Notes to the Financial Statements

For the year ended 30 June 2006

1. GENERAL INFORMATION

The Company is a public listed company incorporated in Hong Kong with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the Company's shares on the Stock Exchange has been suspended since 30 June 2003. The Company has been placed in the third stage of delisting procedures and subjected to review hearing for resumption of trading in the Company's shares on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are located at Room 2508, 25th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

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

Property investment	–	properties in Hong Kong and the People's Republic of China for leasing and trading
Manufacturing and trading	–	equipment and accessories for boardband and cable television (discontinued with effect from 1 January 2006)

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. These new and revised Standards and Interpretations which are applicable to the Group's operations are set out below:–

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share

Notes to the Financial Statements

For the year ended 30 June 2006

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK(SIC)-Int 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The adoption of these new and revised Standards and Interpretations had no material effect on the amounts disclosed in the financial statements. The impact of changes in the Group's accounting policies is discussed below:–

(a) HKAS 17 Leases

(i) Owner-occupied leasehold land

The Group has land use rights in the People's Republic of China other than Hong Kong (the "PRC") with buildings erected thereon for manufacturing purposes. In previous years, these property interests were included in property, plant and equipment at cost less accumulated depreciation and any accumulated impairment losses. In accordance with HKAS 17 these leasehold interests are classified as prepaid lease payments under operating leases, and are carried at cost and amortised over the lease term on a straight-line basis. In the absence of any transitional rules in HKAS 17, the change in accounting policy has been applied retrospectively.

As a result of the change in accounting policy, the carrying amounts of these leasehold interests of HK$0.254 million at 1 July 2004 and HK$0.207 million at 30 June 2005 have been reclassified as prepaid lease payments and the carrying amounts of property, plant and equipment at 1 July 2004 and 30 June 2005 are reduced by HK$0.254 million and HK$0.207 million respectively.

(ii) Initial direct costs incurred in relation to operating lease receivables

HKAS 17 requires initial direct costs incurred by a lessor in negotiating and arranging an operating lease to be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Prior to the adoption of HKAS 17, the Group recognised such costs as an expense in the income statement in the period in which they were incurred. The change in accounting policy has been applied retrospectively.

The Group did not incur significant initial direct costs on negotiating and arranging leases.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(b) HKAS 40 Investment Property

HKAS 40 requires an investment property to be accounted for using the cost model or the fair value model. The Group elected to use the fair value model to account for its investment property, which requires gains or losses arising from changes in the fair value of investment property to be recognised directly in profit or loss for the year in which they arise. In previous years, investment property under the predecessor standard, Statement of Standard Accounting Practice 13, were measured at open market value, with revaluation surpluses or deficits credited or charged to the investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve was charged to profit or loss. Where a deficit had previously been charged to profit or loss and a revaluation surplus subsequently arose, that increase was credited to profit or loss to the extent of the deficit previously charged. The Group has applied the relevant transitional rules in HKAS 40 and elected to apply HKAS 40 retrospectively.

As a result of the change in accounting policy, the investment property revaluation reserve of HK$3.675 million at 1 July 2005 has been transferred to the Group's accumulated losses. Income and profit for 2005 has been increased by HK$3.675 million accordingly.

(c) HKFRS 2 Share-based Payment

HKFRS 2 requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled. In accordance with the transitional provisions of HKRFS 2, HKFRS 2 has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005, and to liabilities for share-based transactions existing at 1 January 2005.

The Group has no option granted after 7 November 2002.

(d) HK(SIC)-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets

In previous years, the deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. HK(SIC)-Int 21 removes the presumption that the carrying amount of investment property is to be recovered through sale. Therefore, the deferred tax consequence of the investment property is now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-Int 21, the change in accounting policy has been applied retrospectively.

Notes to the Financial Statements

For the year ended 30 June 2006

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(d) HK(SIC)-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets (cont'd)

The change in accounting policy did not affect the total net deferred tax effect recognised at both 1 July 2004 and 30 June 2005 as shown in note 31.

The Group has not applied the following new and revised Standards or Interpretations that have been issued but are not yet effective:–

		Effective for accounting periods beginning on or after
HKAS 1 Amendment	Capital Disclosures	1 January 2007
HKAS 39 Amendment	The Fair Value Option	1 January 2006
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS-Int 4	Determining whether an Arrangement contains a Lease	1 January 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis, except for investment property and financial instruments, which are measured at fair value, as explained in the principal accounting policies set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of consolidation (cont'd)

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the company, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses, unless the investment is classified as held for sale.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(e) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Interests in joint ventures (cont'd)

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

(f) Goodwill

(i) Capitalised goodwill arising on acquisitions prior to 1 January 2005

For previously capitalised goodwill arising on acquisitions prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

(ii) Capitalised goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

(iii) Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Goodwill (cont'd)

(iii) Impairment testing on capitalised goodwill (cont'd)

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

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Income arising from sales of properties is recognised when title has passed.

Income arising from sales of financial instruments is recognised on completion of transfer of risks and rewards of ownership to the transferee and title has passed.

