

## 1. CORPORATE INFORMATION

The registered office of Oriental Explorer Holdings Limited is located at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business is located at 8th Floor, Multifield House, 54 Wong Chuk Hang Road, Hong Kong.

During the year, the Group was involved in the following principal activities:

- trading of steel; and
- manufacturing and trading of electronic products

In the opinion of the directors, the ultimate holding company is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

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 (the "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. These new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates 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. Negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

**Negative goodwill**

Negative goodwill arising on the acquisition of associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

**Related party transactions**

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. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

**Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	4% or over the lease terms, if shorter
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33⅓%
Motor vehicles	20% - 25%
Vessels	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities and are stated in the balance sheet at amortised cost less any impairment losses.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The fair values of such unlisted securities are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

**Short term investments**

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Provisions**

A provision is recognised when a present legal or constructive obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable the future taxable profit will be available against which the temporary differences can be utilised.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) dividend income, when the shareholders' right to receive payment has been established; and
- (d) proceeds from the disposal of listed investments, when the relevant sale contract is entered into.

**Employee benefits***Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Employee benefits** *(continued)**Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll cost to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Share option schemes*

The Company operates share option schemes 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 schemes 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 profit and loss account 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.

**Translation of foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### 4. 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 other business segments. Summary details of the business segments are as follows:

- (a) the steel trading segment is a supplier of steel products mainly for use in construction and other heavy industries;
- (b) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and
- (c) the corporate and other segment.

In determining the Group's geographical segments, revenues 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

##### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Steel trading		Electronic products		Corporate and others		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	<u>525,737</u>	<u>469,422</u>	<u>12,438</u>	<u>14,045</u>	<u>—</u>	<u>—</u>	<u>538,175</u>	<u>483,467</u>
Segment results	<u>2,280</u>	<u>1,660</u>	<u>986</u>	<u>1,097</u>	<u>(2,822)</u>	<u>(5,456)</u>	<u>444</u>	<u>(2,699)</u>
Other revenue and gains							21,015	10,288
Unallocated expenses							<u>(5,588)</u>	<u>(4,240)</u>
Profit from operating activities							15,871	3,349
Finance costs							(370)	(1,009)
Share of profits of associates, net							2,593	2,625
Negative goodwill recognised as income on acquisition of an associate							<u>2,818</u>	<u>2,818</u>
Profit before tax							20,912	7,783
Tax							<u>(823)</u>	<u>(335)</u>
Net profit from ordinary activities attributable to shareholders							<u>20,089</u>	<u>7,448</u>

**4. SEGMENT INFORMATION** (continued)**(a) Business segments** (continued)

Group	Steel trading		Electronic products		Corporate and others		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	13,522	119,925	7,370	12,807	51,713	30,073	—	(5,101)	72,605	157,704
Unallocated assets	—	—	—	—	—	—	—	—	182,969	135,730
Interests in associates	—	—	—	—	—	—	—	—	57,294	50,024
Total assets	13,522	119,925	7,370	12,807	51,713	30,073	—	(5,101)	312,868	343,458
Segment liabilities	3,239	55,684	4,567	7,486	2,134	5,232	—	(5,101)	9,940	63,301
Unallocated liability – tax payable	—	—	—	—	—	—	—	—	4,604	4,176
Total liabilities	3,239	55,684	4,567	7,486	2,134	5,232	—	(5,101)	14,544	67,477
Other segment information:										
Gain on disposal of a deconsolidated subsidiary	—	—	—	—	4,162	—	—	—	4,162	—
Depreciation	—	—	400	458	895	1,711	—	—	1,295	2,169
Other non-cash expenses	—	—	—	—	445	1,120	—	—	445	1,120
Capital expenditure	—	—	46	192	464	26,258	—	—	510	26,450

**(b) Geographical segments**

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

Group	Hong Kong		Mainland China		Thailand		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	12,438	13,601	—	14,970	525,737	454,896	538,175	483,467
Other segment information:								
Segment assets	162,446	118,608	150,421	149,271	1	75,579	312,868	343,458
Capital expenditure	464	1,867	46	24,583	—	—	510	26,450



