

## 1. Principal Accounting Policies

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

### (a) Basis of Preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, other investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st 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.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

### (c) Associated Companies

An associated company 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 consolidated profit and loss account includes the Group's share of the results of associated companies for the year. The consolidated balance sheet includes the Group's share of the net assets of the associated companies.

## 1. Principal Accounting Policies *(Continued)*

### (c) Associated Companies *(Continued)*

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

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (d) Goodwill/Negative Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in Statement of Standard Accounting Practice No. 30 "Business Combination" ("SSAP 30") and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisition, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

## 1. Principal Accounting Policies *(Continued)*

### (e) Investments

Investments are stated at cost less provision for impairment losses. The carrying amounts of individual investments 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 these investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account 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.

### (f) 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 profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (g) Accounts Receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (h) Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. 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 joint ventures, 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.

### (i) Translation of Foreign Currencies

Transactions in foreign currencies are translated into United States dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into United States dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated into United States dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary or associated company, the cumulative exchange difference is recognised in the profit and loss account as part of the gain or loss on disposal.

## 1. Principal Accounting Policies (Continued)

### (j) Segment Reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of investments, other investments, receivables and operating cash. Segment liabilities comprise operating liabilities.

In respect of geographical segment reporting, turnover is based on the country in which the income is received or receivable. Total assets and capital expenditure are where the assets are located.

### (k) Revenue Recognition

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.

### (l) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### (m) Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

### (n) Contingent Liabilities and Contingent Assets

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

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

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

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

## 2. Investment Management Fee

Pursuant to a Management Agreement dated 28th March 1991 and subsequently amended on 8th April 1992, China Assets Investment Management Limited ("CAIML") (note 19) is entitled to receive from the Company a management fee calculated at the following rates:

- (i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and
- (ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAIML for the year ended 31st December 2004 amounted to US\$1,026,795 (2003: US\$1,055,508).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. No performance bonus had been paid for the year ended 31st December 2004 (2003: nil).

On 11th October 2004, the Company entered into a supplemental agreement ("Supplemental Agreement") with CAIML to fix the term of the Management Agreement so that the Management Agreement, together with the Supplemental Agreement will continue until 31st December 2006, and thereafter renewable for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal.

## 3. Turnover and Segment Information

The principal activity of the Company is investment holding in Hong Kong and the Mainland China. Revenues recognised during the year arose only on the Company's Hong Kong investments as follows:

	2004 US\$	2003 US\$
Turnover		
Interest income	471,468	289,835
Dividend income from unlisted investments	463,226	—
Dividend income from listed other investments	—	25,504
	<b>934,694</b>	315,339

### 3. Turnover and Segment Information *(Continued)*

#### **Primary Reporting Format — Business Segments**

The principal activity of the Company is investment holding carried out in Hong Kong and the Mainland China with its associated companies/investee companies operating in three main business segments during the year:

- Investments holding;
- Manufacturing and distribution of pharmaceutical products; and
- Manufacturing and distribution of steel products.

There are no sales or other transactions between the business segments.

#### **Secondary Reporting Format — Geographical Segments**

The Group's three business segments operate in two main geographical areas:

- Hong Kong — investment holding; and
- Mainland China — manufacturing and distribution of pharmaceutical products and steel products.

There are no sales between the geographical segments.

### 3. Turnover and Segment Information (Continued)

#### Primary Reporting Format — Business Segments

An analysis of the Group's revenue and results for the year by business segments is as follows:

	2004						
	Investment holding US\$	Manufacturing and distribution of pharmaceutical products US\$	Manufacturing and distribution of PVC sheets US\$	Manufacturing and distribution of steel products US\$	Toll roads operation US\$	Others US\$	Total US\$
Segment revenue	934,694	—	—	—	—	—	934,694
Segment results	614,498	—	—	—	—	—	614,498
Unallocated income							63,281
Unallocated expenses *							(1,404,195)
Gain on disposal of investment in KongZhong Corporation	3,236,806	—	—	—	—	—	3,236,806
Unrealized gain on listed shares of KongZhong Corporation	29,025,274	—	—	—	—	—	29,025,274
Provision for impairment of an unlisted investment	(9,774,112)	—	—	—	—	—	(9,774,112)
Operating profit							21,761,552
Share of profits/(losses) of associated companies	1,026,234	—	—	(293,393)	—	—	732,841
Taxation	(435,368)	—	—	—	—	—	(435,368)
Profit attributable to shareholders							22,059,025
Segment assets	64,634,105	19,619,298	—	—	—	—	84,253,403
Investments in associated companies	29,171,375	—	—	199,405	—	(304,899)	29,065,881
Total assets							113,319,284
Segment liabilities	149,368	—	—	—	—	—	149,368
Unallocated liabilities							94,639
Total liabilities							244,007

### 3. Turnover and Segment Information (Continued)

#### Primary Reporting Format — Business Segments (Continued)

	2003						
	Investment holding US\$	Manufacturing and distribution of pharmaceutical products US\$	Manufacturing and distribution of PVC sheets US\$	Manufacturing and distribution of steel products US\$	Toll roads operation US\$	Others US\$	Total US\$
Segment revenue	315,339	—	—	—	—	—	315,339
Segment results	484,324	—	—	—	—	—	484,324
Unallocated income							10,177
Unallocated expenses *							(1,499,476)
Net gain on disposal of investment in Dongfu Toll Road	—	—	—	—	3,316,904	—	3,316,904
Loss on disposal of an unlisted investment	—	—	(823,727)	—	—	—	(823,727)
Net gain on disposal of interests in associated companies	—	—	—	2,822,412	—	—	2,822,412
Deemed profit on dilution of interests in an associated company	—	3,393,009	—	—	—	—	3,393,009
Operating profit							7,703,623
Share of profits/(losses) of associated companies	2,301,477	1,441,783	—	(592,622)	—	—	3,150,638
Taxation	(462,341)	(520,567)	—	(23,421)	—	—	(1,006,329)
Profit attributable to shareholders							9,847,932
Segment assets	32,747,710	29,393,410	—	—	—	—	62,141,120
Investments in associated companies	28,957,696	—	—	505,548	—	(261,995)	29,201,249
Total assets							91,342,369
Segment liabilities	192,496	—	—	—	—	—	192,496
Unallocated liabilities							92,820
Total liabilities							285,316

\* Included in this balance is the management fee of US\$1,026,795 (2003: US\$1,055,508) paid to a related company (note 2).



## 3. Turnover and Segment Information (Continued)

## Secondary Reporting Format — Geographical Segments

	Turnover US\$	2004 Segment results US\$	Total assets US\$
Hong Kong	934,694	614,498	15,012,804
Mainland China	—	—	69,240,599
	<b>934,694</b>	<b>614,498</b>	<b>84,253,403</b>
Unallocated income		63,281	
Unallocated expenses *		(1,404,195)	
Gain on disposal of investment in KongZhong Corporation		3,236,806	
Unrealised gain on listed shares of KongZhong Corporation		29,025,274	
Provision for impairment of an unlisted investment		(9,774,112)	
Operating profit		21,761,552	
Share of results of associated companies		732,841	
Taxation		(435,368)	
		<b>22,059,025</b>	
Investments in associated companies			<b>29,065,881</b>
Total assets			<b>113,319,284</b>

### 3. Turnover and Segment Information (Continued)

#### Secondary Reporting Format — Geographical Segments

	Turnover US\$	2003 Segment results US\$	Total assets US\$
Hong Kong	315,339	484,324	12,408,438
Mainland China	—	—	49,732,682
	<u>315,339</u>	484,324	62,141,120
Unallocated income		10,177	
Unallocated expenses *		(1,499,476)	
Net gain on disposal of investment in Dongfu Toll Road		3,316,904	
Net gain on disposal of interest in associated companies		2,822,412	
Deemed profit on dilution of interest in an associated company		3,393,009	
Loss on disposal of an unlisted investment		(823,727)	
		<u>7,703,623</u>	
Operating profit		7,703,623	
Share of results of associated companies		3,150,638	
Taxation		(1,006,329)	
		<u>9,847,932</u>	
Investments in associated companies			<u>29,201,249</u>
Total assets			<u>91,342,369</u>

There is no capital expenditure for the year (2003: Nil).