Income arising from sales of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholder's right to receive payment is established.

(h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Leases (cont'd)

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(i) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Foreign currencies (cont'd)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leaves are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

Provision for profit sharing and bonus payments due wholly within twelve months after balance sheet date is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Employee benefits (cont'd)

(iii) Retirement benefit costs

The Group's contributions to defined contribution retirement scheme(s) set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme(s)") for all qualifying employees are expensed as incurred. The Group's contributions as employer vest fully with the employees when contributed into the MPF Scheme(s).

(l) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 tax liabilities are generally recognised for all taxable temporary differences and deferred tax 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 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 tax 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 tax 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 tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Property, plant and equipment

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

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:–

Buildings	5%
Leasehold improvements	10% or over the terms of the relevant leases, if shorter
Furniture, fixtures and equipment	9% to 20%
Motor vehicles	9% to 20%
Computer equipment	9% to 20%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised in profit or loss for the period in which the asset is derecognised.

(n) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

(o) Impairment of tangible and intangible assets excluding goodwill

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Impairment of tangible and intangible assets excluding goodwill (cont'd)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(p) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to bring the properties to their present location and condition. Net realisable value represents the estimated sales proceeds, based on prevailing market conditions, less any further costs expected to be incurred on disposal.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(r) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

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 using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly 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 the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

(iv) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(v) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

(vi) Convertible loan notes

Convertible loan notes that consist of a liability and an equity components are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loan note into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

(vii) Trade payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

(viii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements

For the year ended 30 June 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

(ix) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments for speculation are recognised in profit or loss as they arise.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Related parties

A party is considered to be related to the Group if:–

(i) The party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

(ii) The party is an associate;

(iii) The party is a jointly controlled entity;

(iv) The party is a member of the key management personnel of the Group or its parent;

(v) The party is a close member of the family of any individual referred to in (i) or (iv); or

(vi) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides, with directly or indirectly, any individual referred to in (iv) or (v).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) Estimation uncertainty

The Group also makes estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in relation to properties held for sale and trade and other receivables.

The Group's management determines the net realisable value of properties held for sale based on the valuation made by independent valuer at each balance sheet date.

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2006

5. REVENUE

(a) An analysis of the Group's turnover for the year is as follows:–

	2006 HK$'000	2005 HK$'000
Continuing operations:		
Sales of properties	**39,370**	–
Property rental income	**3,967**	3,600
	43,337	3,600
Discontinued operation:		
Sales of equipment and accessories for broadband and cable television	**2,136**	1,353
	45,473	4,953

(b) An analysis of the Group's other income for the year is as follows:–

	2006 HK$'000	2005 HK$'000
Accruals reversed	**3,280**	–
Bank interest income	**47**	–
Net investment gain from dealing in financial instruments	**107**	–
Other interest income	**22**	–
Sundry income	**111**	83
	3,567	83

Notes to the Financial Statements

For the year ended 30 June 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The following continuing operations are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments.

2006

Income statement

	Property investment HK$'000	Total for continuing operations HK$'000
Revenue	**43,337**	**43,337**
Segment results from continuing operations	**(24,361)**	**(24,361)**
Unallocated corporate income		**14,421**
Unallocated corporate expenses		**(10,162)**
Finance costs		**(10,092)**
Loss for the year		**(30,194)**

Other information

	Property investment HK$'000	Others HK$'000	Total HK$'000
Capital expenditure	**–**	**326**	**326**
Depreciation	**–**	**93**	**93**

Balance sheet

	Property investment HK$'000	Total HK$'000
Assets:		
Segment assets	**18,612**	**18,612**
Unallocated corporate assets		**28,879**
Total assets		**47,491**
Liabilities:		
Segment liabilities	**320**	**320**
Unallocated corporate liabilities		**39,887**
Total liabilities		**40,207**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(a) Business segments (cont'd)

2005

Income statement

	Property investment HK$'000	Total for continuing operations HK$'000
Revenue	3,600	3,600
Segment results from continuing operations	40,115	40,115
Unallocated corporate income		83
Unallocated corporate expenses		(15,964)
Finance costs		(8,734)
Profit for the year		15,500

Other information

	Property investment HK$'000	Others HK$'000	Total HK$'000
Capital expenditure	–	–	–
Depreciation	–	17	17

Balance sheet

	Property investment HK$'000	Total for Continuing Operations HK$'000
Assets:		
Segment assets	186,933	186,933
Unallocated corporate assets		373
Total assets		187,306
Liabilities:		
Segment liabilities	27,374	27,374
Unallocated corporate liabilities		121,517
Total liabilities		148,891

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(b) Geographical segments

The Group's operations are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC"). The Group's property investment is carried out in Hong Kong and the PRC. Manufacturing and trading of equipment and accessories for broardband and cable television is carried out in the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services.

