

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

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

The Company is as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 27 and 28, 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 investment properties and certain 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/Negative 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, or an associate 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 is included within the carrying amount of the associate.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill/negative 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 plus the goodwill/less the negative goodwill in so far as it has not already been amortised/released to income, less any identified impairment loss.

Revenue recognition

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

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

Rental income from investment properties under operating leases, are recognised on a straight-line basis over the terms of the relevant lease.

Sundry income is recognised as it accrues.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Plant and equipment

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

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

Furniture and fixtures	20%
Computer equipment	33.33%

The gain or loss arising from 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 and intangible 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)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations assessed by external qualified valuers at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the consolidated income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Investments in securities

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

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 year. 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 year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

On consolidation, income statements of subsidiaries and associates which are denominated in currencies other than the Hong Kong dollars are translated at the average exchange rates for the year and balance sheets are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

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 period. 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 items that are never taxable or deductible.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount 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, 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 profit 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 two operating divisions - treasury and investment, and property. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Treasury and investment:

The placing of deposits and investment in securities to generate income from interest, dividends and capital appreciation.

Funds are also advanced as loans to other parties on a secured or unsecured basis where suitable opportunities are identified to earn enhanced returns.

Property:

Investment in property to generate rental income.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Treasury and investment		Property		Total	
	2004	2003	2004	2003	2004	2003
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
TURNOVER						
Rental income	—	—	18.2	29.5	18.2	29.5
Interest income	—	4.6	—	—	—	4.6
Dividend income	—	1.3	—	—	—	1.3
Total turnover	—	5.9	18.2	29.5	18.2	35.4
RESULTS						
Segment results	(32.8)	(39.5)	(7.3)	25.7	(40.1)	(13.8)
Unallocated expenses					(3.1)	(3.5)
Loss from operations					(43.2)	(17.3)
Gain on disposal of a jointly controlled entity					—	0.5
Share of results of associates					(18.1)	(0.1)
Amortisation of goodwill in respect of associates					(6.3)	(1.2)
Impairment losses recognised in respect of goodwill arising from acquisition of associates					(41.3)	—
Impairment losses recognised in respect of interests in associates					(138.0)	—
Loss before taxation					(246.9)	(18.1)
Taxation					(2.8)	(3.1)
Net loss for the year					(249.7)	(21.2)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

	Treasury and investment		Property		Total	
	2004	2003	2004	2003	2004	2003
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
ASSETS						
Segment assets	82.9	59.0	295.6	384.0	378.5	443.0
Interests in associates					—	88.4
Unallocated corporate assets					6.1	173.3
					<u>384.6</u>	<u>704.7</u>
LIABILITIES						
Unallocated corporate liabilities					<u>3.2</u>	<u>41.0</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

	Treasury and investment		Property		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
OTHER INFORMATION								
Amortisation of goodwill	—	—	—	—	6.3	1.2	6.3	1.2
Depreciation	0.4	—	—	—	—	—	0.4	—
Capital additions	12.0	—	—	61.4	—	150.4	12.0	211.8
Addition of goodwill								
in an associate	—	—	—	—	28.8	20.0	28.8	20.0
Addition of negative goodwill in a subsidiary	—	—	—	—	—	7.4	—	7.4
Impairment loss recognised in respect of goodwill arising from acquisition of associates	—	—	—	—	41.3	—	41.3	—
Impairment loss recognised in respect of interests in associates	—	—	—	—	138.0	—	138.0	—
Impairment loss recognised in respect of investments in securities	27.3	—	—	—	—	—	27.3	—

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 turnover by geographical market, irrespective of the origin of the services:

	Turnover	
	2004 HK\$ million	2003 HK\$ million
The People's Republic of China, excluding Hong Kong (the "PRC")	18.2	29.5
Hong Kong	—	5.9
	<u>18.2</u>	<u>35.4</u>

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

	Carrying amount of segment assets		Additions to plant and equipment, other assets, investment properties and intangible assets	
	2004 HK\$ million	2003 HK\$ million	2004 HK\$ million	2003 HK\$ million
The PRC	346.7	524.8	—	222.2
Hong Kong	37.9	91.5	—	2.2
	<u>384.6</u>	<u>616.3</u>	<u>—</u>	<u>224.4</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