\* Included in this balance is the management fee of US\$1,026,795 (2003: US\$1,055,508) paid to a related company (note 2).

#### 4. Operating Profit

Operating profit is stated after crediting and charging the following:

	<b>2004</b>	2003
	<b>US\$</b>	US\$
<b>Crediting</b>		
Included in other operating income		
Net gain on disposal of investment in Dongfu Toll Road	—	3,316,904
Deemed profit on dilution of interests in an associated company	—	3,393,009
Net gain on disposal of interests in associated companies	—	2,822,412
Gain on disposal of listed other investments	<b>13,435</b>	637,948
Gain on disposal of KongZhong Corporation	<b>3,236,806</b>	—
Unrealised gain on listed shares of KongZhong Corporation	<b>29,025,274</b>	—
Unrealised gain on listed other investments	<b>57,877</b>	31,038
Net exchange gain	<b>63,281</b>	10,177
<b>Charging</b>		
Included in administrative expenses		
Auditors' remuneration		
— Current year	<b>99,820</b>	101,320
— Over provision in previous years	—	(5,529)
Bad debt written off	<b>400,000</b>	500,000
Staff cost (excluding directors' remunerations)	<b>13,140</b>	—
Included in other operating expenses		
Provision for impairment of an unlisted investment	<b>9,774,112</b>	—
Loss on disposal of an unlisted investment	—	823,727

## 5. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 US\$	2003 US\$
Current taxation:		
— Hong Kong profits tax	10,535	31,340
— Overseas taxation	43,837	33,168
	54,372	64,508
Prior year overprovision		
— Hong Kong profits tax	(1,703)	—
	52,669	64,508
Share of taxation attributable to associated companies	382,699	941,821
Taxation charge	435,368	1,006,329

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 US\$	2003 US\$
Profit before taxation	22,494,393	10,854,261
Calculated at a taxation rate of 17.5% (2003: 17.5%)	3,936,519	1,899,496
Effect of different taxation rates in other countries	(40,084)	296,627
Income not subject to taxation	(5,822,861)	(1,810,855)
Expenses not deductible	2,361,794	621,061
Taxation charge	435,368	1,006,329

There was no material unprovided deferred taxation for the year (2003: nil).

## 6. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$2,671,615 (2003: US\$4,916,943).

## 7. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US\$22,059,025 (2003: US\$9,847,932) and on the 74,383,160 (2003: 74,383,160) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of US\$22,059,025. The weighted average number of 74,551,714 ordinary shares used in the calculation is the sum of 74,383,160 ordinary shares in issue during the year as used in the basic earning per share calculation and the weighted average of 168,554 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

## 8. Directors' and Senior Management's Emoluments

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

	<b>2004</b>	2003
	<b>US\$</b>	US\$
Fees (equivalent to HK\$375,000) (2003: HK\$368,000)	<b>48,217</b>	47,395

Directors' fees disclosed above include US\$30,859 (2003: US\$26,660) paid to independent non-executive directors.

Remuneration of all directors falls within the band of HK\$nil to HK\$1,000,000. No director of the Company waived any emoluments during 2003 and 2004.

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are disclosed above.

The Company is managed by CAIML. A qualified accountant was employed by the Company pursuant to the requirement of the Listing Rules. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme. The total staff cost of the Company was approximately US\$13,140 (2003 : Nil).

