen Keung, Edward ("Mr. Leung"), a substantial shareholder of Royalink. Pursuant to the Disposal Agreement, Perfect Yield agreed to sell its 1,020,000 shares of HK\$1.00 each in Royalink, representing in aggregate 51% of the issued share capital of Royalink, for a cash consideration of HK\$5,000 (the "Disposal").

The Disposal was completed on 25 October 2004. The consideration of HK\$5,000 was payable by Mr. Leung upon completion.

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8. DISCONTINUED OPERATIONS (Continued)

The turnover, other revenue and gains, expense and results attributable to the discontinued garment business for the year/period were as follows:

	Year ended 31 December 2004*	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Turnover	1,300	27,763
Cost of sales	(2,340)	(26,504)
Gross (loss)/profit	(1,040)	1,259
Other revenue and gains	80	1,671
Selling and distribution costs	(32)	(996)
Administrative expenses	(5,403)	(2,634)
Loss from operations	(6,395)	(700)
Finance costs	(515)	(810)
Loss attributable to shareholders	(6,910)	(1,510)

* Results for the period from 1 January 2004 to 25 October 2004, date of discontinuance.

The net (liabilities)/assets as at the date of discontinuance of 25 October 2004 and 31 December 2003 were as follows:

	25 October 2004	31 December 2003
	HK\$'000	HK\$'000
Total assets	1,457	15,275
Total liabilities	(7,086)	(13,994)
Net (liabilities)/assets	(5,629)	1,281

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

8. DISCONTINUED OPERATIONS (Continued)

The cash flows of the discontinued operations for the year/period were as follows:

	Year ended 31 December 2004*	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Operating cash flows	(2,130)	691
Investing cash flows	–	3
Financing cash flows	285	(559)
Total cash flows	(1,845)	135

* Results for the period from 1 January 2004 to 25 October 2004, date of discontinuance.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders of HK\$14,698,000 (period from 1 April 2003 to 31 December 2003: HK\$25,188,000), a loss of HK\$2,757,000 (period from 1 April 2003 to 31 December 2003: HK\$643,000) has been dealt with in the financial statements of the Company.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of HK\$14,698,000 (period from 1 April 2003 to 31 December 2003: HK\$25,188,000), and the weighted average of 375,862,612 (period from 1 April 2003 to 31 December 2003: 376,053,523) ordinary shares outstanding during the year.

No diluted earnings per share has been shown for the current year and the prior period because the exercise price of the share options outstanding during the year/period was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machineries	Furniture, fixtures, equipment and leasehold improvements	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1 January 2004	–	2,401	1,336	1,270	–	5,007
Additions	–	540	168	1,419	654	2,781
Acquisition of subsidiaries	113,879	197,709	544	–	2,667	314,799
Transfers	–	3,321	–	–	(3,321)	–
Disposal	–	–	–	(928)	–	(928)
Disposal of a subsidiary	–	(2,401)	(585)	–	–	(2,986)
At 31 December 2004	113,879	201,570	1,463	1,761	–	318,673
Accumulated depreciation						
At 1 January 2004	–	795	584	375	–	1,754
Charge for the year	2,609	8,147	286	288	–	11,330
Disposal	–	–	–	(402)	–	(402)
Disposal of a subsidiary	–	(1,155)	(383)	–	–	(1,538)
At 31 December 2004	2,609	7,787	487	261	–	11,144
Net book value						
At 31 December 2004	111,270	193,783	976	1,500	–	307,529
At 31 December 2003	–	1,606	752	895	–	3,253

Certain of the Group's plant and machineries, which had an aggregate net book value at the balance sheet date of approximately HK\$135,957,000 (2003: HK\$1,304,000) were pledged to secure the Group's banking facilities (note 21).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings of the Group are all situated in the PRC and held under the following lease terms:

	2004	2003
	HK\$'000	HK\$'000
Long term lease	4,228	–
Short term lease	109,651	–
	113,879	–