	Turnover by geographical market					
	Continuing operations		Discontinued operation		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**3,402**	3,600	**–**	–	**3,402**	3,600
PRC, other than Hong Kong	**39,935**	–	**2,136**	1,353	**42,071**	1,353
	43,337	3,600	**2,136**	1,353	**45,473**	4,953

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**28,879**	109,077	**326**	–
PRC, other than Hong Kong	**18,612**	79,848	**–**	8
	47,491	188,925	**326**	8

Notes to the Financial Statements

For the year ended 30 June 2006

7. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging:–

	2006 HK$'000	2005 HK$'000
Staff costs (including directors' remuneration):		
Salaries and other benefits	**1,252**	1,616
Retirement scheme contributions	**51**	91
	1,303	1,707
Auditors' remuneration	**397**	320
Depreciation	**93**	263
Amortisation of lease payments for land held for own use	**–**	47
Net investment loss from dealing in foreign currencies	**65**	–
Operating lease charges for land and buildings	**631**	827

8. FINANCE COSTS

	Continuing operations		**Discontinued operation**		**Total**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Interest on other loans and advances	**8,499**	7,783	**–**	–	**8,499**	7,783
Interest and charges on bank loans and advances	**1,591**	943	**114**	286	**1,705**	1,229
Interest on finance leases	**2**	8	**–**	–	**2**	8
	10,092	8,734	**114**	286	**10,206**	9,020

Notes to the Financial Statements

For the year ended 30 June 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the 8 (2005: 11) directors were as follows:–

2006

	Fees HK$'000	**Salaries and other benefits HK$'000**	**Retirement scheme contributions HK$'000**	**Total HK$'000**
Executive directors:				
Ho Chi Wing	**–**	**96**	**4**	**100**
Lu Liang	**–**	**–**	**–**	**–**
Ng Yan	**38**	**–**	**–**	**38**
Tao Wei Ming	**17**	**–**	**–**	**17**
Lee Tsung Hei, David Chris	**–**	**–**	**–**	**–**
Independent non-executive directors:				
Cheng Sheung Hing	**–**	**–**	**–**	**–**
Cheng Kwong Choi, Alexander	**36**	**–**	**–**	**36**
Law Tai Yan	**39**	**–**	**–**	**39**
	130	**96**	**4**	**230**

2005

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors:				
Lu Liang	–	25	–	25
Ng Yan	–	35	–	35
Tao Wei Ming	–	–	–	–
Ho Chi Wing	–	17	–	17
Tsang Kar Tong	–	214	11	225
Ho Yuk Ming, Hugo	–	–	–	–
Independent non-executive directors:				
Cheng Sheung Hing	–	–	–	–
Cheng Kwong Choi, Alexander	36	–	–	36
Law Tai Yan	8	–	–	8
Mui Chok Wah	3	–	–	3
Lyn Yee Chen, Jean	3	–	–	3
	50	291	11	352

Notes to the Financial Statements

For the year ended 30 June 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (cont'd)

(ii) Employees' emoluments

During the year, the 5 highest paid individuals included 1 (2005: 1) director, details of whose emoluments are set out above. The emoluments of the remaining 4 (2005: 4) highest paid individuals were as follows:–

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**598**	736
Retirement scheme contributions	**23**	35
	621	771

Emoluments of the non-director highest paid individuals fell within the following bands:–

	Number of individuals	
	2006	2005
HK$0 to HK$1,000,000	**4**	4

10. INCOME TAX

	Continuing operations		**Discontinued operation**		**Total**	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Current tax:						
Hong Kong	**–**	–	**–**	–	**–**	–
Other jurisdictions	**938**	–	**–**	–	**938**	–
	938	–	**–**	–	**938**	–
Deferred tax (note 31)	**–**	–	**–**	–	**–**	–
Income tax expense for the year	**938**	–	**–**	–	**938**	–

Notes to the Financial Statements

For the year ended 30 June 2006

10. INCOME TAX (cont'd)

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total charge for the year can be reconciled to the accounting profit/(loss) as follows:–

	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax:				
Continuing operations	**(30,194)**		15,500	
Discontinued operation	**7,137**			(292)
	(23,057)		15,208	
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**(4,034)**	**(17.5)**	2,661	17.5
Tax effect of income that are not assessable in determining taxable profit	**(1,022)**	**(4.4)**	(6,427)	(42.3)
Tax effect of expenses that are not deductible in determining taxable profit	**2,525**	**11.1**	3,146	20.7
Tax effect of utilisation of tax losses not previously recognised	**(2,302)**	**(10.0)**	–	–
Tax effect of other temporary differences not previously recognised	**(8)**	**(0.1)**	(337)	(2.2)
Tax effect of additional tax losses not recognised	**795**	**3.4**	1,002	6.6
Tax effect of non-allowable offshore loss	**4,046**	**17.5**	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**938**	**4.1**	(45)	(0.3)
Tax expense and effective tax rate for the year	**938**	**4.1**	–	–

11. DISCONTINUED OPERATION

On 1 January 2006, the Group disposed of Grandright Technology Limited, which carried out the Group's manufacturing and trading activities in respect of equipment and accessories for broadband and cable television. The disposal was effected in order to cut down the Group's continuing liabilities incurred from the deficit and unforeseeable prospect of the business.

