

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 28, 29 and 30 to the financial statements, respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "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 commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Joint ventures

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

Turnover

Turnover represents the amount received and receivable for goods sold.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Dividend income from investments in securities is recognised when the Group's rights to receive dividend payment have been established.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	10% - 20%
Furniture, fixtures and equipment	20%
Motor vehicles	25%

During the year, there was a change in accounting estimate in respect of the useful lives of leasehold improvements, the effect of such change to the profit or loss of the year was immaterial.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Convertible note payable

The convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable, including the premium payable upon the final redemption of the convertible note, is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note payable for each accounting period.

The costs incurred in connection with the issue of the convertible note payable are deferred and amortised on a straight-line basis over the lives of the convertible note payable from the date of issue of the convertible note to the final redemption date. If the note is purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve. Such translation differences are recognised as income or expenses in which the operation is disposed of.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - metals trading, sales of communication products and investments in securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- | | | |
|---------------------------------|---|--|
| Metals trading | - | Trading of metals products. |
| Sales of communication products | - | Trading of communication products. |
| Investments in securities | - | Investment in securities to generate dividends and capital appreciation. |

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information about these businesses is presented below:

Income statement

	2004			Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	
Turnover	4,219	128	—	4,347
Segment result	(153)	28	3,158	3,033
Interest income	—	—	—	4
Unallocated corporate expenses	—	—	—	(18,781)
Loss from operations				(15,744)
Share of results of associates	—	—	1,027	1,027
Share of results of joint ventures	—	(282)	—	(282)
Gain on disposal of subsidiaries	—	2,909	—	2,909
Gain on disposal of associates	—	—	12,254	12,254
Finance costs				(2,379)
Loss before taxation				(2,215)
Taxation				—
Net loss for the year				(2,215)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Income statement (Continued)

	2003			Total HK\$'000
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	
Turnover	30	4,028	—	4,058
Segment result	(784)	(6,536)	15,152	7,832
Interest income	—	—	—	21
Unallocated corporate expenses	—	—	—	(14,291)
Loss from operations				(6,438)
Share of results of associates	—	—	(6,309)	(6,309)
Share of results of joint ventures	—	(292)	—	(292)
Amortisation of goodwill in respect of acquisition of associates	—	—	(26,294)	(26,294)
Impairment loss recognised in respect of interest in associates	—	—	(153,410)	(153,410)
Finance costs				(5,600)
Loss before taxation				(198,343)
Taxation				(1,081)
Net loss for the year				(199,424)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Balance sheet

	2004		2003	
	Segment	Segment	Segment	Segment
	assets	liabilities	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Metals trading	13,871	3,702	8,518	5,331
Sales of communication products	—	—	12,362	12,029
Investments in securities	22,812	—	49,440	15
Interests in associates	—	—	78,000	—
Interests in joint ventures	6,231	—	6,513	—
Other corporate assets/liabilities	—	—	—	82,750
	<u>42,914</u>	<u>3,702</u>	<u>154,833</u>	<u>100,125</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Other information

	2004 HK\$'000	2003 HK\$'000
Capital additions		
Metals trading	—	21
Sales of communication products	—	399
	<u> </u>	<u> </u>
Depreciation		
Metals trading	572	635
Sales of communication products	—	67
	<u> </u>	<u> </u>
Amortisation of goodwill in respect of acquisition of associates		
Investments in securities	—	26,294
	<u> </u>	<u> </u>
Gain on disposal of property, plant and equipment		
Sales of communication products	—	120
	<u> </u>	<u> </u>
Impairment loss recognised in respect of interest in associates		
Investment in securities	—	153,410
	<u> </u>	<u> </u>
Net unrealised gain on investments in securities	<u>5,024</u>	<u>10,638</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments

- (i) The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover		Loss from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, excluding Hong Kong (the "PRC")	—	4,028	—	(6,518)
Hong Kong	4,347	30	(15,744)	80
	<u>4,347</u>	<u>4,058</u>	<u>(15,744)</u>	<u>(6,438)</u>

- (ii) The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	—	9,448	—	399
Hong Kong	36,683	60,872	—	21
	<u>36,683</u>	<u>70,320</u>	<u>—</u>	<u>420</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

5. OTHER OPERATING INCOME

	2004	2003
	HK\$'000	HK\$'000
Interest on bank deposits	4	21
Dividends from investments in securities	576	1,620
Gain on disposal of property, plant and equipment	—	120
	<u>580</u>	<u>1,761</u>