12. INTERESTS IN SUBSIDIARIES

	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	82,058	82,058
Due from subsidiaries	412,438	416,233
Due to subsidiaries	(95,523)	(95,217)
	398,973	403,074
Less: Provision	(176,724)	(176,724)
	222,249	226,350

The amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable in the next twelve months.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

12. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ operations	Particulars of issued share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Dragonfield Group (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	1,000 shares of US\$1 each	100	Investment holding
Indirectly held				
Concade Assets Limited ("Concade")	BVI/Hong Kong	11,968,000 shares of US\$1 each	59	Investment holding
Dragonfield Management Limited *	Hong Kong	2 shares of HK\$1 each	100	Provision of management services
Everbest Century Limited ("ECL")*	Hong Kong	1,000 ordinary shares of HK\$1 each 10,000,000 deferred shares of HK\$1 each (note (i))	59	Investment holding
Flying Gain Holdings Limited	BVI/Hong Kong	2 shares of US\$1 each	100	Investment holding
Goodfield Development Limited ("Goodfield")	Hong Kong	1,000 shares of HK\$1 each	85	Investment holding
Longyan Hengfa (note (ii))	PRC	RMB140,000,000	53.1	Management and operation of a power plant

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Particulars of issued share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
New Eastern Harbour (Int'l) Trading Limited	Hong Kong	2 shares of HK\$1 each	100	Trading of leather, fur and garment accessories
Perfect Yield	BVI/Hong Kong	7 shares of US\$1 each	100	Investment holding
Region Link Holdings Limited	BVI/Hong Kong	2 shares of US\$1 each	100	Investment holding
Royce Group Limited ("Royce")*	BVI/Hong Kong	1 share of US\$1 each	100	Investment holding
Royce Investment (HK) Limited	Hong Kong	2 shares of HK\$1 each	100	Investment holding
Royce properties Limited	Hong Kong	2 shares of HK\$1 each	100	Investment holding

* Not audited by Grant Thornton Hong Kong or other Grant Thornton International member firms.

Notes:

- (i) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.
- (ii) Longyan Hengfa is a sino-foreign equity joint venture established in the PRC with a term of 25 years commencing on the date of its business licence of 30 December 1993. The Group through its non-wholly owned subsidiary, Concade, held 90% of Longyan Hengfa and the remaining 7% and 3% equity interests in Longyan Hengfa are respectively owned by Longyan Power Construction Development Company (龍岩市電力建設發展公司), a state-owned enterprise in the PRC, and a company incorporated in Hong Kong, both of which are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2004	2003
	HK\$'000	HK\$'000
Share of net assets of jointly-controlled entities	—	—
Loans to jointly-controlled entities	62,623	59,491
	62,623	59,491

The loans to the jointly-controlled entities are unsecured, interest-free and are not repayable in the next twelve months.

As at 31 December 2004, the Group had interests in the following jointly-controlled entities:

Name	Place of incorporation/ registration and operations	Percentage of			Principal activities
		Ownership interest	Voting power	Profit sharing	
Indirectly held					
Best Base Investments Limited ("Best Base")*	Hong Kong/PRC	42.5	42.5	42.5	Investment holding
United Force Development Limited ("United Force")*	Hong Kong/PRC	42.5	42.5	42.5	Investment holding
廈門梧村汽車站開發有限公司*	PRC/PRC	29.8	24.3	29.8	Property development
瀋陽置力房產開發有限公司*	PRC/PRC	42.1	34	42.1	Property development

* Not audited by Grant Thornton or other Grant Thornton International member firms.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Included in the Group's interests in jointly-controlled entities is the loans to United Force and its subsidiary, 潘陽置力房產開發有限公司 (collectively the "United Force Group") and to Best Base and its subsidiary, 廈門梧村汽車站開發有限公司 (collectively the "Best Base Group") which, in the opinion of the directors, are material in the context of the Group's financial statements. Extracts of the audited consolidated balance sheets and audited consolidated income statements of United Force Group and Best Base Group for the year ended 31 December 2004 are set out below:

United Force Group

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Operating results:		
Turnover	–	–
Loss before and after taxation before minority interest	(568)	(364)
Minority interest	5	–
Loss attributable to shareholders	(563)	(364)
	2004	2003
	HK\$'000	HK\$'000
Financial position:		
Non-current assets	73,373	71,388
Current assets	12,570	30,575
Non-current liabilities	(85,696)	(94,588)
Current liabilities	(66)	(7,678)
Minority interest	(932)	–
	(751)	(303)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Best Base Group

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Operating results:		
Turnover	–	–
Loss before and after taxation before minority interest	(1,475)	(885)
Minority interest	426	244
	(1,049)	(641)
	2004	2003
	HK\$'000	HK\$'000
Financial position:		
Non-current assets	72,543	64,111
Current assets	10,169	6,329
Non-current liabilities	(62,293)	(51,667)
Current liabilities	(13)	(8)
Minority interest	(21,949)	(19,259)
	(1,543)	(494)

14. INTERESTS IN ASSOCIATES

	2004	2003
	HK\$'000	HK\$'000
Share of net assets	–	121,836
Goodwill	–	59,850
	–	181,686
Due from an associate	–	108
	–	181,794

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

14. INTERESTS IN ASSOCIATES (Continued)

The amount due from an associate as at 31 December 2003 was unsecured, interest-free and not repayable in the next twelve months.

On 29 April 2004, Royce, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Acquisition Agreement") with For Good Investments Limited ("For Good"). Pursuant to the Acquisition Agreement, For Good agreed to sell its 1,795,200 shares in Concade, representing in aggregate 15% of the issued share capital of Concade or an attributable interest of 13.5% of Longyan Hengfa, to Royce Group for a cash consideration of HK\$54,500,000 (the "Acquisition").

Since For Good is beneficially and wholly owned by Mr. Chan Chun Keung ("Mr. Chan"), a director of the Company and the single largest shareholder interested in approximately 28.11% equity interest in the Company as at the date of the Acquisition Agreement, the Acquisition constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to the approval by the independent shareholders at the special general meeting held on 9 July 2004. The Acquisition was completed on 13 July 2004.

The Group originally held 44% equity interest of Concade, and its subsidiaries (collectively, the "Concade Group") as at 31 December 2003, which was classified as associates in the consolidated balance sheet. The Group owned 59% Concade Group after the acquisition and Concade Group became a subsidiary of the Group since 13 July 2004.

The movement of goodwill included as part of the Group's interests in associates, arising from the acquisition of associates in prior years is as follows:

	2004	2003
	HK\$'000	HK\$'000
Carrying value		
At the beginning of year/period	59,850	62,919
Amortisation charge for the year/period	(2,046)	(3,069)
Transfer to goodwill on acquisition of an additional 15% equity interest in Concade Group (note 15)	(57,804)	–
At 31 December	–	59,850
At 31 December		
Cost	–	69,577
Accumulated amortisation	–	(9,727)
Net book value	–	59,850

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

14. INTERESTS IN ASSOCIATES (Continued)

Extracts of the operating results for the prior period and financial position of the Concade Group, which were based on the financial statements of the Concade Group prepared under accounting principles generally accepted in Hong Kong, are as follows:

	Period from 1 April 2003 to 31 December 2003
	HK\$'000
<hr/>	
Operating results:	
Turnover	147,134
Profit before taxation	58,473
Profit after taxation	38,903
	<hr/>
	2003
	<hr/> HK\$'000
Financial position:	
Non-current assets	338,635
Current assets	124,919
Non-current liabilities	(64,467)
Current liabilities	(106,166)
Minority interest	(16,020)
	<hr/>
	276,901
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

15. GOODWILL

	2004	2003
	HK\$'000	HK\$'000
Carrying value		
At the beginning of the year/period	–	–
Transfer from associates	57,804	–
Further acquisition of 15% equity interest in Concade Group	25,049	–
Amortisation charge for the year	(2,943)	–
At 31 December	79,910	–
At 31 December		
Cost	82,853	–
Accumulated amortisation	(2,943)	–
Net book value	79,910	–

16. SHORT TERM INVESTMENTS

The short term investments at 31 December 2004 and 2003 represented Hong Kong listed equity investments stated at market value.