**5. TURNOVER, OTHER REVENUE AND GAINS**

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gains is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>538,175</b>	483,467
Other revenue and gains		
Interest income	<b>1,287</b>	3,972
Gain on disposal of a long term listed investment	—	185
Gain on disposal of short term listed investments	<b>7,621</b>	5,292
Gain on disposal of a deconsolidated subsidiary <sup>#</sup>	<b>4,162</b>	—
Gain on disposal of fixed assets	<b>5,874</b>	41
Dividend income from listed investments	<b>2,071</b>	798
	<b>21,015</b>	10,288
	<b>559,190</b>	493,755

- # In prior years, Jiangyin Bofeng Steel Company Limited ("Jiangyin Bofeng") was 51.3% owned subsidiary of the Group. During the year ended 31 December 2001, the Group entered into agreement with an independent third party for the disposal of the whole of the Group's equity interests in Jiangyin Bofeng at cash consideration of RMB6,000,000. Jiangyin Bofeng was accounted for as deconsolidated subsidiary of the Group with effect from 1 July 2001. During the year ended 31 December 2004, the Group has received an aggregate amount of RMB5,000,000 in respect of the aforesaid disposal and resulted in a net gain of approximately HK\$4,162,000.

**6. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	Note	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		521,750	460,013
Depreciation	13	1,295	2,169
Minimum lease payments under operating leases for land and buildings		1,252	1,723
Auditors' remuneration		211	360
Staff costs, including directors' remuneration (note 8):			
Salaries and allowances		5,184	7,147
Pension scheme contributions		116	143
Exchange gain, net		(406)	—
Other operating expenses:			
Provision for interest in an associate		445	1,120
Unrealised losses on listed investments, net		5,143	3,120
		<b>5,588</b>	<b>4,240</b>

**7. FINANCE COSTS**

	2004 HK\$'000	2003 HK\$'000
Interest on discounted bills	<b>370</b>	1,009

**8. DIRECTORS' REMUNERATION**

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Fees	<u>135</u>	<u>120</u>
Other emoluments		
Salaries, allowances and benefits in kind	620	1,813
Pension scheme contributions	<u>21</u>	<u>31</u>
	<u>641</u>	<u>1,844</u>
	<u>776</u>	<u>1,964</u>

Fees include HK\$135,000 (2003: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	8	6
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>1</u>
	<u>8</u>	<u>7</u>

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

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included one (2003: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: three) non-director, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<u>1,745</u>	<u>1,450</u>

The remuneration of each of these four (2003: three) non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

**10. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current - Hong Kong and the Mainland China		
Charge for the year	<b>758</b>	1,229
Overprovision in prior years	<b>(330)</b>	(1,510)
	<b>428</b>	(281)
Share of tax attributable to an associate	<b>395</b>	616
Total tax charge for the year	<b>823</b>	335

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	<b>2004</b>		<b>2003</b>	
	<b>HK\$'000</b>	<b>%</b>	HK\$'000	%
Profit before tax	<b>20,912</b>		7,783	
Tax at applicable tax rate	<b>3,505</b>	<b>17</b>	1,497	19
Adjustments in respect of current tax of previous periods	<b>(330)</b>	<b>(2)</b>	(1,510)	(19)
Income not subject to tax	<b>(1,300)</b>	<b>(6)</b>	(663)	(9)
Expenses not deductible for tax	<b>191</b>	<b>1</b>	557	7
Tax losses not recognised	<b>413</b>	<b>2</b>	308	4
Tax losses utilised from prior years	<b>(687)</b>	<b>(3)</b>	(234)	(3)
Others	<b>(969)</b>	<b>(5)</b>	380	5
Tax charge at the Group's effective rate	<b>823</b>	<b>4</b>	335	4

**10. TAX (continued)**

The principal components of the Group's deferred tax asset not recognised in the financial statements, calculated at the rate of 17.5% (2003: 17.5%) on the cumulative timing differences at the balance sheet date, are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Tax losses	<b>10,297</b>	10,423
Accelerated depreciation allowances	<b>171</b>	1,921
	<hr/> <b>10,468</b> <hr/>	<hr/> 12,344 <hr/>

The Group's tax losses 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.

**11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, is HK\$87,000 (2003: net loss from ordinary activities attributable to shareholders of HK\$400,000) (*note 24(b)*).

**12. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$20,089,000 (2003: HK\$7,448,000), and the weighted average number of 1,800,000,000 (2003: 1,800,000,000) ordinary shares in issue during the year.

