

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in Bermuda with limited liability on 15 June 2001 as an exempted company under the Companies Act (1981) of Bermuda pursuant to a group reorganisation which involved a change of domicile of the Group from Hong Kong to Bermuda, details of which are set out in the prospectus of the Company dated 19 October 2001.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost convention as modified by the revaluation of other investments as further explained below.

The Hong Kong Institute of Certified Public Accountants ("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. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by HKICPA.

(a) Revenue recognition

Management fee income is recognised when service is rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2004.

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

(d) Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The Group's interests in associates include the Group's share of the net assets of the associates. The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(e) Jointly controlled entities

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

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 include the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition profits or losses of jointly controlled entities is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Capital reserve or goodwill on consolidation

According to the principal accounting policies of the Group, goodwill arising on acquisition of subsidiaries, jointly controlled entities or associates is amortised over twenty years from initial recognition in order to reflect the best estimate of the period during which future economic benefits are expected to flow to the Group.

On disposal of subsidiaries, jointly controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets or share of net assets at the state of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves as appropriate.

(g) Investment in securities

Held-to-maturity debt securities are stated at amortised costs less any impairment loss recognised to reflect irrecoverable amounts.

Investment securities include the Group's equity interest in companies in which the Group has no significant influence on their financial and operating decisions and which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated at cost less impairment losses, if any.

The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities is reduced to its fair value. The amount of reduction is recognised as an expense in the consolidated income statement. The reduction is written back to consolidated income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) Other investments

Securities not classified as held-to-maturity debt securities nor as investment securities are classified as other investments. Other investments are carried at fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the consolidated income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the consolidated income statement as they arise.

Other investments which are intended to be held on a long term basis are classified as non-current assets while those which are held for trading purposes are classified as current assets.

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

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

Property, plant and equipment are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Office equipment	20%
Computer equipment	20%
Motor vehicle	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(j) Club membership

Club membership is stated at cost less impairment losses, if any. The carrying amount of individual club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

(k) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity, at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts, if any, which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease term.

(m) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated 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 whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, associate or a jointly controlled entity, the related cumulative exchange difference is included in the consolidated income statement as part of the gain or loss on disposal.

(o) Employee benefits

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the consolidated income statement as incurred.

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the retirement benefit scheme for the staff of the Company's subsidiary operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the consolidated income statement as they become payable.

(p) Related parties

Two 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.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(s) Borrowing costs

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

(t) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION

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

An analysis of the Group's turnover and operating loss by business segment and geographical segment for the year is as follows:

	Turnover		Operating loss	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
By business segment:				
Management fees from jointly controlled entities	515,984	520,736	(11,801,546)	(38,544,954)
Dividend income from investment securities and other investments	2,163,409	1,970,538	2,163,409	1,970,538
	2,679,393	2,491,274	(9,638,137)	(36,574,416)
Finance costs			(1,080,711)	(11,593)
Share of net profits of associates			1,765,702	3,171,032
Share of net profits of jointly controlled entities			2,924,093	2,554,436
Gain on disposal of a jointly controlled entity			3,050,344	5,583,473
Gain on disposal of an associate			—	1,719,702
Loss before taxation			(2,978,709)	(23,557,366)
Total assets (unallocated)			253,991,023	275,162,516
Total liabilities (unallocated)			19,375,837	38,229,479
Other segment information:				
Capital expenditure			10,970	14,317
Depreciation			77,475	89,210
Amortisation of goodwill			—	91,494
Provision for doubtful debts			1,199,313	34,910,235
Provision for impairment loss			5,070,130	—

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION (Continued)

Given the nature of the Group's operations is investment holding, segment assets and segment liabilities are unallocated.

	Turnover	
	2004 HK\$	2003 HK\$
By geographical segment:		
Hong Kong	2,163,409	1,970,538
The PRC	515,984	520,736
	2,679,393	2,491,274

Given the nature of the Group's operations is investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss and segment assets.