17. INVENTORIES

	2004	2003
	HK\$'000	HK\$'000
Coal	29,460	–
Diesel	480	–
Spare part and consumables	3,920	–
Raw materials	–	161
Work in progress	–	1,205
Finished goods	–	72
	33,860	1,438

None of the above inventories was carried at net realisable value at 31 December 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

18. ACCOUNT AND BILLS RECEIVABLES

Account receivables, which generally have credit terms of not more than 180 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's account and bills receivables at the balance sheet date, based on invoice date, is as follows:

	2004	2003
	HK\$'000	HK\$'000
Current-90 days	22,857	6,195
91-180 days	–	1,847
Over 180 days	–	4,029
	22,857	12,071
Less: Provisions	–	(3,136)
	22,857	8,935

19. ACCOUNT AND BILLS PAYABLES

An aged analysis of the Group's account and bills payables at the balance sheet date, based on invoice date, is as follows:

	2004	2003
	HK\$'000	HK\$'000
Current-90 days	5,720	3,558
91-180 days	263	67
Over 180 days	340	339
	6,323	3,964

20. AMOUNT DUE TO A DIRECTOR

The amount due is unsecured, interest free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

21. BANK LOANS

	2004	2003
	HK\$'000	HK\$'000
Bank loans:		
Secured	132,162	8,853
Unsecured	8,503	8,858
	140,665	17,711
Bank loans repayable:		
Within one year	71,587	9,014
In the second year	22,709	553
In third to fifth years, inclusive	40,702	1,259
Beyond five years	5,667	6,885
	140,665	17,711
Less: Current portion due within one year included under current liabilities	(71,587)	(9,014)
Non-current portion included under non-current liabilities	69,078	8,697

The Group's banking facilities at 31 December 2004 were secured by:

- (i) pledge of certain of the Group's plant and machineries, which had an aggregate net book value at the balance sheet date of approximately HK\$135,957,000 (2003: HK\$1,304,000) (note 11);
- (ii) pledge of equity interest in Longyan Hengfa held by the Group;
- (iii) pledge of 24,000,000 shares of the Company which are listed on the Stock Exchange and are beneficially owned by a director of the Company for a bank loan of US\$9,000,000;
- (iv) subordination of all loans and other amounts due by ECL to Concade and/or shareholders of Concade. Concade, a non-wholly owned subsidiary of the Group, is the immediate holding company of ECL; and
- (v) corporate guarantees executed by the Company.

22. LOAN FROM MINORITY SHAREHOLDERS

The amount due is unsecured, interest free and is not repayable in the next twelve month.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

23. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK\$7,736,000 (2003: HK\$7,736,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

24. SHARE CAPITAL

	2004		2003	
	Number of shares '000	Share capital HK\$'000	Number of shares '000	Share capital HK\$'000
Authorised				
1,000,000,000 ordinary shares of HK\$0.20 each	1,000,000	200,000	1,000,000	200,000
Issued and fully paid				
At the beginning of the year/period	375,863	75,173	7,522,252	75,223
Shares repurchased and cancelled (note 24(a))	–	–	(5,000)	(50)
	375,863	75,173	7,517,252	75,173
Consolidation of 20 ordinary shares of HK\$0.01 each into one ordinary share of HK\$0.2 each (note 24(b))	–	–	(7,141,389)	–
At 31 December	375,863	75,173	375,863	75,173

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

24. SHARE CAPITAL (Continued)

During the prior period, the movements in share capital were as follows:

(a) Repurchase of shares

In October 2003, prior to the share consolidation in (b) below, the Company repurchased and cancelled 5,000,000 of its ordinary shares of HK\$0.01 each on the Stock Exchange at a total consideration of HK\$100,000.

The premium of HK\$50,000 paid on the repurchase of such shares was debited to the share premium account and an amount of HK\$50,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 25(b) to the financial statements.