The profit/(loss) for the year from the discontinued operation is analysed as follows:–

	2006	2005
	HK$'000	HK$'000
Profit/(loss) of manufacturing and trading operation in respect of equipment and accessories for broadband and cable television	**2,201**	(292)
Gain on disposal of manufacturing and trading operation in respect of equipment and accessories for broadband and cable television (note 12(a))	**4,936**	–
	7,137	(292)

The results of the manufacturing and trading operation in respect of equipment and accessories for broadband and cable television for the period from 1 July 2005 to 1 January 2006 are as follows:–

	Period ended	Year ended
	1/1/2006	30/6/2005
	HK$'000	HK$'000
Revenue	**4,787**	3,090
Direct costs	**(1,156)**	(766)
Distribution costs	**(317)**	(796)
Administrative expenses	**(999)**	(1,534)
Finance costs	**(114)**	(286)
Profit/(loss) for the period/year	**2,201**	(292)

No tax charge or credit arose on gain on disposal of manufacturing and trading operation in respect of equipment and accessories for broadband and cable television.

Notes to the Financial Statements

For the year ended 30 June 2006

12. DISPOSAL OF SUBSIDIARIES

(a) As referred to in note 11, on 1 January 2006 the Group discontinued its operation in respect of the manufacturing and trading of equipment and accessories for broadband and cable television at the time of the disposal of its subsidiary, Grandright Technology Limited.

The consolidated net liabilities of Grandright Technology Limited at the date of disposal and at 30 June 2005 were as follows:–

	1/1/2006	30/6/2005
	HK$'000	HK$'000
Property, plant and equipment	**108**	371
Prepaid lease payments	**–**	207
Inventories	**159**	342
Trade and other receivables	**3,367**	598
Cash and bank deposits	**233**	101
Trade and other payables	**(1,266)**	(1,952)
Bank and other loans	**(7,536)**	(6,803)
	(4,935)	(7,136)
Gain on disposal	**4,936**	
Total consideration	**1**	
Satisfied by:		
Cash	**1**	
Net cash inflow/(outflow) arising on disposal:		
Cash consideration received	**1**	
Cash and cash equivalents disposed of	**(233)**	
	(232)	

The impact of Grandright Technology Limited on the Group's results in the current and prior periods is disclosed in note 11.

Notes to the Financial Statements

For the year ended 30 June 2006

12. DISPOSAL OF SUBSIDIARIES (cont'd)

(b) On 30 June 2006, the Group disposed of some other subsidiaries without operations. The net liabilities of those subsidiaries at the date of disposal and at 30 June 2005 were as follows:–

	30/6/2006 HK$'000	30/6/2005 HK$'000
Trade and other payables	**(54)**	(54)
Gain on disposal	**54**	
Total consideration	**–**	
Net cash inflow/(outflow) arising on disposal	**–**	

13. DISPOSAL OF ASSOCIATE

On 30 June 2006, the Group disposed of its interest in an inactive associate, CRED.net Limited 中國房地產網有限公司, as follows:–

	30/6/2006 HK$'000	30/6/2005 HK$'000
Share of net assets	**–**	–
Gain/(loss) on disposal	**–**	
Total consideration	**–**	
Net cash inflow/(outflow) arising on disposal	**–**	

CRED.net Limited 中國房地產網有限公司 had been struck off from the BVI Government Register with effect from 1 November 2003.

14. EARNINGS/(LOSS) PER SHARE

The basis earnings/(loss) per share is calculated based on the loss attributable to shareholders of HK$23.995 million (2005: profit attributable to shareholders of HK$15.208 million) and the weighted average number of 2,867,500,000 (2005: 2,867,500,000) ordinary shares in issue during the year.

The diluted loss per share for the years ended 30 June 2006 and 30 June 2005 has not been disclosed as the potential shares arising from the exercise of the Company's share options would decrease the loss per share of the Group for the year and is regarded as anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
Cost:						
At 1 July 2004	937	538	853	1,035	249	3,612
Additions	–	–	8	–	–	8
Disposals	–	–	(1)	–	(16)	(17)
At 30 June 2005 and 1 July 2005	937	538	860	1,035	233	3,603
Additions	–	–	–	290	36	326
Disposal of subsidiary	(937)	(538)	(708)	(213)	(226)	(2,622)
At 30 June 2006	**–**	**–**	**152**	**1,112**	**43**	**1,307**
Accumulated depreciation and impairment losses:						
At 1 July 2004	684	404	622	1,020	171	2,901
Charge for the year	47	71	102	10	33	263
Eliminated on disposals	–	–	(1)	–	(16)	(17)
At 30 June 2005 and 1 July 2005	731	475	723	1,030	188	3,147
Charge for the year	–	–	16	73	4	93
Eliminated on disposal of subsidiary	(731)	(475)	(652)	(209)	(184)	(2,251)
At 30 June 2006	**–**	**–**	**87**	**894**	**8**	**989**
Carrying amount:						
At 30 June 2006	**–**	**–**	**65**	**218**	**35**	**318**
At 30 June 2005	206	63	137	5	45	456