5. TURNOVER AND OTHER REVENUE

	Group	
	2004 HK\$	2003 HK\$
Turnover		
Management fees from jointly controlled entities	515,984	520,736
Dividend income from investment securities and other investments	2,163,409	1,970,538
	2,679,393	2,491,274
Other revenue		
Interest on bank deposits	1,412,622	615,689
Investment income from held-to-maturity debt securities	—	378,000
Gain on disposal of investment securities and other investments	371,389	117,749
Other income	408,988	40,154
	2,192,999	1,151,592
Total revenue	4,872,392	3,642,866

Notes to the Financial Statements

For the year ended 31 December 2004

6. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting) the following:

	Group	
	2004	2003
	HK\$	HK\$
Amortisation of goodwill	—	91,494
Auditors' remuneration	180,000	180,000
Depreciation	77,475	89,210
Interests in associates written off	1,407,961	—
Operating lease payments on land and buildings	281,479	246,816
Provision for non-recovery of other loan	—	4,230,135
Provision for non-recovery of amount due from a jointly controlled entity	1,199,313	—
Provision for non-recovery of receivable arising from disposal of interest in a jointly controlled entity	—	30,680,100
Provision for impairment of interests in jointly controlled entities	3,600,000	—
Provision for impairment in investment securities	1,470,130	—
Exchange (gains)/losses, net	(443,024)	16,215
Retirement benefit cost	83,631	114,807

7. FINANCE COSTS

	Group	
	2004	2003
	HK\$	HK\$
Bank charges	14,023	11,593
Interest on other borrowing wholly repayable within five years	138,189	—
Interest on amount due to a related company	928,499	—
	1,080,711	11,593

Notes to the Financial Statements

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8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of fees payable to directors of the Company during the year are as follows:

	2004 HK\$	2003 HK\$
Fees:		
Executive directors	140,000	160,000
Non-executive directors	115,000	100,000
Other emoluments	—	—
Retirement benefits scheme contributions:		
Executive directors	1,500	—
Non-executive directors	—	—
	256,500	260,000

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments during the year.

During the year, no share option was granted to the directors.

The number of directors of the Company whose emoluments fell within the following band is as follows:

	2004 Number of directors	2003 Number of directors
HK\$Nil — HK\$1,000,000	6	7

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8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

Details of the fees and emoluments paid during the year to the five highest paid individuals (including directors and other employees) of the Group are as follows:

	2004 HK\$	2003 HK\$
Fees, basic salaries and other benefits in kind	477,016	607,704
Retirement benefits scheme contributions	1,500	—
	478,516	607,704
Number of directors	3	2
Number of employees	2	3

The annual fees and emoluments paid during the year to all the five highest paid individuals (including directors and other employees) fall within the band of HK\$Nil — HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors of the Company 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.

9. TAXATION

	Group	
	2004 HK\$	2003 HK\$
Company and subsidiaries		
— Hong Kong profits tax	—	—
— Overseas income tax	—	208,295
Share of taxation attributable to associates	—	437,984
Share of taxation attributable to jointly controlled entities	805,385	578,220
	805,385	1,224,499

Notes to the Financial Statements

For the year ended 31 December 2004

9. TAXATION (Continued)

Hong Kong profits tax has not been provided as the individual companies comprising the Group do not have assessable profit arising in Hong Kong for the year.

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

Reconciliation between taxation and tax at the applicable rate:

	2004	Group
	HK\$	2003
		HK\$
Loss before taxation	(2,978,709)	(23,557,366)
Tax at the applicable tax rate	(715,792)	(5,885,512)
Tax effect of income that is not taxable in determining taxable profit	(1,891,127)	(10,577,692)
Tax effect of expenses that are not deductible in determining taxable profit	2,349,553	16,229,622
Tax effect of utilisation of tax losses not previously recognised	(360)	(8,955)
Tax effect of unused tax losses not recognised	1,063,111	1,258,741
Underprovision in prior year	—	208,295
Taxation charge	805,385	1,224,499

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

10. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$5,543,297 (2003: HK\$6,127,736).

11. LOSS PER SHARE

The calculation of the loss per share is based on the Group's loss for the year attributable to shareholders of HK\$3,784,094 (2003: HK\$24,781,865) and on the weighted average number of 431,952,000 shares (2003: 275,295,436 shares).