(b) Share consolidation

Pursuant to the ordinary resolution passed in a special general meeting on and effective from 16 December 2003, the Company consolidated all the issued and unissued ordinary shares of the Company on the basis of every 20 ordinary shares of HK\$0.01 each into one ordinary share of HK\$0.20 each. The authorised capital of the Company was adjusted from HK\$200,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.01 each to 1,000,000,000 ordinary shares of HK\$0.20 each, and the issued share capital was also adjusted from HK\$75,173,000 divided into 7,517,252,284 ordinary shares of HK\$0.01 each to HK\$75,173,000 divided into 375,862,614 ordinary shares of HK\$0.20 each. The consolidated shares rank pari passu in all respects with the then issued share capital of the Company. Further details of the share consolidation are also set out in a circular of the Company dated 24 November 2003.

25. RESERVES

(a) Group

	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	(Accumulated loss)/retained profits	Statutory reserve fund	Total reserves
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries	150,321	50	3,284	(641)	34,443	3,456	190,913
Associates	-	-	-	-	-	-	-
At 31 December 2004	150,321	50	3,284	(641)	34,443	3,456	190,913
Company and subsidiaries	150,321	50	3,284	(641)	(17,652)	-	135,362
Associates	-	-	-	-	46,701	-	46,701
At 31 December 2003	150,321	50	3,284	(641)	29,049	-	182,063

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

25. RESERVES (Continued)

(a) Group (Continued)

The movements of the Group's reserve for the current year and the prior period are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

The capital redemption reserve arose from the purchase of the Company's share for cancellation during 2003 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

The contributed surplus of the Group arose as a result of the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired.

In accordance with the relevant PRC regulations and the joint venture contract, the Group's PRC subsidiary is required, at the discretion of its directors, to appropriate a certain percentage of its profit after tax, if any, to the statutory reserve fund for the future development and capital expenditure on staff welfare facilities purposes.

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	150,371	–	2,643	(1,199)	151,815
Repurchase of shares (note 24(a))	(50)	50	–	(50)	(50)
Loss for the period	–	–	–	(643)	(643)
At 31 December 2003 and 1 January 2004	150,321	50	2,643	(1,892)	151,122
Loss for the year	–	–	–	(2,757)	(2,757)
At 31 December 2004	150,321	50	2,643	(4,649)	148,365

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 25(a) and represents the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof.

Details of the share premium account and capital redemption reserve of the Company are set out in note 25(a) above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

26. SHARE OPTION SCHEME

The Company's previous share option scheme (the "Old Scheme") operated for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operation. The Old Scheme became effective on 15 May 1997.

On 20 October 2004, an ordinary resolution by the shareholders at a special general meeting was passed to terminate the Old Scheme and adopt a new share option scheme (the "New Scheme"). Eligible participants ("Participants") of the New Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The New Scheme became effective on 25 October 2004 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Under the New Scheme, the board of directors of the Company may at its discretion grant options to the Participants to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the shares in issue as at the adoption date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

The options which have been granted during the life of the Old Scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects, the provisions of the Old Scheme shall remain in full force and effect.

The offer of a grant of share options may be accepted within 10 business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The option period of an option may not end later than 10 years after the date of offer of the option.

The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company at its absolute discretion but in any event shall not be less than the highest of (i) the official closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the offer date, (ii) the average of the official closing price of the shares as stated in daily quotations sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

26. SHARE OPTION SCHEME (Continued)

Status of the Old Scheme

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

Name or category of participant	At 1 January 2004	Adjusted during the year	At 31 December 2004	Date of grant of share options (note (i))	Exercise period of share options	Exercise price of share options (note (ii))
Directors						
Mr. Chan Chun Keung	3,211,937	–	3,211,937	4 January 2001	16 January 2001 to 15 January 2006	0.32
Mr. Chau On Ta Yuen	1,062,500	–	1,062,500	4 January 2001	16 January 2001 to 15 January 2006	0.32
Mr. Dominic Lai*	265,625	(265,625)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
Mr. Chan Kam Man*	265,625	(265,625)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
	4,805,687	(531,250)	4,274,437			
Other employees						
In aggregate	2,578,688	–	2,578,688	4 January 2001	16 January 2001 to 15 January 2006	0.32
Third parties						
In aggregate	–	531,250	531,250	4 January 2001	16 January 2001 to 15 January 2006	0.32
	7,384,375	–	7,384,375			