## 9. Investments in Subsidiaries

	Company	
	2004 US\$	2003 US\$
Unlisted shares, at cost (note (b))	140,071	140,071
Amounts due from subsidiaries (note (a))	21,194,731	22,621,154
Less: provision for doubtful debts	(623,962)	(623,962)
	20,570,769	21,997,192
	20,710,840	22,137,263

(a) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(b) The following is a list of subsidiaries held directly by the Company at 31st December 2004:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2004	2003
Balance Target Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Direct Investment Enterprises Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	100%	100%
Essential Choice Investments Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	100%	100%
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Ruby Power Investments Limited	British Virgin Islands	Dormant	10 shares of US\$1 each	100%	100%
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US\$1 each	100%	100%

## 9. Investments in Subsidiaries *(Continued)*

(b) *(Continued)*

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2004	2003
Wonderful Effort Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	<b>100%</b>	100%
Scientific China Investments Limited	Hong Kong	Dormant	2 shares of HK\$1 each	<b>100%</b>	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Dormant	Registered capital of US\$140,000	<b>100%</b>	100%

Note: The subsidiaries operate principally in their places of incorporation.

## 10. Investments in Associated Companies

	Group		Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Share of net assets other than goodwill	29,370,780	58,856,648	—	—
Shares listed in Hong Kong, at cost	—	—	13,802,288	13,802,288
Unlisted investments, at cost	—	—	627	9,594,830
Convertible loan stock	—	—	735,000	735,000
	29,370,780	58,856,648	14,537,915	24,132,118
Provision for impairment losses	—	—	(735,627)	(735,627)
	29,370,780	58,856,648	13,802,288	23,396,491
Reclassification to investments (note 11(a))	—	(29,393,410)	—	(9,594,203)
	29,370,780	29,463,238	13,802,288	13,802,288
Amounts due from associated companies	508,338	551,583	508,338	508,338
Amount due to an associated company	(304,899)	(305,234)	(304,899)	(305,234)
	203,439	246,349	203,439	203,104
Provision for doubtful debts	(508,338)	(508,338)	(508,338)	(508,338)
	(304,899)	(261,989)	(304,899)	(305,234)
	29,065,881	29,201,249	13,497,389	13,497,054
Investments at cost:				
Shares listed in Hong Kong	13,802,288	13,802,288		
Unlisted investments	4,885,675	4,886,302		
Convertible loan stock	735,000	735,000		
	19,422,963	19,423,590		
Provision for impairment losses	(5,161,589)	(5,101,644)		
	14,261,374	14,321,946		
Market value of listed shares in Hong Kong	23,620,599	26,217,326	23,620,599	26,217,326



## 10. Investments in Associated Companies (Continued)

- (a) The following is a list of the associated companies held directly/indirectly by the Company at 31st December 2004:

Name	Place of incorporation	Principal activities	Interest held	
			2004	2003
First Shanghai Investments Limited (see note (i) below)	Hong Kong	Investment holding	21.15%	21.15%
Suzhou Universal Chain Transmission Co., Ltd. (see note (ii) below)	People's Republic of China	Production and sale of industrial chains	30%*	30%*
Dezhou Zhenhua Glass Co., Ltd. (see note (iii) below)	People's Republic of China	Production and sale of glass products	30%*	30%*
Hong Kong Strong Profit Limited (See note (iv) below)	Hong Kong	Dormant	49%	49%

\* Held indirectly by the Company

Notes:

- (i) First Shanghai Investments Limited ("FSIL") is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK\$234,738,341 (2003: HK\$234,738,341).

- (ii) Suzhou Universal Chain Transmission Co., Ltd. is a joint venture between a Company's subsidiary and Suzhou General Chain Factory. The joint venture is for a period of 25 years from September 1992. The registered and paid-up capital of the joint venture is US\$6,000,000, of which the Group contributed US\$1,683,675 (2003: US\$1,683,675) for its 30.00% (2003: 30.00%) share. A provision of US\$1,223,962 (2003: US\$1,178,127) has been made against the investment.

Subsequent to the year end, the Company disposed of its entire interests in Suzhou Universal Chain Transmission Co., Ltd to a third party at a consideration of US\$542,000 and a profit on disposal of US\$29,000 will be recognised in 2005.

- (iii) Dezhou Zhenhua Glass Co., Ltd. is a joint venture between a Company's subsidiary and Shandong Dezhou Zhenhua Glass Factory. The joint venture is for a period of 30 years from May 1994. The registered and paid-up capital of the joint venture is US\$10,673,300, of which the Group contributed US\$3,202,000 for its 30% share. Full provision for impairment losses was made against this investment.