5. OTHER OPERATING INCOME

	2004 HK\$ million	2003 HK\$ million
Sundry income	1.4	—

6. LOSS FROM OPERATIONS

	2004 HK\$ million	2003 HK\$ million
Loss from operations has been arrived at after charging (crediting):		
Directors' emoluments	1.3	0.3
Contributions to retirement benefit scheme	—	—
Other staff costs	0.7	0.1
Total staff costs	2.0	0.4
Auditors' remuneration	0.6	0.8
Depreciation	0.4	—
Minimum lease rentals in respect of rented premises	1.5	—
Rental income less outgoings of HK\$2.3 million (2003: HK\$3.8 million)	(15.9)	(25.7)

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\$ million	2003 HK\$ million
Directors' fees:		
Executive	1.0	—
Independent non-executive	0.3	0.3
Other emoluments:		
Salaries and other benefits	—	—
Contributions to retirement benefit scheme	—	—
	<hr/>	<hr/>
Total emoluments	<u>1.3</u>	<u>0.3</u>

The emoluments of nine (2003: nil) executive directors and five (2003: two) independent non-executive directors during both years were within the band ranging from nil to HK\$1,000,000.

(ii) Information regarding employees' emoluments:

The five highest paid individuals included four directors disclosed in note 6(i) above. The emoluments of the five highest paid individuals amounted to HK\$1.7 million (2003: HK\$0.4 million) and were within the band ranging from nil to HK\$1,000,000.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

7. TAXATION

	2004 HK\$ million	2003 HK\$ million
The charge comprises:		
Hong Kong Profits Tax	—	(0.2)
Other regions in the PRC	(2.8)	(2.9)
	<u>(2.8)</u>	<u>(3.1)</u>
Taxation attributable to the Company and its subsidiaries	<u>(2.8)</u>	<u>(3.1)</u>

During the year, no provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

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

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

	2004 HK\$ million	2003 HK\$ million
Loss before taxation	<u>(246.9)</u>	<u>(18.1)</u>
Tax credit at 17.5% (2003: 17.5%)	43.2	3.2
Tax effect of expenses not deductible for tax purpose	(46.5)	(8.5)
Tax effect of income not taxable for tax purpose	—	0.9
Tax effect of tax losses not recognised	(0.8)	(0.7)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1.1	2.2
Others	<u>0.2</u>	<u>(0.2)</u>
Taxation charge for the year	<u>(2.8)</u>	<u>(3.1)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$249.7 million (2003: HK\$21.2 million) and 292,820,000 (2003: 292,820,000 after taken into effect of the share subdivision effective in July 2004) ordinary shares in issue.

There were no dilutive potential ordinary shares in existence during the year and last year. Accordingly, no diluted loss per share figures are presented.

9. PLANT AND EQUIPMENT

	Furniture and fixtures HK\$ million	Computer equipment HK\$ million	Total HK\$ million
THE GROUP			
COST			
At 1 January 2004	2.0	0.3	2.3
Disposal	(0.5)	—	(0.5)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	1.5	0.3	1.8
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January 2004	0.1	—	0.1
Provided for the year	0.3	0.1	0.4
	<hr/>	<hr/>	<hr/>
At 31 December 2004	0.4	0.1	0.5
	<hr/>	<hr/>	<hr/>
NET BOOK VALUES			
At 31 December 2004	1.1	0.2	1.3
	<hr/>	<hr/>	<hr/>
At 31 December 2003	1.9	0.3	2.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

10. OTHER ASSETS

THE GROUP

During the year, other assets of HK\$3.6 million were acquired for forming a new company for future investment in an overseas project. No business plan in respect of the overseas project has yet been received by the Group from the project partner and accordingly, the directors of the Company considered an impairment loss should be recognised during the year.

In the prior year, the amounts represented plant and machinery held with the intention of forming a joint venture in the PRC. No depreciation was provided during that year because the plant and machinery had not yet been put into use. The plant and machinery were injected into the joint venture project company during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

11. INVESTMENT PROPERTIES

	HK\$ million
THE GROUP	
VALUATION	
At 1 January 2004	384.0
Deficit on revaluation	(61.4)
Disposal during the year	(29.0)
Disposal through disposal of a subsidiary	(258.6)
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At 31 December 2004	<u>35.0</u>

During the year, the Group disposed of an investment property with a carrying amount of HK\$29.0 million, resulting in a gain on disposal of HK\$6.8 million.