* These two directors resigned as the Company's independent non-executive directors on 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

26. SHARE OPTION SCHEME (Continued)

Notes:

- (i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 7,384,375 share options outstanding under the Old Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,384,375 additional ordinary shares of the Company and additional share capital of HK\$1,476,875 and share premium of HK\$886,125 (before issue expenses).

27. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Remuneration of the directors disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2004 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000
Fees:		
Independent non-executive directors	210	100
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,417	940
Bonuses	135	87
Pension scheme contributions	47	35
	1,599	1,062
	1,809	1,162

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

27. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

There were no other emoluments paid or payable to the independent non-executive directors for the year (period from 1 April 2003 to 31 December 2003: Nil).

The remuneration of each director fell within the band of nil to HK\$1,000,000 for the year ended 31 December 2004 and the period from 1 April 2003 to 31 December 2003.

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year (period from 1 April 2003 to 31 December 2003: Nil).

No share options were granted to the directors of the Company during the year (period from 1 April 2003 to 31 December 2003: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (period from 1 April 2003 to 31 December 2003: four) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (period from 1 April 2003 to 31 December 2003: one) individual, which fell within the band of nil – HK\$1,000,000, for the year ended 31 December 2004 and period from 1 April 2003 to 31 December 2003 are as follows:

	Year ended 31 December 2004 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	752	351
Pension scheme contributions	21	9
	773	360

No share options were granted to the remaining non-director, highest paid employee in respect of his services to the Group (period from 1 April 2003 to 31 December 2003: Nil).

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (period from 1 April 2003 to 31 December 2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

28. OPERATING LEASE COMMITMENTS

At 31 December 2004, the total future minimum lease payments of the Group under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	390	771
In the second to fifth years, inclusive	–	640
	390	1,411

The Group leases certain properties under operating leases. The leases run for an initial period of three years, without option to renew the lease terms at the expiry date. None of the leases include contingent rentals.

The Company did not have significant lease commitments at the balance sheet date (2003: Nil).

29. CONTINGENT LIABILITIES

	2004	2003
	HK\$'000	HK\$'000
Bills discounted with recourse of the Group	–	911

At 31 December 2004, the Company had given guarantees to a bank in connection with banking facilities granted to a subsidiary in an aggregate of HK\$9,730,000 (2003: HK\$28,830,000), of which approximately HK\$8,503,000 (2003: HK\$18,800,000) was utilised at the balance sheet date.

30. CONNECTED AND/OR RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with connected and/or related parties during the year and in the prior period:

- (a) On 13 March 2004, the Group granted a shareholders' loan of HK\$1,142,000 to Best Base, a jointly-controlled entity in which the Group beneficially holds a 50% equity interest and a brother-in-law of Mr. Chan, an executive director of the Company, holds another 50% equity interest.

The Group has made further advance of approximately HK\$10,828,000 to Best Base on 17 May 2004. The amount advanced was unsecured, interest free and will not be repayable in the next twelve months. The amount due from Best Base as at 31 December 2004 was approximately HK\$ 24,189,000 (2003: HK\$12,219,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

30. CONNECTED AND/OR RELATED PARTY TRANSACTIONS (Continued)

- (b) On 14 May 2004, the Group entered into a shareholder agreement with the sisters of Mr. Chan (“Ms. Chan”) for the establishment of an entity, Goodfield, in which the Group contributed a 85% equity interest at a cash consideration of HK\$850. Goodfield became a shareholder of Best Base and United Force thereafter.

On 17 May 2004, Ms. Chan advanced HK\$10,818,000 to Goodfield as her portion of shareholders’ loan to Best Base and United Force.