The carrying amount of the Group's furniture, fixtures and equipment includes an amount of HK$0.044 million (2005: HK$0.052 million) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 30 June 2006

15. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Company

	Computer equipment HK$'000	**Total** HK$'000
Cost:		
At 1 July 2004	–	–
Additions/disposals	–	–
At 30 June 2005 and 1 July 2005	–	–
Additions	27	27
At 30 June 2006	**27**	**27**
Accumulated depreciation and impairment losses:		
At 1 July 2005	–	–
Charge for the year	–	–
At 30 June 2005 and 1 July 2005	–	–
Charge for the year	1	1
At 30 June 2006	**1**	**1**
Carrying amount:		
At 30 June 2006	**26**	**26**
At 30 June 2005	–	–

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006 **HK$'000**	2005 HK$'000
Leasehold land outside Hong Kong in the People's Republic of China:		
Medium-term lease	**–**	207
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	**–**	47
Non-current portion	**–**	160
	–	207

17. INVESTMENT PROPERTY

	2006 **HK$'000**	2005 HK$'000
Fair value of investment property	**–**	108,000
At beginning of the year	**108,000**	78,000
Increase in fair value	**–**	30,000
Disposal	**(108,000)**	–
At end of the year	**–**	108,000

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment property.

The investment property shown above comprises of leasehold land in Hong Kong held under medium-term lease.

17. INVESTMENT PROPERTY (cont'd)

The fair value of the Group's investment property at 30 June 2005 had been arrived at on the basis of a valuation carried out at that date by Dudley Surveyers Limited, an independent firm of professional valuers not connected with the Group.

The Group had pledged all of its investment property to secure certain loans granted to the Group from a bank and other parties. Those loans were fully settled upon disposal of the investment property during the year.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to HK$3.402 million (2005: HK$3.600 million). Direct operating expenses arising on the investment property in the period amounted to HK$0.103 million (2005: HK$0.091 million).

There was no significant initial direct costs to be deferred in both years.

18. DEPOSIT PAID FOR PURCHASE OF INVESTMENT PROPERTY

	2006 **HK$'000**	2005 HK$'000
Deposit paid for acquisition of investment properties in the People's Republic of China	**–**	–

Deposit paid represents payment of consideration for the acquisition of certain investment properties situated in Beijing, the People's Republic of China.

Impairment losses were recognised in previous years in respect of the deposit paid for the acquisition of investment properties as the relevant vendor, China Real Estate Development Group Huadong Properties Company Limited 中房集團華東置業股份有限公司 ("CRED"), a former jointly controlled entity of the Group, had pledged the relevant properties for certain credit facilities granted to CRED. The Group had not been able to obtain legal title to these properties notwithstanding the full payment of consideration. An indemnity was granted by CIL Holdings Limited ("CILH") against all claims, losses, costs and expenses incurred in connection with various matters relating to these properties including, but not limited to, the legal impediment relating to the obtaining and transferring of the legal title of these properties. However, the directors were not certain whether the indemnity would be honoured by CILH. The recoverable amount of the deposit was therefore estimated to be negligible.

18. DEPOSIT PAID FOR PURCHASE OF INVESTMENT PROPERTY (cont'd)

An agreement dated 30 August 2005 had been signed between World Joy Limited ("World Joy"), the purchaser of those investment properties in Beijing and a subsidiary in the Group, and CRED under which World Joy agreed to waive the deposit on condition that legal title of other properties in Shanghai purchased by Welchem Development Limited ("Welchem"), another subsidiary in the Group, was successfully obtained from CRED. Legal title of those other properties in Shanghai had then been obtained by Welchem during the year; the deposit was therefore waived and written off.

19. INVESTMENT IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	175
Impairment losses recognised	**(1)**	(175)
	–	–

Details of principal subsidiaries as at 30 June 2006, which materially affected the Group's results or net assets, are set out in note 41.

Notes to the Financial Statements

For the year ended 30 June 2006

20. INTEREST IN ASSOCIATE

	The Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**–**	–

Details of the Group's associate are as follows:–

Name of associate	Place of incorporation/operation	Attributable percentage of shares held		Principal activity
		2006	2005	
CRED.net Limited	British Virgin Islands/ People's Republic of China	**–**	20%	Inactive

The Group ceased to include the share of post-acquisition loss of the associate in the consolidated income statement when the share of post-acquisition loss exceeded the carrying amount of the investment in associate as the Group had no commitment to provide financial support to the associate.

The Group's interest in associate was disposed of on 30 June 2006 as mentioned in note 13.

21. AMOUNT DUE FROM SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Amount due from subsidiaries	**190,014**	472,622
Impairment losses recognised	**(134,045)**	(414,096)
	55,969	58,526

The amount is unsecured and non-interest bearing. The Company has agreed not to demand repayment within 1 year after the balance sheet date and the amount is therefore classified as a non-current asset.

22. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**–**	18
Work-in-progress	**–**	89
Finished goods	**–**	235
	–	342

An analysis of the amount of inventories recognised as an expense for the year is as follows:–

	The Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,107**	766
Write-down in respect of obsolete inventories	**49**	–
	1,156	766

23. PROPERTIES HELD FOR SALE

	The Group	
	2006	2005
	HK$'000	HK$'000
Properties in the People's Republic of China for sale, at net realisable value	**18,450**	78,229

An analysis of the amount of properties held for sale recognised as expenses for the year is as follows:–

	The Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount of properties sold	**41,080**	–
Carrying amount of properties written off	**23,905**	–

23. PROPERTIES HELD FOR SALE (cont'd)

An analysis of the amount of reversal of write-down in respect of properties held for sale recognised as an income for the year is as follows:–

	The Group	
	2006	2005
	HK$'000	HK$'000
Write-down in respect of properties reversed	**5,206**	6,729

The properties were purchased by Welchem Development Limited ("Welchem"), a subsidiary in the Group, from China Real Estate Development Group Huadong Properties Company Limited 中房集團華東置業股份有限公司 ("CRED"), a former jointly controlled entity of the Group. Owing to certain disputes with CRED, the legal title to the properties had not been transferred to Welchem although the purchase consideration was fully settled by Welchem. In previous year, the Group started negotiation with CRED to expedite the transfer of legal title of the properties to Welchem, with the assistance of an independent third party (the "Purchaser") from whom a total sum of deposit of HK$25.757 million had been received by Welchem for sale of certain properties to the Purchaser. The transfer of legal title of the properties was completed during the year. Welchem was unable to obtain legal title to certain properties with a total carrying amount of HK$23.905 million recognised as a loss for the year. The Purchaser took up the properties as per a supplementary agreement entered into between Welchem and the Purchaser on 16 August 2005 utilising the said deposit of HK$25.757 million as part of the consideration resulting in a loss on disposal of HK$4.861 million.

24. FINANCIAL ASSETS AND LIABILITIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Financial assets, at fair value:		
Deposits with stockbroker – general	**6,955**	–
– options	**4,023**	–
	10,978	–

HK$2.516 million of the options deposit has been blocked as margin.

Notes to the Financial Statements

For the year ended 30 June 2006

24. FINANCIAL ASSETS AND LIABILITIES (cont'd)

	The Group	
	2006	2005
	HK$'000	HK$'000
Financial liabilities, at fair value:		
Options	**871**	–

25. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**–**	2,731	**–**	–
Other receivables, deposits and prepayments	**482**	949	**321**	171
Prepaid lease payments	**–**	47	**–**	–
	482	3,727	**321**	171
Impairment losses recognised:				
Trade receivables	**–**	(2,444)	**–**	–
	482	1,283	**321**	171

The aging analysis of trade receivables is as follows:–

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 3 months	**–**	287	**–**	–
Over 3 months	**–**	2,444	**–**	–
	–	2,731	**–**	–

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

26. CASH AND BANK DEPOSITS

Cash and bank deposits comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximate their fair value.

27. DEPOSIT RECEIVED ON DISPOSAL OF PROPERTIES HELD FOR SALE

	The Group	
	2006	2005
	HK$'000	HK$'000
Deposit received on disposal of properties held for sale	**–**	25,757

The deposit represented amount received from an independent third party (the "Purchaser") for sale of certain properties to the Purchaser and was utilised as part of the consideration on completion of sale during the year as mentioned in note 23.

28. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**–**	417	**–**	–
Other payables, deposits and accruals	**16,386**	35,220	**3,284**	15,925
Provisions	**–**	10,800	**–**	10,800
	16,386	46,437	**3,284**	26,725
Amount due for payment:				
Within 1 year	**4,605**	34,970	**3,284**	26,725
After 1 year	**11,781**	11,467	**–**	–
	16,386	46,437	**3,284**	26,725

Notes to the Financial Statements

For the year ended 30 June 2006

28. TRADE AND OTHER PAYABLES (cont'd)

The aging analysis of trade payables is as follows:–

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 3 months	**–**	38	**–**	–
Over 3 months	**–**	379	**–**	–
	–	417	**–**	–

The directors consider that the carrying amount of trade and other payables approximates their fair value.

29. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the Group's total future minimum lease payments under finance leases is as follows:–

		2006	
	Present value	**Finance charges**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Office equipment:			
Within 1 year	**7**	**1**	**8**
After 1 year but within 5 years	**–**	**–**	**–**
	7	**1**	**8**

Notes to the Financial Statements

For the year ended 30 June 2006

29. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

	2005		
	Present value HK$'000	Finance charges HK$'000	Total HK$'000
Office equipment:			
Within 1 year	21	1	22
After 1 year but within 5 years	7	1	8
	28	2	30

30. BANK AND OTHER LOANS

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Bank loans – secured	**–**	26,966	**–**	–
Other loans – secured	**–**	27,493	**–**	17,492
– unsecured	**22,943**	30,965	**1,523**	2,423
	22,943	85,424	**1,523**	19,915
Amount due for payment:				
Within 1 year	**1,523**	18,973	**1,523**	10,922
After 1 year but within 5 years	**21,420**	66,451	**–**	8,993
	22,943	85,424	**1,523**	19,915

The loans bear interest at prevailing market rates.