A revaluation deficit amounting to HK\$61.4 million was recognised in respect of an investment property with a carrying amount of HK\$320.0 million, with reference to the net selling price of this property. Out of the entire revaluation deficit, HK\$32.1 million has been charged to the investment property revaluation reserve and the remaining balance of HK\$29.3 million has been charged to the consolidated income statement. In December 2004, the Group disposed of this investment property through the disposal of a subsidiary to a third party as set out in note 22.

The Group's remaining investment property at 31 December 2004 is situated in the PRC and held under medium-term lease for rental purpose, and was revalued at 31 December 2004 by B.I. Appraisals Limited, a firm of registered professional surveyors, valuers and property consultants, on an open market value existing state basis. There was no change in value of this investment property.

As at 31 December 2004, the investment property was pledged to a bank to secure a short-term bank loan of RMB24.0 million granted to a third party. In return, the Group receives an income of 8% per annum on the loan from this third party. In addition, the income is secured by a corporate guarantee from another third party.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

12. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK\$ million	HK\$ million
Non-trading securities		
Unlisted share in PRC	12.0	—
Unlisted shares overseas	31.7	59.0
	43.7	59.0
	43.7	59.0

Particulars of the Group's principal investment securities at 31 December 2004 are as follows:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Percentage of ownership interest</u>	<u>Principal activities</u>
Hennabun Management Inc. (HMI)	British Virgin Islands	5.39%	Securities trading, investment holding and provision of brokerage and financial services

At 31 December 2004, the directors of the Company had assessed the carrying value of the Group's investment in securities and recognised an impairment loss of HK\$27.3 million in respect of investment in HMI. The impairment loss was recognised based on the net assets value of HMI according to the unaudited consolidated management accounts made up to 31 December 2004. The directors of the Company considered that impairment loss had been reasonably recognised to the best of their knowledge and information.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$ million	HK\$ million
Share of net assets	138.0	69.6
Goodwill		
At cost		
At 1 January	20.0	—
Arising from acquisition during the year	28.8	20.0
At 31 December	48.8	20.0
Amortisation		
At 1 January	1.2	—
Amortised during the year	6.3	1.2
Impairment losses recognised	41.3	—
At 31 December	48.8	1.2
Unamortised goodwill	—	18.8
Impairment losses recognised in respect of interests in associates	(138.0)	—
	—	88.4

Goodwill is amortised over its economic life of five to ten years.

During the year, the Group injected machinery with a carrying value of HK\$148.2 million, which was acquired through the acquisition of a subsidiary in 2003, as its contributed capital of a 25% owned associate. The corresponding negative goodwill and deferred taxation liability arising from the previous acquisition of the subsidiary has been eliminated and included in the calculation of goodwill arising from the acquisition of an associate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

13. INTERESTS IN ASSOCIATES (Continued)

The operations of the Group's associates have been occasionally suspended since the second half year of 2004 and since December 2004, respectively due to electricity supply problem and insufficient working capital. Up to the date of approval of these financial statements, the operations have not yet resumed. The directors of the Company have been advised that the major shareholder of these associates will inject funds and provide necessary support to enable these associates to resume operations in May 2005. However, 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 recognized in respect of the Group's share of net assets of HK\$138.0 million and the goodwill arising from acquisition of the associates of HK\$41.3 million.

The following details have been extracted from the unaudited management accounts of the Group's associates, namely, Zhejiang Risesun Paper Co. Ltd. ("Risesun") and Wuhu Dongtai Paper Mfg. Co. Ltd. ("Dongtai") for the year.

	Risesun		Dongtai	
	1.1.2004 to 31.12.2004 HK\$ million	14.5.2003 to 31.12.2003 HK\$ million	24.5.2004 to 31.12.2004 HK\$ million	1.1.2003 to 31.12.2003 HK\$ million
Results for the year				
Turnover	<u>72.3</u>	<u>60.9</u>	<u>124.5</u>	<u>—</u>
Loss before taxation	<u>(30.1)</u>	<u>(0.4)</u>	<u>(42.3)</u>	<u>—</u>
Share of results by the Group during the year	<u>(7.5)</u>	<u>(0.1)</u>	<u>(10.6)</u>	<u>—</u>
Financial position				
Non-current assets	298.8	293.1	348.9	—
Current assets	70.3	60.3	164.7	—
Current liabilities	(123.3)	(75.0)	(192.8)	—
Non-current liabilities	—	—	(14.6)	—
Net assets	<u>245.8</u>	<u>278.4</u>	<u>306.2</u>	<u>—</u>
Net assets attributable to the Group	<u>61.5</u>	<u>69.6</u>	<u>76.5</u>	<u>—</u>

Details of the Group's associates are set out in note 28.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

14. TRADE AND OTHER RECEIVABLES

THE GROUP

Trade receivables represent rental income from investment properties let under operating leases. Invoices are payable upon receipt.