- (iv) Hong Kong Strong Profit Limited ("HKSP") is in negotiation of a proposed liquidation with other shareholders of HKSP. Full provision for impairment losses was made against the investment in HKSP in the Group's and the Company's balance sheet.

All the above investments are regarded by the directors as associated companies as the Group can exercise significant influence over these investments.

**10. Investments in Associated Companies (Continued)**

(b) Additional information in respect of the Group's major associated company is given as follows:

	<b>2004</b> <b>US\$'000</b>	<b>2003</b> <b>US\$'000</b>
<b>FSIL</b>		
Profit and loss account		
Turnover	<b>75,585</b>	36,236
Profit before taxation	<b>12,173</b>	13,846
Group's share of profit before taxation (note 3)	<b>1,026</b>	2,301
Balance sheet		
Non-current assets	<b>141,566</b>	126,996
Current assets	<b>69,084</b>	99,724
Current liabilities	<b>(28,300)</b>	(53,659)
Non-current liabilities	<b>(136)</b>	(172)
Minority interest	<b>(11,161)</b>	(10,638)
Net assets	<b>171,053</b>	162,251
Group's share of net assets (note 3)	<b>29,171</b>	28,958

**11. Investments**

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		<b>2004</b> <b>US\$</b>	<b>2003</b> <b>US\$</b>	<b>2004</b> <b>US\$</b>	<b>2003</b> <b>US\$</b>
Unlisted investment, at cost	(a)	<b>29,393,410</b>	29,393,410	<b>9,594,203</b>	9,594,203
Provision for impairment loss		<b>(9,774,112)</b>	—	—	—
		<b>19,619,298</b>	29,393,410	<b>9,594,203</b>	9,594,203
Unlisted shares, at cost	(b)	—	1,200,000	—	—
		<b>19,619,298</b>	30,593,410	<b>9,594,203</b>	9,594,203

## 11. Investments (Continued)

- (a) At 31st December 2004, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held	
				2004	2003
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	63,658,870 foreign legal person shares	<b>15.46%</b>	15.46%

From 1st August 2003, the directors of the Group consider that the use of equity method to account for the interest in Lukang is not appropriate as the Group ceased to have significant influence in Lukang. Accordingly, the net carrying value of investment in Lukang of both the Company and the Group of US\$9,594,203 and US\$29,393,410, respectively, have been reclassified from investments in associated companies to investments (note 10).

As at 31st December 2004, the directors considered that there is an impairment in this investment and a provision of US\$9,774,112 has been made, which is based on an estimate made by the directors, taking into account all available information, as at 31st December 2004.

- (b) On 9th July 2004, one of the Group's investments, KongZhong Corporation, ("KongZhong"), has its shares listed on the Nasdaq National Market in the United States. The Group originally held 140,000,000 ordinary shares of US\$0.0000005 each in the share capital of KongZhong. Pursuant to the initial public offering of KongZhong, the Group disposed of 14,717,480 KongZhong shares at a consideration of US\$3,362,955. The profit on disposal of these shares of US\$3,236,806 has been recognised in the profit and loss account for this year. As at the year end, the Group changed its intention and planned to dispose of all remaining shares held. As a result, the remaining 125,282,520 KongZhong shares has been reclassified to other investments (note 13).

## 12. Other Receivables and Prepayment

Included in other receivables and prepayment are consideration receivables in respect of disposals of investments in prior year. At 31st December 2004, these considerations were receivable as follows:

	Group		Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Not later than one year	257,516	2,108,466	—	666,667
Later than one year and not later than five years	—	590,849	—	333,333
	257,516	2,699,315	—	1,000,000
Less: Provision for doubtful debts	—	(500,000)	—	(500,000)
	257,516	2,199,315	—	500,000
Less: current portion, net of provision	(257,516)	(1,608,466)	—	(166,667)
Non-current portion	—	590,849	—	333,333

## 13. Other Investments

	Group		Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Listed shares at market value				
Hong Kong	439,521	59,888	439,521	59,888
Overseas (Note)	30,099,125	—	—	—
	30,538,646	59,888	439,521	59,888

Note: During the year, subsequent to the initial public offering of KongZhong, the Group planned to dispose of all the remaining shares of KongZhong held. As such, the carrying amount is reclassified to other investments and stated at market value. An unrealised gain of US\$29,025,274 is recognised as at 31st December 2004.