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12. PROPERTY, PLANT AND EQUIPMENT

Group

	Office equipment HK\$	Computer equipment HK\$	Motor vehicle HK\$	Total HK\$
Cost				
At 1 January 2004	95,137	22,775	253,084	370,996
Additions	—	10,970	—	10,970
At 31 December 2004	95,137	33,745	253,084	381,966
Accumulated depreciation				
At 1 January 2004	35,018	12,428	199,646	247,092
Charge for the year	17,125	6,912	53,438	77,475
At 31 December 2004	52,143	19,340	253,084	324,567
Net book value				
At 31 December 2004	42,994	14,405	—	57,399
At 31 December 2003	60,119	10,347	53,438	123,904

13. INTERESTS IN SUBSIDIARIES

	Company 2004 HK\$	2003 HK\$
Unlisted shares, at cost	780	780
Due from a subsidiary	89,997,020	89,993,120
	89,997,800	89,993,900

The amount due from a subsidiary is unsecured, interest free and not repayable within the next twelve months.

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13. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
Directly held by the Company:				
Accufocus Investments Limited	British Virgin Islands/ Hong Kong	100 shares of US\$1 each	100%	Investment holding
Indirectly held by the Company:				
Attentive Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
B2C E-Commerce Group Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Best Policy Management Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Chief Success Management Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Ever Honest Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding and provision of management services

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13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Indirectly held by the Company: (Continued)</i>				
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK\$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Money lending
Genius Choice Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Home Growth Assets Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Prosperity Investment Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Dormant
Rich Concept Investments Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding
Rich Profits International Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	100%	Investment holding

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13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/registered capital held	Principal activities
<i>Indirectly held by the Company: (Continued)</i>				
Sun Kai Yip (Shanghai) Industrial Investments Limited *	The PRC	US\$10,000,000	100%	Investment holding and provision of management and advisory services

* Pursuant to a sale and purchase agreement dated 9 September 2004, the Group has committed to dispose its entire equity interest in Sun Kai Yip (Shanghai) Industrial Investments Limited ("Sun Kai Yip") for a consideration of approximately HK\$65 million. Details of which are included in note 36(a) to the financial statements. The loss attributable to shareholders and net assets of Sun Kai Yip (after taking into account the effect of the equity accounting for the interests in jointly controlled entities) for the year ended 31 December 2004 and as at 31 December 2004 amounted to approximately HK\$512,000 and HK\$66 million respectively.

The above summary lists only the principal subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results 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.

14. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$	2003 HK\$
Share of net assets	—	—
Due from associates	17,562,305	19,032,227
	17,562,305	19,032,227

The amounts due from associates are unsecured, interest free and not repayable within the next twelve months.

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14. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates and those of which the carrying amounts of interests exceeded 5% of total assets of the Group as at 31 December 2004 are as follows:

Name	Place of incorporation	Proportion of associate's capital owned	Cost and advances thereto HK\$ million	Directors' valuation* HK\$ million	Dividend income received during the year HK\$ million	Dividend cover	Net assets attributable to the investment HK\$ million	Accumulated unrealised loss HK\$ million	Principal activities/ place of operation
Luck Point Investments Limited	British Virgin Islands	35%	5	3	—	—	3	(2)	Investment holding/ Hong Kong
Happy Online Group Limited	British Virgin Islands	33.75%	2	2	—	—	2	—	Investment holding/ Hong Kong
Bright Honest Limited	British Virgin Islands	25%	12	12	—	—	12	—	Investment holding/ Hong Kong

The above summary lists only the principal associates of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to associates. The directors consider that the carrying values of the interests in the associates approximate their fair values.

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15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2004 HK\$	Group 2003 HK\$
Share of net assets	31,256,219	29,721,096
Less: Impairment	(3,600,000)	—
	27,656,219	29,721,096
Due from jointly controlled entities	1,199,313	1,847,832
Less: Provision	(1,199,313)	—
	—	1,847,832
	27,656,219	31,568,928

The amounts due from jointly controlled entities are unsecured, interest free and not repayable within the next twelve months. Dividends declared by the jointly controlled entities during the year amounted to HK\$2,006,026 (2003: HK\$Nil).