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

	2004 HK\$ million	2003 HK\$ million
Within 30 days	0.2	—
31 to 90 days	0.5	—
91 to 180 days	0.5	—
181 to 365 days	1.4	—
	<u>2.6</u>	<u>—</u>

Included in other receivables is an amount of HK\$34.3 million placed with a third party (the “Manager”) for investment purpose for the period from 1 July 2004 to 1 July 2005. The Manager is a company established in the PRC and engaged in investment advisory, asset management and other related businesses. The directors of the Company are of the opinion that the funds so invested will be recovered in full upon expiry of the investment period.

15. NOTE RECEIVABLE

THE GROUP

The amount represents promissory note receivable from the purchaser in relation to the disposal of a subsidiary, Grand Noble Group Limited, which holds an investment property. Settlement of the note receivable has been agreed as by way of three instalments. The second instalment amounting to HK\$8.0 million was due on 12 March 2005. The third instalment amounting to HK\$250.0 million is payable on 12 June 2005.

On 12 March 2005, the purchaser defaulted on the second instalment of HK\$8.0 million as a result of liquidity difficulties. However, the directors of the Company remain confident that the entire amount of HK\$258.0 million will be recovered in full. Furthermore, should the purchaser fail to perform, the Group is entitled to exercise its rights in accordance with the share charge agreement to resume ownership of Grand Noble Group Limited. Accordingly, no provision in these financial statements is considered necessary by the directors of the Company.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

16. OTHER PAYABLES AND ACCRUED CHARGES

THE GROUP

Other payables and accrued charges comprise accrued expenses and sundry payables, which are expected to be settled within one year.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$ million	HK\$ million
Unlisted shares, at cost	0.1	0.1
Amounts due from subsidiaries	528.2	505.0
	<hr/>	<hr/>
	528.3	505.1
Impairment losses recognised	(206.6)	—
	<hr/>	<hr/>
	321.7	505.1
	<hr/> <hr/>	<hr/> <hr/>

The amounts due from subsidiaries are unsecured and non interest-bearing. In the opinion of the directors, demand for repayment for the amounts due from subsidiaries will not be made within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current.

In view of the operating loss position of certain subsidiaries, impairment losses were recognised with reference to their recoverable amounts.

Details of the Company's subsidiaries at 31 December 2004 are set out in note 27.

18. DEFERRED TAXATION

During the year, deferred taxation liability in relation to assets acquired through acquisition of a subsidiary in 2003 amounting to HK\$25.5 million was included in the calculation of acquisition of an associate as set out in note 13.

At the balance sheet date, the Group and the Company had unused tax losses of HK\$7.1 million (2003: HK\$4.7 million) and HK\$6.0 million (2003: HK\$3.6 million) respectively available to offset against future profits. No deferred taxation assets have been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

19. SHARE CAPITAL

	2004 HK\$ million	2003 HK\$ million
Authorised:		
1,000,000,000 (2003: 100,000,000) ordinary shares of HK\$0.4 (2003: HK\$4) each	<u>400.0</u>	<u>400.0</u>
Issued and fully paid:		
292,820,000 (2003: 29,282,000) ordinary shares of HK\$0.4 (2003: HK\$4) each	<u>117.1</u>	<u>117.1</u>

With effect from 2 July 2004, the Company's authorised share capital of HK\$400,000,000 divided into 100,000,000 ordinary shares of HK\$4.0 each was subdivided into 1,000,000,000 ordinary shares of HK\$0.4 each

20. RESERVES

	Share premium HK\$ million	Accumulated profits HK\$ million	Total HK\$ million
THE COMPANY			
At 1 January 2003	39.3	379.1	418.4
Net loss for the year	—	(1.4)	(1.4)
	<u>39.3</u>	<u>377.7</u>	<u>417.0</u>
At 1 January 2004	39.3	377.7	417.0
Net loss for the year	—	(211.1)	(211.1)
	<u>39.3</u>	<u>166.6</u>	<u>205.9</u>
At 31 December 2004	<u>39.3</u>	<u>166.6</u>	<u>205.9</u>

At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to HK\$166.6 million (2003: HK\$377.7 million).