31. DEFERRED TAX

The Group

The major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior years are summarised below:–

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 July 2004	705	(705)	–
Charge/(credit) to income statement for the year	2,875	(2,875)	–
At 30 June 2005 and 1 July 2005	3,580	(3,580)	–
Charge/(credit) to income statement for the year	(3,580)	3,580	–
At 30 June 2006	**–**	**–**	**–**

At 30 June 2006, the Group has unused tax losses of approximately HK$65.882 million (2004: HK$83.424 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

No provision for deferred tax liabilities has been made as the Group had no material taxable temporary differences at 30 June 2006.

The Company

At 30 June 2006, the Company had unused tax losses of approximately HK$11.873 million (2005: HK$22.829 million) available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

No provision for deferred tax liabilities has been made as the Company had no material taxable temporary differences at 30 June 2006.

32. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	**2006**	2005
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.2 each				
– At beginning and end of the year	**4,000,000**	4,000,000	**800,000**	800,000
Issued and fully paid:				
Ordinary shares of HK$0.2 each				
– At beginning and end of the year	**2,867,500**	2,867,500	**573,500**	573,500

33. RESERVES

The Group

	Share premium	Other reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2004				
– as previously reported	103,257	(51,688)	(608,998)	(557,429)
– prior period adjustment (note (a))	–	51,688	(51,688)	–
– as restated	103,257	–	(660,686)	(557,429)
Profit for the year	–	–	15,208	15,208
At 30 June 2005 and 1 July 2005	103,257	–	(645,478)	(542,221)
Loss for the year	–	–	(23,995)	(23,995)
At 30 June 2006	**103,257**	**–**	**(669,473)**	**(556,216)**

Notes to the Financial Statements

For the year ended 30 June 2006

33. RESERVES (cont'd)

The Company

	Share premium HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2004				
– as previously reported	103,257	(51,688)	(605,748)	(554,179)
– prior period adjustment (note (a))	–	51,688	(51,688)	–
– as restated	103,257	–	(657,436)	(554,179)
Loss for the year	–	–	(7,248)	(7,248)
At 30 June 2005 and 1 July 2005	103,257	–	(664,684)	(561,427)
Profit for the year	–	–	39,476	39,476
At 30 June 2006	**103,257**	**–**	**(625,208)**	**(521,951)**

Notes:–

(a) Prior period adjustment represented loss arising from the disposal of an associate acquired during the financial year ended 30 June 2003 and disposed of during the financial year ended 30 June 2004.

(b) At the balance sheet date, the Company had no reserves available for distribution to shareholders (2005: Nil).

34. SHARES OPTION SCHEMES

Share option scheme adopted in 1999

Pursuant to the share option scheme adopted by the Company on 19 July 1999 (the "1999 Scheme"), the board of directors of the Company may grant options to any directors, officers or employees of the Company or any of its subsidiaries (the "Participants") to subscribe for shares in the Company at any price which is not less than the nominal value of the shares nor 80% of the average closing price of the shares of the Company on the Stock Exchange for the 5 trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the 1999 Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

34. SHARES OPTION SCHEMES (cont'd)

Share option scheme adopted in 2002

On 25 July 2002, the share option scheme adopted by the Company on 19 July 1999 was terminated and replaced by a new share option scheme (the "2002 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on the same day. In accordance with the 2002 Scheme, the board of directors of the Company may grant options to any employees, directors, shareholders, suppliers, customers of the Group and any other person or company who has contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company at any price which is at least the highest of (i) the closing price of the shares of the Company on the date of the grant of the options; (ii) the average closing price of the shares of the Company on the Stock Exchange for the 5 trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of the shares of the Company. The maximum number of shares in respect of which options may be granted under the 2002 Scheme shall not exceed 10% of the shares in issue as at the adoption date of the 2002 Scheme or the date of approval by the shareholders in general meeting where the limit is refreshed. The total number of shares issued and to be issued upon exercise of the options granted to each eligible person under the 2002 Scheme in any 12 months period must not exceed 1% of the shares in issue at the date of such grant unless approved by the shareholders in general meeting.

No option has been granted since the adoption of the 2002 Scheme.