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15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Details of the principal jointly controlled entities and those of which the carrying amounts of interests exceeded 5% of total assets of the Group as at 31 December 2004 are as follows:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto HK\$ million	Directors' valuation* HK\$ million	Dividend income received during the year HK\$ million	Dividend cover	Net assets attributable to the investment HK\$ million	Accumulated unrealised loss HK\$ million	Principal activities/ place of operation
Shanghai Yong An Dairy Company Limited	The PRC	25%	5	3	0.6	12%	5	—	Production and distribution of dairy products/ The PRC
Shanghai Tian An Bearing Company Limited	The PRC	30%	29	25	1.4	4.8%	26	(3)	Manufacture and distribution of bearing products/ The PRC

Particulars of impairment in interests in jointly controlled entities at 31 December 2004 are as follows:

Name	Net assets			Reason for impairment
	attributable to the investment HK\$ million	Impairment loss HK\$ million	Directors' valuation HK\$ million	
Shanghai Yong An Dairy Company Limited	5	2	3	Decrease in share of net assets
Shanghai Tian An Bearing Company Limited	26	1	25	Decrease in share of net assets

The above summary lists only the principal jointly controlled entities of the Group which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

* Directors' valuation represents the aggregate of the cost of investment, post-acquisition results and loan to jointly controlled entities less impairment loss, if any. The directors consider that the carrying values of the interests in the jointly controlled entities approximate their fair values.

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15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The tenure of the above companies can be extended by agreements with the joint venture partners after obtaining the necessary approval from the relevant government bodies.

Pursuant to the terms of the joint venture agreements for the above jointly controlled entities, the Group is entitled to receive its attributable share of the net assets upon liquidation of the jointly controlled entities.

16. INVESTMENT SECURITIES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Overseas unlisted equity securities, at cost	12,855,246	12,855,246	—	—
Less: Impairment	(9,179,532)	(7,709,402)	—	—
	3,675,714	5,145,844	—	—
Loans to an investee company	48,139,674	48,139,674	—	—
Listed equity securities, at cost				
Listed in Hong Kong	32,955,471	44,937,429	11,747,442	13,487,442
Total investment securities	84,770,859	98,222,947	11,747,442	13,487,442
Market value of listed equity securities	33,508,555	52,940,775	13,693,175	13,327,635

Loans to an investee company are unsecured, interest free and not repayable within the next twelve months.

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16. INVESTMENT SECURITIES (Continued)

As at 31 December 2004, the carrying amounts of interests in the following investment securities exceeded 5% of total assets of the Group and the Company respectively:

Name of investee company/ listed equity securities	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto <i>HK\$ million</i>	Directors' valuation/ market value <i>HK\$ million</i>	Dividend income received during the year <i>HK\$ million</i>	Dividend cover	Net assets attributable to the investment <i>HK\$ million</i>	Unrealised gain/loss taken in the accounts <i>HK\$ million</i>	Principal activities
Dragon Fortune Limited	British Virgin Islands	18%	52	52	—	—	48	—	Investment holding
Golden Resources Development International Limited	Bermuda	5%	21	22	2	7.8%	43	—	Wholesaling and distribution of consumer goods
Cosmopolitan International Holdings Limited	Cayman Islands	10%	12	11	—	—	10	—	Investment holding

Particulars of impairment in investment securities as at 31 December 2004 are as follows:

Name	Cost <i>HK\$ million</i>	Impairment loss <i>HK\$ million</i>	Share of net assets <i>HK\$ million</i>	Reason for impairment
Beijing Tian An Stevio Sugar Product Company Limited	4	4	—	Decrease in share of net assets
Anhui Wanhong Plastics Company Limited	4	4	—	Decrease in share of net assets

Notes to the Financial Statements

For the year ended 31 December 2004

17. HELD-TO-MATURITY DEBT SECURITIES

	Group	
	2004 HK\$	2003 HK\$
Convertible redeemable note maturing in July 2004	—	5,040,000

18. OTHER INVESTMENTS

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Non-current assets				
Market linked deposits	7,800,000	—	—	—
Current assets				
Listed equity securities, at market value				
Listed in Hong Kong	25,999,780	—	1,740,000	—
Listed outside Hong Kong	1,473,888	—	—	—
	27,473,668	—	1,740,000	—
	35,273,668	—	1,740,000	—