6. LOSS FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	5,204	5,204
Contributions to retirement benefit scheme	125	115
Other staff costs	4,996	4,196
Total staff costs	<u>10,325</u>	<u>9,515</u>
Auditors' remuneration	693	680
Cost of inventories recognised	3,977	2,629
Depreciation	572	702
Write-down for inventories	—	939
Minimum lease payments under operating leases in respect of		
Rented premises	2,132	3,054
Motor vehicles	—	247
	<u>—</u>	<u>—</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

6. LOSS FROM OPERATIONS (Continued)

(i) Information regarding directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' emoluments		
Directors fees		
Executive	—	—
Independent non-executive	450	300
	<u>450</u>	<u>300</u>
Other emoluments to executive directors		
Salaries and other benefits	4,696	4,838
Contributions to retirement benefit scheme	58	66
	<u>5,204</u>	<u>5,204</u>

The emoluments of the directors were within the following bands:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

6. LOSS FROM OPERATIONS (Continued)

(ii) Information regarding employees' emoluments

Of the five highest individuals with the highest emoluments in the Group, four (2003: five) were directors of the Company whose emoluments are included in the note 6(i) above. The emoluments of the remaining highest paid individual (2003: nil) were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	878	—
Retirement benefit scheme contributions	12	—
	<u>890</u>	<u>—</u>

No emoluments were paid by the Group to the directors and the remaining highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

7. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Convertible note payable	(2,058)	(4,060)
Other borrowings wholly repayable within five years	(71)	(1,040)
	<u>(2,129)</u>	<u>(5,100)</u>
Amortisation of the issue costs of convertible note payable	(250)	(500)
	<u>(2,379)</u>	<u>(5,600)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

8. TAXATION

	2004	2003
	HK\$'000	HK\$'000
Share of taxation attributable to associates	<u>—</u>	<u>(1,081)</u>

No provision for Hong Kong Profits Tax has been made since the Company and its subsidiaries had no assessable profits for both years.

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

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation	<u>(2,215)</u>	<u>(198,343)</u>
Tax credit at the domestic income tax rate of 17.5%	388	34,710
Tax effect of share of results of associates	180	(2,185)
Tax effect of share of results of joint ventures	(49)	(51)
Tax effect of expenses not deductible for tax purpose	(1,221)	(32,554)
Tax effect of income not taxable for tax purpose	101	284
Tax effect of tax losses not recognised	(11)	(3,869)
Tax effect of utilisation of losses not previously recognised	612	2,360
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>—</u>	<u>224</u>
Taxation charge for the year	<u>—</u>	<u>(1,081)</u>

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$2,215,000 (2003: HK\$199,424,000) and 6,837,422,389 (2003: 6,837,422,389) shares in issue.

No diluted loss per share has been presented in 2004 as the exercise of the convertible note would result in a decrease in loss per share and it was redeemed in full upon maturity during the year.

No diluted loss per share had been presented in 2003 as the exercise of the convertible note would result in a decrease in loss per share.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 January 2004	428	1,603	2,462	4,493
Disposal of subsidiaries	—	(843)	—	(843)
At 31 December 2004	<u>428</u>	<u>760</u>	<u>2,462</u>	<u>3,650</u>
DEPRECIATION				
At 1 January 2004	342	930	1,592	2,864
Provided for the year	21	68	483	572
Eliminated on disposal of subsidiaries	—	(287)	—	(287)
At 31 December 2004	<u>363</u>	<u>711</u>	<u>2,075</u>	<u>3,149</u>
NET BOOK VALUES				
At 31 December 2004	<u>65</u>	<u>49</u>	<u>387</u>	<u>501</u>
At 31 December 2003	<u>86</u>	<u>673</u>	<u>870</u>	<u>1,629</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2004 and at 31 December 2004	428	336	1,934	2,698
DEPRECIATION				
At 1 January 2004	342	219	1,064	1,625
Provided for the year	21	68	483	572
At 31 December 2004	363	287	1,547	2,197
NET BOOK VALUES				
At 31 December 2004	65	49	387	501
At 31 December 2003	86	117	870	1,073

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,822	65,822
Amounts due from subsidiaries	592,643	697,486
	<u>658,465</u>	<u>763,308</u>
Impairment losses	(542,174)	(607,983)
	<u>116,291</u>	<u>155,325</u>

In the opinion of directors, the amounts due from subsidiaries will not be demanded for repayment within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current.

The impairment losses are recognised with reference to the recoverable amounts of interest in subsidiaries.

Details of the Company's subsidiaries at 31 December 2004 are set out in note 28.

12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	—	231,410
Impairment loss	—	(153,410)
	<u>—</u>	<u>78,000</u>

Certain associates of the Group were disposed of during the year. Details of the Group's associates at 31 December 2004 are set out in note 29.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

13. INTERESTS IN JOINT VENTURES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	<u>6,231</u>	<u>6,513</u>

Details of the Group's joint ventures at 31 December 2004 are set out in note 30.