Diluted earnings per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option schemes, have not been presented because the share options had no dilutive effects for both the years ended 31 December 2004 and 2003.

**13. FIXED ASSETS****Group**

	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At beginning of year	1,315	2,926	37,971	5,265	1,213	4,863	53,553
Additions	—	—	23	23	464	—	510
Disposals	—	—	—	—	—	(4,863)	(4,863)
<b>As at 31 December 2004</b>	<b>1,315</b>	<b>2,926</b>	<b>37,994</b>	<b>5,288</b>	<b>1,677</b>	<b>—</b>	<b>49,200</b>
Accumulated depreciation:							
At beginning of year	526	2,894	37,372	5,169	671	3,889	50,521
Provided during the year	66	23	345	37	216	608	1,295
Disposals	—	—	—	—	—	(4,497)	(4,497)
<b>As at 31 December 2004</b>	<b>592</b>	<b>2,917</b>	<b>37,717</b>	<b>5,206</b>	<b>887</b>	<b>—</b>	<b>47,319</b>
Net book value:							
<b>As at 31 December 2004</b>	<b>723</b>	<b>9</b>	<b>277</b>	<b>82</b>	<b>790</b>	<b>—</b>	<b>1,881</b>
As at 31 December 2003	789	32	599	96	542	974	3,032

The Group's land and buildings at the balance sheet date were located outside Hong Kong and are held under long term leases.

**14. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	<b>136,380</b>	136,380
Provision for impairment	<b>(88,480)</b>	(88,480)
	<b>47,900</b>	47,900
Due from subsidiaries	<b>564,813</b>	565,032
Provision against amounts due from subsidiaries	<b>(441,716)</b>	(441,716)
	<b>123,097</b>	123,316
	<b>170,997</b>	171,216

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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

<b>Company</b>	<b>Place of incorporation/ registration and principal operations</b>	<b>Nominal value of issued ordinary share capital/ registered capital</b>	<b>Percentage of equity interest attributable to the Company</b>		<b>Principal activities</b>
			<b>Direct %</b>	<b>Indirect %</b>	
Linkful (Holdings) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$20,000,000	—	100	Investment holding
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	US\$1	—	100	Metal trading
Linkful (PRC) Investments Limited	Hong Kong	HK\$2	—	100	Investment holding
Linkful Management Services Limited	Hong Kong	HK\$2	—	100	Provision of management services
Linkful Strategic Investment Limited	British Virgin Islands	US\$1	100	—	Investment holding

**14. INTERESTS IN SUBSIDIARIES** *(continued)*

Particulars of the principal subsidiaries as at 31 December 2004 *(continued)*:

Company	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful Properties Company Limited	Hong Kong/ Mainland China	HK\$2	—	100	Investment and property holding
Inter China Limited	British Virgin Islands	US\$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US\$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK\$6,000,000	—	75	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd. <i>(Note)</i>	People's Republic of China ("PRC")/ Mainland China	US\$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US\$1	—	100	Investment holding

The above table 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.

*Note:* Registered as a wholly-foreign owned enterprise under the PRC law.



## 15. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	48,334	43,882
Loans to associates	33,019	32,574
	<hr/>	<hr/>
	81,353	76,456
Provision for impairment	(1,565)	(1,120)
	<hr/>	<hr/>
	79,788	75,336
Negative goodwill on acquisition	(22,494)	(25,312)
	<hr/>	<hr/>
	57,294	50,024
	<hr/>	<hr/>

The loans to associates are unsecured, interest-free and have no fixed terms of repayment.

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

Company	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2004	2003	
Prince Properties Limited	Corporate	Hong Kong	50	50	Investment holding
Call Rich Investments Limited ("Call Rich")	Corporate	British Virgin Islands	25.04	25.04	Investment holding

The shareholdings in the associates' equity shares are held through wholly-owned subsidiaries.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

**15. INTERESTS IN ASSOCIATES** *(continued)*

A summary of the financial information of Call Rich and its subsidiaries, based on its consolidated management accounts for the year ended 31 December 2004, is as follows:

	(Unaudited) 2004 HK\$'000	(Unaudited) 2003 HK\$'000
Operating results for the year		
Turnover	<u>26,278</u>	<u>26,712</u>
Net profit attributable to shareholders	<u>8,778</u>	<u>8,024</u>
Financial position as at 31 December:		
Fixed assets	710	420
Investment properties	432,000	417,000
Current assets	263,605	239,017
Current liabilities	(112,182)	(110,377)
Non-current liabilities	(262,809)	(254,368)
Minority interests	<u>(128,297)</u>	<u>(116,444)</u>
Net assets	<u>193,027</u>	<u>175,248</u>

**16. INVESTMENTS**

Long term investments:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Held-to-maturity debt securities	<b>15,600</b>	—	—	—
Unlisted equity investments, at cost	<b>49,297</b>	49,297	<b>330</b>	330
Loan to investee companies	<b>50,199</b>	50,199	—	—
Provision for impairment	<b>(10,007)</b>	(10,007)	—	—
Total long term investments	<b>105,089</b>	89,489	<b>330</b>	330

The loan to investee companies is unsecured, interest-free and has no fixed terms of repayment.

Particulars of long term investments at the balance sheet date were as follows:

<b>Company</b>	<b>Place of incorporation</b>	<b>Nominal value of issued ordinary share capital</b>	<b>Percentage of equity interest attributable to the Group</b>		<b>Principal activities</b>
			<b>2004</b>	<b>2003</b>	
Rich Returns Limited	British Virgin Islands	US\$100	<b>18</b>	18	Investment holding
Head Wonder International Limited	British Virgin Islands	US\$10,000	<b>5</b>	5	Investment holding

Short term investments:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Listed equity investments, at market value:				
Hong Kong	<b>54,054</b>	46,241	<b>635</b>	571
Elsewhere	<b>23,826</b>	—	—	—
	<b>77,880</b>	46,241	<b>635</b>	571

**17. INVENTORIES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>1,538</b>	1,106
Work in progress	<b>10</b>	18
Finished goods	<b>1,192</b>	1,012
	<b>2,740</b>	2,136

As at 31 December 2004, no inventories were carried at net realisable value or pledged as security for any liability of the Group (2003: Nil).

**18. TRADE AND BILLS RECEIVABLES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>2,115</b>	54,863
Less: Provision for doubtful debts	<b>(215)</b>	(215)
	<b>1,900</b>	54,648
Bills receivables	<b>—</b>	22,041
	<b>1,900</b>	76,689

An aged analysis of trade receivables at the balance sheet date is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within three months	<b>1,900</b>	54,648

**18. TRADE AND BILLS RECEIVABLES** *(continued)*

An aged analysis of bills receivables at the balance sheet date is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within three months	<u>—</u>	<u>22,041</u>

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

**19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Cash and bank balances	<b>15,004</b>	52,690	<b>1</b>	1
Non-pledged time deposits	<b>18,187</b>	10,295	<b>—</b>	—
	<u>33,191</u>	<u>62,985</u>	<u>1</u>	<u>1</u>
Cash and cash equivalents	<b>33,191</b>	62,985	<b>1</b>	1
Pledged deposits	<b>7,800</b>	7,800	<b>—</b>	—
	<u>40,991</u>	<u>70,785</u>	<u>1</u>	<u>1</u>

The time deposits of HK\$7,800,000 (2003: HK\$7,800,000) were pledged as security for banking facilities granted.

**20. TRADE AND BILLS PAYABLES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>1,088</b>	481
Bills payables	<b>—</b>	53,450
	<u>1,088</u>	<u>53,931</u>

**20. TRADE AND BILLS PAYABLES** *(continued)*

An aged analysis of trade payables at the balance sheet date is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within three months	<b>960</b>	313
Four to six months	<b>128</b>	168
	<hr/>	<hr/>
	<b>1,088</b>	481
	<hr/>	<hr/>

An aged analysis of bills payables at the balance sheet date is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within three months	<b>—</b>	53,450
	<hr/>	<hr/>

**21. OTHER PAYABLES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Accruals and other liabilities	<b>8,262</b>	9,092
Due to a minority shareholder	<b>590</b>	278
	<hr/>	<hr/>
	<b>8,852</b>	9,370
	<hr/>	<hr/>

The amount due to the minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

**22. SHARE CAPITAL****Shares**

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<i>Authorised:</i>		
20,000,000,000 (2003: 20,000,000,000) ordinary shares of HK\$0.01 each	<b><u>200,000</u></b>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,800,000,000 (2003: 1,800,000,000) ordinary shares of HK\$0.01 each	<b><u>18,000</u></b>	<u>18,000</u>

**Shares options**

Details of the Company's share option schemes and the share options issued under the schemes are included in note 23 to the financial statements.