The carrying amounts of interests in the following other investment exceeded 5% of total assets of the Group:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto HK\$ million	Market value HK\$ million	Dividend income received during the year HK\$ million	Dividend cover	Net assets attributable to the investment HK\$ million	Accumulated unrealised gain/(loss) HK\$ million	Principal activities/ place of operation
Tracker Fund of Hong Kong	Hong Kong	—	14	16	0.47	3.26%	—	—	Unit trust/ Hong Kong

Notes to the Financial Statements

For the year ended 31 December 2004

19. OTHER ASSET

	Group	
	2004 HK\$	2003 HK\$
Golf club membership, at cost	150,000	150,000

20. OTHER RECEIVABLES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Prepayments and deposits (note (a))	4,153,593	2,794,796	217,891	203,737
Receivables arising from disposal of interest in an associate (note (b))	—	1,924,743	—	—
Other loans (notes (b) and (c))	13,811,645	16,000,000	—	—
Others	2,040,000	22,378	—	—
	20,005,238	20,741,917	217,891	203,737

Notes:

- (a) Included in the Group's prepayments and deposits is an amount of HK\$3,648,156 (2003: HK\$2,734,200) advanced to an ex-independent non-executive director of a substantial shareholder of the Company.
- (b) As at 31 December 2004, the ageing analysis of the receivables other than the prepayments and deposits and others was as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Within 3 months	500,000	1,924,743	—	—
3 to 6 months	—	—	—	—
6 to 12 months	—	16,000,000	—	—
Over 1 year	13,311,645	—	—	—
	13,811,645	17,924,743	—	—

Notes to the Financial Statements

For the year ended 31 December 2004

20. OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (c) The Group advanced a loan of HK\$16,000,000 to a related company on 10 March 2003. An amount of HK\$2,688,355 was repaid by the related company during the current year. The outstanding amount due from the related company was HK\$13,311,645 as at 31 December 2004. The loan is unsecured, interest bearing at prime rate and is repayable on 9 March 2005.

Also included in other loans is a loan of HK\$500,000 advanced to a third party. The loan is secured, interest bearing at 16% per annum and is repayable on 24 March 2005.

21. CASH AND BANK BALANCES

At 31 December 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$41,512,000 (2003: approximately HK\$70,741,000). RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

22. OTHER PAYABLES

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Accruals	525,784	1,789,426	227,000	1,050,360
Due to related companies	—	23,050,000	—	—
	525,784	24,839,426	227,000	1,050,360

23. DUE FROM SINOX FUND MANAGEMENT LIMITED

The amount due from Sinox Fund Management Limited ("SINOX") represents investment management fees prepaid at the year end. The amount due is unsecured, interest free and repayable on demand.

Mr. Lam Sai Ho, Anthony, an ex-director of the Company who resigned on 22 March 2004, had an indirect equity interest of approximately 66.67% in SINOX.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets (note 32(a)).

24. OTHER BORROWING

Other borrowing is secured, interest bearing at 2.01% per annum and repayable on 14 February 2005.

Notes to the Financial Statements

For the year ended 31 December 2004

25. DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and repayable on demand.

26. SHARE CAPITAL

	Number of shares		Share capital	
	2004	2003	2004 HK\$	2003 HK\$
Shares of HK\$0.10 each				
Authorised:	3,000,000,000	3,000,000,000	300,000,000	300,000,000
Issued and fully paid:				
At 1 January	431,952,000	899,900,000	43,195,200	8,999,000
Issue of shares	—	179,980,000	—	1,799,800
Consolidation of shares	—	(971,892,000)	—	—
Issue of consolidated shares	—	323,964,000	—	32,396,400
At 31 December	431,952,000	431,952,000	43,195,200	43,195,200

The Company adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company.

The exercise price is set at not less than the highest of:

- (i) the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;
- (ii) the average of the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

During the year, no option was granted.