14. INVENTORIES

THE GROUP

At the balance sheet dates, all of the Group's inventories were carried at cost.

15. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	—	2,584
Other receivables, deposits and prepayments	<u>1,510</u>	<u>2,597</u>
	<u>1,510</u>	<u>5,181</u>

The Group has adopted a credit policy of allowing invoices to be payable within 180 days from the date of issuance for sales of communication products and 30 days from the date of issuance for metals trading. The Group also allows a longer credit period to major customers.

The following is an ageing analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Not yet due	—	2,560
Overdue over 90 days	<u>—</u>	<u>24</u>
	<u>—</u>	<u>2,584</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trading securities		
Equity securities listed in Hong Kong, at market value	<u>22,616</u>	<u>49,440</u>

17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	—	4,868
Other payables and accrued charges	<u>3,702</u>	<u>12,507</u>
	<u>3,702</u>	<u>17,375</u>

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Overdue over 90 days	<u>—</u>	<u>4,868</u>

18. SHORT-TERM BORROWINGS

The amount was unsecured and carried interest at 8% per annum. The amount was repaid during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

19. CONVERTIBLE NOTE PAYABLE

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Convertible note payable		
Balance at the beginning of the year	58,000	58,000
Redeemed on maturity date during the year	<u>(58,000)</u>	<u>—</u>
Balance at the end of the year	<u>—</u>	<u>58,000</u>
Issue costs		
Balance at the beginning of the year	250	750
Amortised during the year	<u>(250)</u>	<u>(500)</u>
Balance at the end of the year	<u>—</u>	<u>250</u>
Carrying value at the end of the year	<u>—</u>	<u>57,750</u>

On 30 May 2001, the Company entered into an agreement (the “2001 Agreement”) with a placing agent for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$60,000,000 (the “2001 Convertible Note”). The 2001 Convertible Note was unsecured and bore interest at 7% per annum, accrued on a daily basis and payable every year in arrears. The 2001 Convertible Note might be converted into ordinary shares of the Company at an initial price of HK\$0.028 per share and the conversion prices were HK\$0.031 and HK\$0.034 per share respectively for the period from the date immediately following the first anniversary from the date of issue of the 2001 Convertible Note (the “Issue Date”) to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date. These conversion prices were subject to adjustments in accordance with the relevant provisions in the 2001 Agreement. The 2001 Convertible Note would only be repaid at its face value upon maturity on 3 July 2004 to the extent of the amount not previously converted. The remaining balance of the 2001 Convertible Note in the principal amount of HK\$58,000,000 was redeemed in full upon maturity during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

20. SHARE CAPITAL

	2004 & 2003
	HK\$'000
Authorised:	
50,000,000,000 ordinary shares of HK\$0.01 each	500,000
Issued and fully paid:	
6,837,422,389 ordinary shares of HK\$0.01 each	68,374

There were no changes in the Company's share capital during both years.

Share options

The Company has a share option scheme (the "Scheme") which was adopted on 27 May 2002 to replace the old scheme adopted in 1998. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the "Participants"). The purpose of the Scheme is to recognise and motivate the contribution of Participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The total number of Shares available for issue under the Scheme is 683,742,238 which represents 10% of the issued share capital of the Company as at 31 December 2004. No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in twelve month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

As at 31 December 2004, no share options have been granted by the Company since the adoption of the Scheme.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

21. RESERVES

THE GROUP

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1998. The contributed surplus of the Group represents the amount arising from cancelling the paid up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the reorganisation taken place in 2001.

THE COMPANY

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	135,369	488,503	(462,164)	161,708
Net loss for the year	—	—	(240,306)	(240,306)
At 31 December 2003 and 1 January 2004	135,369	488,503	(702,470)	(78,598)
Net profit for the year	—	—	46,624	46,624
At 31 December 2004	135,369	488,503	(655,846)	(31,974)

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation taken place in 1998 and the amount arising from cancelling the paid-up capital to the extent of HK\$0.09 on each issued share in the Company from HK\$0.10 each to HK\$0.01 each pursuant to the group reorganisation taken place in 2001.

Under the Companies Act 1981 of laws in Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

21. RESERVES (Continued)

At the balance sheet date, the Company's distributable reserves were as follows:

	2004	2003
	HK\$'000	HK\$'000
Contributed surplus	488,503	488,503
Accumulated losses	(655,846)	(702,470)
	<u>(167,343)</u>	<u>(213,967)</u>

In the opinion of the directors, the Company did not have any reserves available for distribution.