- (c) In December 2004, United Force made a repayment to the Group in the sum of HK\$8,838,000, leaving a balance of approximately HK\$38,434,000 (2003: HK\$47,272,000) as at 31 December 2004.
- (d) On 7 February 2003, the Group acquired a 10.24% equity interest and shareholders’ loan of US\$1,156,000 (approximately HK\$9,017,000) in Online Investments Limited (“Online”) from Skyriver (B.V.I.) Limited, a company beneficially owned by Mr. Chan for a consideration of HK\$45,000,000. Online is a subsidiary of Shougang Concord and is engaged in the manufacturing and sale of steel cords for tyres in the PRC through its wholly-owned subsidiary, Jiaxing Eastern Steel Cord Co., Ltd.

During the period from 1 April 2003 to 31 December 2003, approximately HK\$4,794,000 of the shareholders’ loan was settled by Online to the Group. In addition, on 7 October 2003, the Group disposed of its entire 10.24% equity interest and the remaining shareholders’ loan of US\$541,385 (approximately HK\$4,223,000) in Online to Clear Vision for a cash consideration of HK\$58,000,000 (the “Online Disposal”).

The Online Disposal constituted a disclosable and connected transaction under the Listing Rules and was approved by the independent shareholders at a special general meeting held on 25 September 2003. The transaction was completed and became unconditional thereafter.

- (e) In prior period, certain directors of a subsidiary and the spouse of one of the directors executed joint and personal guarantees and legal charges on certain of their personal assets for certain general banking facilities of a subsidiary.

These guarantees and legal charges were released upon disposal of Royalink.

- (f) In prior years, Royalink, a subsidiary of the Group, advanced funds of approximately HK\$2,100,000 to a director of Royalink (who was not a director of the Company) and the advance was outstanding upon the acquisition of Royalink in prior years. The amount advanced was unsecured, interest-free and had no fixed terms of repayment. There was Nil balance as at 31 December 2004 (2003: HK\$900,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Share of attributable net assets acquired		
Property, plant and equipment	314,799	–
Inventories	11,980	–
Account receivables	43,415	–
Prepayments, deposits and other receivables	4,137	–
Cash and bank balances	65,107	–
Account payables	(8,241)	–
Other payables and accruals	(11,575)	–
Amount due to a director	(12,788)	–
Tax payable	(170)	–
Dividend payable	(45,826)	–
Bank loans	(122,206)	–
Loan from minority shareholder	(17,884)	–
Minority interests	(98,381)	–
	122,367	–
Less: Interest in associates	(91,279)	–
	31,088	–
Goodwill	25,049	–
	56,137	–
Satisfied by:		
Cash	56,137	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Acquisition of a subsidiary (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Cash consideration	(56,137)	—
Cash and balances acquired	65,107	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	8,970	—

Since the acquisition, the subsidiary contributed HK\$118,711,000 to the Group's turnover and HK\$17,006,000 to the profit from ordinary activities before minority interests for the year ended 31 December 2004.

(b) Disposal of a subsidiary

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	1,448	—
Cash and bank balances	9	—
Other payables and accruals	(6,090)	—
Bank loans	(996)	—
Minority interests	2,758	—
	(2,871)	—
Gain on disposal of a subsidiary	2,876	—
	5	—
Satisfied by:		
Cash	5	—

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of a subsidiary (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK\$'000	HK\$'000
Cash consideration	5	–
Cash and balances disposed of	(9)	–
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(4)	–

The subsidiary sold during the year contributed HK\$1,300,000 (period from 1 April 2003 to 31 December 2003: HK\$27,763,000) to the Group's turnover and contributed a loss after taxation and minority interest of HK\$6,910,000 (period from 1 April 2003 to 31 December 2003: HK\$1,510,000) to the consolidated results for the year ended 31 December 2004.

32. SUBSEQUENT EVENT

On 8 April 2005, Goodfield has made an advance to United Force, which, when aggregated with the balance of approximately HK\$38,434,000 advanced by Goodfield to United Force immediately prior to this advance, amounted to approximately HK\$47,272,000.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 18 to 66 were approved by the board of directors on 25 April 2005.