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES

Group

	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
1 January 2004	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	193,737,837
Realisation of exchange fluctuation on disposal of a jointly controlled entity	—	—	—	1,466,243	—	1,466,243
Loss for the year	—	—	—	—	(3,784,094)	(3,784,094)
31 December 2004	169,564,710	468,163	86,752,510	(1,755,174)	(63,610,223)	191,419,986

Retained by:

Company and subsidiaries	169,564,710	468,163	86,752,510	(1,755,174)	(41,617,639)	213,412,570
Associates	—	—	—	—	(182,826)	(182,826)
Jointly controlled entities	—	—	—	—	(21,809,758)	(21,809,758)
	169,564,710	468,163	86,752,510	(1,755,174)	(63,610,223)	191,419,986

Company

1 January 2004	3,237,490	—	86,752,510	—	(10,141,384)	79,848,616
Loss for the year	—	—	—	—	(5,543,297)	(5,543,297)
31 December 2004	3,237,490	—	86,752,510	—	(15,684,681)	74,305,319

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES (Continued)

Group

	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
1 January 2003	166,327,220	468,163	80,991,000	(4,194,214)	(35,044,264)	208,547,905
Shares issued during the year	3,237,490	—	5,761,510	—	—	8,999,000
Realisation of exchange fluctuation on disposal of a jointly controlled entity	—	—	—	972,797	—	972,797
Loss for the year	—	—	—	—	(24,781,865)	(24,781,865)
31 December 2003	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	193,737,837

Retained by:

Company and subsidiaries	169,564,710	468,163	86,752,510	(3,221,417)	(33,949,135)	219,614,831
Associates	—	—	—	—	(1,948,528)	(1,948,528)
Jointly controlled entities	—	—	—	—	(23,928,466)	(23,928,466)
	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	193,737,837

Company

1 January 2003	—	—	80,991,000	—	(4,013,648)	76,977,352
Shares issued during the year	3,237,490	—	5,761,510	—	—	8,999,000
Loss for the year	—	—	—	—	(6,127,736)	(6,127,736)
31 December 2003	3,237,490	—	86,752,510	—	(10,141,384)	79,848,616

The contributed surplus of the Group and the Company represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation scheme completed on 12 December 2001 over the nominal value of the Company's shares issued in exchange. Movement during the year ended 31 December 2003 represents an exchange of shares in which the value of the Company's shares issued to a listed investee company exceeds the nominal value of the Company's shares.

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES (Continued)

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

28. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on the net assets of HK\$234,615,186 (2003: HK\$236,933,037) and 431,952,000 (2003: 431,952,000) shares in issue as at 31 December 2004.

29. DEFERRED TAXATION

No provision for deferred taxation has been made in the financial statements as the tax effect of temporary differences is immaterial to the Group.

30. EMPLOYEE BENEFITS

The contributions to the retirement benefit scheme for the staff of the Company and a subsidiary operating in the PRC are charged to the consolidated income statement as they become payable. The only obligation of the Group with respect to the schemes is to make the specified contributions.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2004 HK\$	2003 HK\$
Within one year	156,533	125,147

Notes to the Financial Statements

For the year ended 31 December 2004

32. RELATED PARTY TRANSACTIONS

	2004 HK\$	Group 2003 HK\$
Investment management fees paid and payable to SINOX (note (a))	957,713	3,549,588

Notes:

- (a) Investment management fees to SINOX for administrative and investment management services were calculated at 1.5% (2003: 1.5%) per annum on the net asset value of the Group calculated on a quarterly basis.

Mr. Lam Sai Ho, Anthony, an ex-director of the Company who resigned on 22 March 2004, had an indirect equity interest of approximately 66.67% in SINOX.

- (b) Management fees received from jointly controlled entities amounted to HK\$515,984 (2003: HK\$520,736).
- (c) Interest paid to a related company amounted to HK\$928,499 (2003: HK\$ Nil).
- (d) The amount advanced to an ex-independent non-executive director of a substantial shareholder of the Company amounted to HK\$3,648,156 (2003: HK\$2,734,200) is set out in note 20(a).
- (e) The amount due from a related company amounted to HK\$13,311,645 (2003: HK\$ 16,000,000) is set out in note 20(c).
- (f) Details of guarantee issued by the Company in favour of a bank to the indirect subsidiaries of an investee company and a direct subsidiary of an associate are set out in note 35.