Included in the Group's reserves are the following amounts attributable to the Group's associates and joint ventures:

	2004	2003
	HK\$'000	HK\$'000
Associates		
- investment revaluation reserve	—	1,913
- investment property revaluation reserve	—	11,368
- accumulated losses	—	(1,867)
	<u>—</u>	<u>11,414</u>
Joint ventures		
- translation reserve	5	5
- accumulated losses	(3,774)	(3,492)
	<u>(3,769)</u>	<u>(3,487)</u>

During the year, the reserves of associates were released upon disposal.

22. DEFERRED TAXATION

At the balance sheet date, the Group had unused tax losses of approximately HK\$126,558,000 (2003: HK\$204,200,000) available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

23. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its interests in certain subsidiaries which were engaged in developing and trading of communication equipment.

The effect of the disposal is summarised as follows:

	HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	556
Inventories	4,939
Trade and other receivables	3,312
Bank balances and cash	234
Trade and other payables	(11,908)
	<u>(2,867)</u>
Gain on disposal of subsidiaries	<u>2,909</u>
Cash consideration	<u>42</u>
Net cash outflow arising on disposal:	
Cash consideration	42
Bank balances and cash disposed of	(234)
	<u>(192)</u>

The subsidiaries disposed of did not make any significant contribution to the results or cash flows of the Group during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

24. DISPOSAL OF INTERESTS IN ASSOCIATES

During the year, the Group disposed of its entire interests in associates. The effect of the disposal is summarised as follows:

	HK\$'000
Net assets disposed of:	
Interests in associates	232,437
Less: Impairment loss recognised	(153,410)
	<hr/>
	79,027
Reserves attributable to the Group and released upon disposal	(13,281)
	<hr/>
	65,746
Gain on disposal of interests in associates	12,254
	<hr/>
Cash consideration received	78,000
	<hr/> <hr/>

25. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In respect of rented premises:				
Within one year	2,105	1,586	665	748
In the second to fifth year inclusive	120	1,174	—	665
	<u>2,225</u>	<u>2,760</u>	<u>665</u>	<u>1,413</u>

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of two to three years.

27. POST BALANCE SHEET EVENTS

(a) On 5 January 2005, the Company entered into an agreement (the “2005 Agreement”) with a placing agent for placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$50,000,000 (the “2005 Convertible Note”). The 2005 Convertible Note is unsecured and bears interest at 3% per annum, accrued on a daily basis and payable upon 1 year from the date of issue of the 2005 Convertible Note (the “Maturity”). The 2005 Convertible Note may be converted into ordinary shares of the Company at the conversion price of, subject to adjustment, HK\$0.25 per share from the date of issue of the 2005 Convertible Note to the Maturity date. The Company shall, at any time before the Maturity date, have the option to redeem the 2005 Convertible Note in full or in part.

As at the date of this report, the 2005 Convertible Note had been redeemed in full and no 2005 Convertible Note was converted into ordinary shares before redemption.

(b) On 10 January 2005, the Company entered into an agreement with a placing agent for placement of 1,367,484,000 new shares to independent investors at a price of HK\$0.052 per new share on a fully underwritten basis (the “First Placing”). On the same date, the Company entered into another agreement for placement of 3,000,000,000 new shares to independent investors at a price of HK\$0.052 per new share on a best effort basis (the “Second Placing”). As at the date of this report, the First Placing has been completed whilst the Second Placing has not yet been completed.

(c) On 1 February 2005, the Company granted share options to employees to subscribe 656,000,000 ordinary shares of the Company of HK\$0.01 each of the Company at the subscription price of HK\$0.038 per share under the share option scheme adopted on 27 May 2002. On 2 February 2005, the share options were exercised in full representing 9.6% of the issued share capital of the Company at 31 December 2004.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

28. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Cache Up Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities investment
Century Power Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Excel Capital Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gain Metro Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gain Star Group Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

28. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Golden Label Group Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Hopeway Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Wealth Prospect Limited	Hong Kong	2 ordinary share of HK\$1 each	—	100%	Metals trading and sale of communication products

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

28. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Winford Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
WP Petroleum Limited	Hong Kong	100 ordinary shares of HK\$1 each	—	51%	Investment holding

* The companies are engaged in investment business and have no specific principal place of operation.

None of the subsidiaries had any debt securities at 31 December 2004 or at any time during the year.

29. PARTICULARS OF ASSOCIATE

Particulars of the Group's associate as at 31 December 2004 is as follows:

Name of associate	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group		Principal activities
			%		
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	49%		Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

30. PARTICULARS OF JOINT VENTURES

Particulars of the Group's joint ventures as at 31 December 2004 are as follows:

Name of joint venture	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	PRC*	Registered capital HK\$2,000,000	50%	Trading of communication products

* Sino-foreign joint entity enterprise registered in the PRC.