## 14. Bank Balances and Cash

Included in the bank balances and cash of the Group are Renminbi deposits and cash in Mainland China of US\$19,133,368 (2003: US\$18,895,719). Renminbi is not a freely convertible currency.

## 15. Share Capital

	Company	
	2004	2003
	US\$	US\$
Authorised:		
160,000,000 shares of US\$0.10 each	16,000,000	16,000,000
Issued and fully paid:		
74,383,160 shares of US\$0.10 each	7,438,316	7,438,316

### Share Options

During the year, 3,850,000 share options were granted to certain directors of the Company and employees of CAIML. Each share option entitles the holder to subscribe for one share in the capital of the Company at a subscription price of HK\$2.65 per share. The options are exercisable at any time from 25th May 2004 to 23rd May 2014.

During the year, 50,000 share options were lapsed as a result of the resignation of a director. At the balance sheet date, the Company has outstanding options with an aggregate subscription value of HK\$10,070,000. The exercisable in full of the options would, under the present capital structure of the Company, result in the issue of 3,800,000 additional shares.

## 16. Reserves

### Group

	Share premium US\$	Capital reserve US\$ (note a)	Retained earnings US\$	Total US\$
At 1st January 2004	68,445,344	7,849,636	7,323,757	83,618,737
Profit attributable to shareholders	—	—	22,059,025	22,059,025
Exchange difference arising on translation of associated companies	—	(41,920)	—	(41,920)
Exchange difference arising on translation of a subsidiary	—	1,119	—	1,119
At 31st December 2004	68,445,344	7,808,835	29,382,782	105,636,961
Company and subsidiaries	68,445,344	8,035,251	2,218,522	78,699,117
Associated companies	—	(226,416)	27,164,260	26,937,844
	68,445,344	7,808,835	29,382,782	105,636,961

**16. Reserves (Continued)****Group (Continued)**

	Share premium US\$	Capital reserve US\$ (note a)	(Accumulated losses)/ retained earnings US\$	Total US\$
At 1st January 2003	68,445,344	8,025,767	(2,524,175)	73,946,936
Profit attributable to shareholders	—	—	9,847,932	9,847,932
Exchange difference arising on translation of associated companies	—	120,757	—	120,757
Release of exchange differences upon disposal of partial interest in an associated company to the profit and loss account	—	(296,888)	—	(296,888)
At 31st December 2003	68,445,344	7,849,636	7,323,757	83,618,737
Company and subsidiaries	68,445,344	8,034,132	(19,089,681)	57,389,795
Associated companies	—	(184,496)	26,413,438	26,228,942
	68,445,344	7,849,636	7,323,757	83,618,737

Note:

- (a) Capital reserve includes goodwill/negative goodwill arising on acquisitions of associated companies by the Group, exchange differences on translation of the accounts of associated companies and share of post acquisition reserves of associated companies.

**Company**

	Share premium US\$	Accumulated losses US\$	Total US\$
At 1st January 2004	68,445,344	(20,098,047)	48,347,297
Profit for the year	—	2,671,615	2,671,615
At 31st December 2004	68,445,344	(17,426,432)	51,018,912
At 1st January 2003	68,445,344	(25,014,990)	43,430,354
Profit for the year	—	4,916,943	4,916,943
At 31st December 2003	68,445,344	(20,098,047)	48,347,297

