

## Chairman's Statement

For the year ended 31 December 2004, the Group incurred a net loss of HK\$249.7 million.

The investment in securities mainly represents the equity interest in Hennabun Management International Limited ("HMI") acquired in December 2003. As at the date of this report, auditors' report of HMI is still unavailable to the Group. However, an impairment loss of HK\$27.3 million was recognized based on the net assets value of HMI according to the management accounts provided to the Group. As a minority shareholder, the directors consider that impairment loss had been reasonably recognised by the Group on the investments in securities to the best of their knowledge and information.

In December 2004, the Group disposed a subsidiary, Grand Noble Group Limited, which mainly held an investment property located at Jinan, Shangdong Province, the People's Republic of China ("the PRC") at a consideration of HK\$270.0 million. Deficit on revaluation of the investment property was HK\$29.3 million. In respect of the settlement of the consideration, the Group has received a request from the purchaser for deferring the second installment of HK\$8.0 million to May 2005. The purchaser has expressed his sincerity for paying the amount and confirmed that the title of the property was still under Grand Noble Group Limited. Since the property market in Jinan was not active, the Group did not immediately exercise the share charge entered into between the Group and the purchaser or request for an immediate assignment of the property back to the Group. The directors had done certain research on the condition of the property market in Jinan and had obtained some professional advice on the market value of the property. It is found that there is no material change in the market value of the property and hence no further impairment loss on the property is recognised for in the event that the Group has to exercise the share charge and reflect the value of the investment property in the consolidated balance sheet.

In relation to the interests in associates, the Group had recognised impairment losses totaling HK\$179.3 million in the consolidated income statement. The paper manufacturing plants located at Wuhu and Huzhou in the PRC had occasionally suspended production since the second half year of 2004 and since December 2004 due to electricity supply problem and insufficient working capital. Actions had been taken by the management of the plants and other concerned parties including their major shareholder which is a company listed on the Shenzhen Stock Exchange as well as the local government for their resumption of normal operation. The Group has obtained a written confirmation from the major shareholder for its full support to the plants. However, as a matter of fact, the plants are still not in operation as at the date of this report, as it is difficult to form a concrete opinion on the appropriateness of going concern basis of accounting at this juncture, as a prudent measure, impairment losses were fully recognised in respect of the interests in associates of HK\$138.0 million and the goodwill arising from acquisition of the associates of HK\$41.3 million.

In December 2004, the Group invested HK\$12.0 million in Heze Century Energy CoalChem Industry Company Limited ("Century Energy"), a joint venture company located at Heze, Shangdong Province, the PRC, for development of coal and chemical products related projects. The directors believe that the investment in Century Energy which is principally engaged in coal mining related projects would provide a promising return to the Group based on the huge demand for energy resources in the market.

## **Chairman's Statement** (Continued)

Recently, the Group had proposed to acquire 80% interest in Shanghai Daoqin Hospital Management Company Limited ("Daoqin Hospital Management") with a consideration of HK\$30.2 million. Management fee income would be received by Daoqin Hospital Management from a hospital located in Shangdong Province, the PRC. The directors consider that such acquisition, subject to the condition precedent that relevant PRC government approvals were obtained, would provide a stable return to the Group.

The directors have been closely monitoring the Group's investment and have taken a very conservative and careful approach in assessing the value of the investment. In future, the directors would continue to explore more investment opportunities and streamline the business of the Group so as to enhance the return to the shareholders.

**Li Guanghao**

*Chairman*

Hong Kong, 27 April 2005