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

21. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (“MPF 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 Group is required to contribute 5% while the employees are required to contribute 5% of their salaries to the MPF Scheme.

22. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a subsidiary which holds an investment property.

The net assets of the disposed subsidiary at the date of disposal were as follows:

	2004 HK\$ million
Investment property	258.6
Trade and other receivables	11.4
Amount due from a shareholder	30.2
	<hr/>
Net assets disposed	300.2
Waiver of amount due from a shareholder	(30.2)
	<hr/>
Consideration	270.0
	<hr/> <hr/>
Satisfied by:	
Cash received	12.0
Note receivable	258.0
	<hr/>
	270.0
	<hr/> <hr/>

The subsidiary disposed of during the year contributed HK\$14.7 million to the Groups' turnover, and a loss of HK\$16.5 million to the Group's loss from operations.

23. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into an agreement with a third party to acquire 11.2% equity interest of an investment in securities for a total consideration of HK\$12.0 million of which HK\$2.0 million was still outstanding at 31 December 2004.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

24. OPERATING LEASE COMMITMENTS

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 HK\$ million	2003 HK\$ million
Within one year	—	15.5

The Group as lessee

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

	2004 HK\$ million	2003 HK\$ million
Within one year	1.4	1.4
In the second to fifth year inclusive	1.0	2.7
	<u>2.4</u>	<u>4.1</u>

Operating lease payments represent rentals payable by the Group for its office property. Lease is negotiated for a term of three years and rentals are fixed for three years.

At the balance sheet date, the Company had no operating lease commitments under operating lease (2003: nil).

25. CONTINGENT LIABILITY

As at 31 December 2004, the Group's investment property was pledged to a bank to secure a short-term bank loan of RMB24.0 million granted to a third party. In return, the Group receives an income of 8% per annum on the loan from this third party. In addition, the income is secured by a corporate guarantee from another third party.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

26. POST BALANCE SHEET EVENT

On 12 April 2005, the Group entered into a share transfer agreement with Shenzhen Dongrun Investment Company Limited (深圳市東潤投資有限責任公司) to acquire 80% interest in Daoqin Hospital Management Company Limited (上海道勤醫院投資管理有限公司) which is engaged in the provision of hospital management, at a consideration of HK\$30.2 million.

27. 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		Principal activity
			held by the Company		
			Directly %	Indirectly %	
Noble Congress Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100	—	Investment holding
Accurate City Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Active Chance Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Security investment
Asiawell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Best Energy International Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
China Eastern Energy Holdings Limited	Samoa/People's Republic of China	1 ordinary share of US\$1 each	—	100	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

27. 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 activity
			Directly	Indirectly	
			%	%	
Digital Faith Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Eastern Good Limited	British Virgin Islands/People's Republic of China	1 ordinary share of US\$1 each	—	100	Property investment
Elite City Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Max Margin Group Limited	British Virgin Islands/People's Republic of China	1 ordinary share of US\$1 each	—	100	Property investment
Ocean Pearl Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Profit Guidance Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Rosedale Investments Trading Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	Investment holding
Sincere Leader 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

27. 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		Principal activity
			held by the Company		
			Directly %	Indirectly %	
True Leader International Limited	British Virgin Islands*	1 ordinary share of US\$ each	—	100	Investment holding
Toprich International Investments Limited	Hong Kong	616,000 ordinary shares of US\$1 each	—	100	Investment holding
Up Global Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100	Treasury
澤潤投資諮詢(上海)有限公司	People's Republic of China	US\$140,000	—	100	Investment holding

* These companies have no specific principal place of operation.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2004

28. PARTICULARS OF ASSOCIATES

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

<u>Name of associate</u>	<u>Place of establishment/ operation</u>	<u>Registered capital</u>	<u>Nominal value of registered capital held by the Group</u>	<u>Principal activities</u>
Zhejiang Risesun Paper Co., Ltd.	People's Republic of China	US\$3.615 million	25%	Manufacture and sales of paper-related products
Wuhu Dongtai Paper Mfg. Co., Ltd	People's Republic of China	RMB100 million	25%	Manufacture and sale of paper-related products