Notes to the Financial Statements

For the year ended 31 December 2004

33. CONNECTED TRANSACTION

As Mr. Lam Sai Ho, Anthony, the ex-director of the Company who resigned on 22 March 2004, had an indirect equity interest of approximately 66.67% in SINOX, which is regarded as a connected person of the Company and, accordingly, the existing investment management agreement constitutes a connected transaction for the Group under the Listing Rules. As the total consideration for the investment management agreement is approximately HK\$3.6 million (2003: approximately HK\$3.5 million) during the duration of the investment management agreement, the investment management agreement is subject to disclosure requirement pursuant to Rule 14A.37 of the Listing Rules.

The abovementioned connected transaction has been conducted on normal commercial terms and in the ordinary course of business of the Group and the consideration paid by the Group to SINOX in each financial year under the previous investment agreements constituted less than 3% of the net tangible assets of the Group, it is expected that such transaction will continue in the future and will constitute ongoing connected transactions for the Group under the Listing Rules. On 24 September 2001, the Listing Division of the Stock Exchange granted a waiver to the Company that the ongoing connected transactions arising from renewal of the investment management agreement need only be disclosed in the next published annual report and no press notice would be required.

34. BANKING FACILITIES

At 31 December 2004 the Group had banking facilities totalling HK\$10 million (2003: HK\$10 million). These banking facilities were secured by a floating charge over the Company's fixed deposits of HK\$10 million (2003: HK\$10 million).

Notes to the Financial Statements

For the year ended 31 December 2004

35. CONTINGENT LIABILITIES

At 31 December 2004 there were contingent liabilities in respect of letters of guarantee issued by the Company, as guarantor, in favour of a bank in respect of banking facilities granted by the bank to the indirect subsidiaries of an investee company and a direct subsidiary of an associate. The banking facilities granted to the investee company's indirect subsidiaries are also secured by the mortgage of the investment properties of the investee company's indirect subsidiaries. The banking facilities granted to the associate's direct subsidiary is also secured by the mortgage of the investment properties of the associate's direct subsidiaries.

	2004 HK\$	Group 2003 HK\$
Indirect subsidiaries of an investee company:		
— Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	13,573,000	13,573,000
— Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	9,855,000	9,855,000
Direct subsidiary of an associate:		
— Great Fidelity Limited	4,750,000	—
	28,178,000	23,428,000

36. EVENTS AFTER THE BALANCE SHEET DATE

- (a) Pursuant to a sale and purchase agreement dated 9 September 2004, the Group has committed to dispose its entire equity interest in Sun Kai Yip for a consideration of approximately HK\$65 million. The major investments of Sun Kai Yip include 35% equity interest in the paid-up registered capital of 上海恒泰紡織品有限公司 and 30% equity interest in the paid-up registered capital of Shanghai Tian An Bearing Company Limited. Both companies are sino-foreign joint equity ventures established in the PRC. The consideration was determined with reference to the unaudited net assets of Sun Kai Yip (after taking into account the effect of equity accounting for the interests in jointly controlled entities, including 上海恒泰紡織品有限公司 and Shanghai Tian An Bearing Company Limited) as at 30 June 2004. The sale and purchase agreement is conditional on, amongst other things, the approval by shareholders of the Company except Golden Resources Development International Limited, being shareholder of the purchaser. Upon completion of the sale, the consideration will be received in two instalments, the first instalment being a sum of HK\$40 million will be received upon completion of the sale and the second instalment being a sum of approximately HK\$25 million to be received within six months after the completion of the sale.

Notes to the Financial Statements

For the year ended 31 December 2004

36. EVENTS AFTER THE BALANCE SHEET DATE *(Continued)*

- (b) Pursuant to an agreement dated 29 December 2004, the Group has committed to dispose its 25% equity interests in a jointly controlled entity namely Shanghai Yong An Dairy Company Limited, a sino-foreign joint equity venture established in the PRC, to a third party for a consideration of RMB2.8 million (approximately HK\$2.6 million) resulting in an estimated loss on disposal of HK\$0.2 million. The completion of the disposal is subject to the approval of the relevant government bodies.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 18 to 55 were approved and authorised for issue by the board of directors on 3 February 2005.