**23. SHARE OPTION SCHEMES****(a) The 1993 Scheme**

On 8 March 1993, the Company adopted a share option scheme (the "1993 Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the 1993 Scheme included the Company's directors, including independent non-executive directors and employees of the Group. The 1993 Scheme remained in force for 10 years from that date and expired on 7 March 2003.

The maximum number of shares over which options could be granted could not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which had been issued under the 1993 Scheme.

Under the 1993 Scheme, the directors could, at their discretion, at any time during the 10 years from the date of approval of the 1993 Scheme, grant to directors, including independent non-executive directors, and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the 1993 Scheme was the higher of 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares.

**23. SHARE OPTION SCHEMES** (continued)**(a) The 1993 Scheme** (continued)

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees.

Name or category of participant	Date of grant of share options	Exercise price of share options (Note) HK\$	As at 1 January and 31 December 2004	Exercise period of share options	Price of Company's shares at grant date of options HK\$
<b>Director</b>					
Lau Chi Yung, Kenneth	7 Feb 1998	0.112	19,500,000	7 Feb 1998 to 6 Feb 2008	0.19
<b>Others</b>					
Tsang Pak Chung, Eddy	7 Feb 1998	0.112	19,500,000	7 Feb 1998 to 6 Feb 2008	0.19
Leung Wei San, Saskia	7 Feb 1998	0.112	19,500,000	7 Feb 1998 to 6 Feb 2008	0.19
			<u>58,500,000</u>		

No share options were granted, exercised, cancelled or lapsed during the year.

*Note:* 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.

As at 31 December 2004, 58,500,000 share options remained outstanding under the 1993 Scheme, which represented approximately 3.25% of the Company's shares in issue as at that date. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares of the Company and additional share capital of HK\$585,000 and share premium of HK\$5,967,000 (before issue expenses).



**23. SHARE OPTION SCHEMES** *(continued)***(b) The 2003 Scheme**

On 27 June 2003, a new share option scheme (the "2003 Scheme"), in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company for a period of 10 years, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2003 Scheme include any employee (including any executive and non-executive director), adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group.

The maximum number of unexercised share options currently permitted to be granted under the 2003 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 2003 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration by the grantee. The exercise period of the share options granted is determinable by the directors, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the option.

The subscription price is determined by the directors, but in any event may not be less than the higher of (i) the closing price of the shares on the date of grant, which must be a trading date; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of share.

No share options were granted, exercised, cancelled or lapsed during the year.

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

**24. RESERVES****(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 16 of the financial statements.

**(b) Company**

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2003	418,511	546	88,380	(353,052)	154,385
Loss for the year	—	—	—	(400)	(400)
As at 31 December 2003 and 1 January 2004	418,511	546	88,380	(353,452)	153,985
Profit for the year	—	—	—	87	87
<b>As at 31 December 2004</b>	<b>418,511</b>	<b>546</b>	<b>88,380</b>	<b>(353,365)</b>	<b>154,072</b>

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

**25. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

- (a) The Group received rental income in the amount of HK\$115,000 (2003: HK\$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group. The rental income was charged based on open market rental.
- (b) The Group paid rental expenses in the amount of HK\$525,000 (2003: HK\$900,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited ("MIHL"), a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the rental were on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rents.
- (c) A subsidiary sold finished goods of HK\$4,302,000 (2003: HK\$4,030,000) to and purchased equipment parts of HK\$1,236,000 (2003: HK\$610,000) from a related company of Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), and offered by a related company of Alpha Japan to its third party customers (in respect of the purchases).

**26. OPERATING LEASE COMMITMENTS**

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2003: Nil).

**27. CONTINGENT LIABILITIES**

As at 31 December 2004, the amount of guarantees given to banks in connection with facilities granted to subsidiaries and associates by the Company was approximately HK\$289,057,000 (2003: HK\$277,000,000).

**28. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.