**17. Reconciliation of Operating Profit to Net Cash Inflow/(Outflow) from Operating Activities**

	<b>2004</b>	<b>2003</b>
	<b>US\$</b>	<b>US\$</b>
Operating profit	<b>21,761,552</b>	7,703,623
Dividend income from listed other investments	—	(25,504)
Dividend income from unlisted investment	<b>(463,226)</b>	—
Interest income	<b>(471,468)</b>	(289,835)
Gains on disposal of listed other investments	<b>(13,435)</b>	(637,948)
Unrealised gains on listed other investments	<b>(57,877)</b>	(31,038)
Unrealised gain on listed shares of KongZhong Corporation	<b>(29,025,274)</b>	—
Bad debt written off	<b>400,000</b>	—
Loss on disposal of an unlisted investment	—	823,727
Gain on disposal of investment in KongZhong Corporation	<b>(3,236,806)</b>	—
Net gain on disposal of interest in associated companies	—	(2,822,412)
Net gain on disposal of investment in Dongfu Toll Road	—	(3,316,904)
Provision for impairment of an unlisted investment	<b>9,774,112</b>	—
Deemed profit on dilution of interests in an associated company	—	(3,393,009)
Operating losses before working capital changes	<b>(1,332,422)</b>	(1,989,300)
Decrease/(increase) in other receivables and prepayments	<b>1,534,877</b>	(2,366,362)
(Decrease)/increase in net amount due to related companies	<b>(206)</b>	13,508
Decrease in amounts due from associated companies	<b>42,910</b>	—
Increase in amounts due to associated companies	—	28,395
Decrease in accounts payable	<b>(20,110)</b>	(631,545)
Increase/(decrease) in accrued expenses	<b>1,819</b>	(4,830)
Net cash inflow/(outflow) from operation	<b>226,868</b>	(4,950,134)

**18. Capital Commitments**

The Group and the Company did not have any material commitments at 31st December 2004 (2003: Nil).

The Group's share of capital commitments of associated companies are as follows:

	<b>2004</b>	<b>2003</b>
	<b>US\$</b>	<b>US\$</b>
Contracted but not provided for	<b>1,288,205</b>	997,495

## 19. Related Party Transactions

Significant related party transaction, which was carried out in the normal course of business is as follow:

- (a) The Company paid a management fee of US\$1,026,795 (2003: US\$1,055,508) to CAIML, a related company (note 2).

CAIML is a subsidiary of FSIL, an associated company of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Wang Jun Yan, an executive director of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Both Mr. Lao and Mr. Yeung are the directors of FSIL.

- (b) As at 31st December 2004, management fee payable to CAIML amounted to US\$73 (2003: payable of US\$279). The balance was unsecured, interest-free and was settled in the first quarter of 2005.

## 20. Post Balance Sheet Events

- (1) On 13th January 2005, the Company signed a letter with CITIC Capital China Partners Ltd., the general partner of the CITIC Capital China Property Investment Fund, L.P. (the "Fund") in respect of its proposed capital commitment up to US\$13.5 million in the Fund as a limited partner which constituted a major transaction under Listing Rules. The objective of the Fund is to achieve long term capital appreciation by developing a portfolio consisting primarily of investments in real estate and related investments in the People's Republic of China. On 17th February 2005, the Company entered into the subscription agreement with CITIC Capital China Partners Ltd. for and on behalf of the Fund, pursuant to which the Company agreed, conditional on the shareholders' approval of the Company at the extraordinary general meeting ("EGM") to contribute up to US\$13.5 million into the Fund as a limited partner. The shareholders of the Company approved the subscription agreement on 14th March 2005 at the EGM and a contribution of US\$13.5 million was made to the Fund on 22nd March 2005. Further details are included in the circular dated 22nd February 2005 sent to the shareholders of the Company.
- (2) On 23rd February 2005, the Company made a public announcement about its intention to dispose of its shares in KongZhong Corporation. As the disposal of the shares in KongZhong in aggregate may constitute a very substantial disposal for the Company under the Listing Rules, a circular containing, among other things, details of the proposed disposal and a notice of an extraordinary general meeting of the Company will be dispatched to the shareholders after the publication of this annual report.

## 21. Approval of Accounts

The accounts were approved by the board of directors on 18th April 2005.