Details of the Company's share options held by the Participants under the 1999 Scheme and movements in such holdings during the year are as follows:–

			Number of options	
Exercise price	**Date of grant**	**Outstanding at 1 July 2004**	**Outstanding at 30 June 2005 and 1 July 2005**	**Outstanding at 30 June 2006**
HK$				
0.200	3 July 2001	100,000	100,000	100,000
0.202	24 May 2002	25,835,000	25,835,000	25,835,000
		25,935,000	25,935,000	25,935,000

34. SHARES OPTION SCHEMES (cont'd)

Details of the share options held by directors under the 1999 Scheme included in the above table are as follows:–

Exercise price HK$	Date of grant	Outstanding at 30 June 2005	Outstanding at 30 June 2006
0.202	24 May 2002	25,835,000	25,835,000

Details of the specific categories of options under the 1999 Scheme are as follows:–

Exercise price HK$	Date of grant	Exercisable period
0.200	3 July 2001	03/07/2001 to 02/07/2011
0.202	24 May 2002	24/05/2002 to 23/05/2012

35. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had contingent liabilities as follows:–

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Possible claims in respect of provisions reversed during the year arising from:				
Guarantee related to former related company	**5,000**	–	**5,000**	–
Indemnity related to former subsidiary (note 39(b))	**5,800**	–	**5,800**	–
	10,800	–	**10,800**	–

Notes to the Financial Statements

For the year ended 30 June 2006

36. COMMITMENTS

(a) Capital commitments

The Group had no capital commitment at the balance sheet date (2005: Nil).

(b) Operating lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancelable operating leases are as follows:–

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Properties:				
Within 1 year	**884**	469	**392**	324
After 1 year but within 5 years	**540**	167	**300**	–
	1,424	636	**692**	324

37. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions at HK$1,000 or 5% of the relevant payroll costs, whichever is the lower, to the scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the People's Republic of China are members of a state-managed retirement benefit scheme operated by the local government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total contributions payable to the retirement benefit schemes by the Group at rates specified in the rules of the schemes and charged to profit or loss for the year is HK$0.051 million (2005: HK$0.091 million).

Notes to the Financial Statements

For the year ended 30 June 2006

38. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Group had no material transactions with other related parties during both years.

39. LITIGATION

The Group had the following material claims:–

(a) In September 2004, a Writ of Summons was served on the Company by an individual third party demanding immediate repayment of borrowings approximately HK$1.6 million together with the interest thereon. As the Company had never borrowed money from that individual third party, the directors were of the opinion that the Company had no obligation to pay the demanded amount. In January 2005, an Amended Writ of Summons was served on the Company by the lender of the Group (the "2nd Plaintiff") to clarify that the individual third party acted as an agent of the 2nd Plaintiff. The directors have instructed the lawyer of the Company to handle this matter. The loan advanced by the 2nd Plaintiff has been fully accrued in the financial statements. As at 30 June 2006, the amount has not yet been settled.

(b) According to an agreement entered into by the Company, two of its subsidiaries and two independent third parties in February 2003, the Group had disposed of a subsidiary, World Gaint Limited ("World Giant"), a company engaged in property investment in the People's Republic of China (the "PRC"). In this connection, the Company has undertaken to indemnify World Gaint for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK$8 million, including the late payment surcharge levied by the tax authorities, of which approximately HK$5.8 million was related to transactions on or before the completion date. The existing management of World Giant has indicated to the directors that the amount in respect of transactions on or before the completion date should be paid by the Company. In February 2005, a Writ of Summons was served on the Company demanding the payment of approximately HK$5.8 million. However, such amounts are covered by the amount accrued in the accounts of World Gaint at the time of disposal. Accordingly, in the opinion of the directors and having obtained an opinion from the Company's lawyer, the Group or the Company has no obligation to pay the above taxes. Because of the uncertainty of the outcome of this matter, the amount involved has been shown as contingent liabilities as at 30 June 2006 in note 35.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating and investing activities.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operation of the Group, no major hedging activities are undertaken by management.

The most significant financial risks to which the Group is exposed to are as follows: –

(a) Foreign exchange risk

The Group has adopted the Hong Kong dollar as its functional and presentation currency. The Group has subsidiaries operated in the People's Republic of China (the "PRC") and is therefore exposed to foreign exchange risk. However, in view of the stable currency policies adopted by the PRC government, the directors consider that the foreign exchange risk is insignificant.

The Group currently does not have a foreign exchange rate hedging policy in respect of commercial transactions denominated in foreign currencies. However, the directors monitor exchange rate exposure and will consider hedging significant exchange rate exposure should the need arise.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, management reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

At the balance sheet date, the Group had no significant concentration of credit risk.

Notes to the Financial Statements

For the year ended 30 June 2006

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 30 June 2006 are as follows:–

	Place of incorporation/ operation	Paid up capital	Issued and class of shares	Attributable percentage of shares held		Principal activities
				Directly	Indirectly	
First Union Limited 壹聯有限公司	Hong Kong	HK$2	Ordinary	100%	–	Property investment
Noble City (Asia) Limited 港匯(亞洲)有限公司	Hong Kong	HK$2	Ordinary	100%	–	Investment holding
Welchem Development Limited 華綽發展有限公司	Hong Kong/ People's Republic of China	HK$2	Ordinary	–	100%	Property investment
World Joy Limited 華緻有限公司	Hong Kong/ People's Republic of China	HK$2	Ordinary	–	100%	Property investment
Konmate Investment Limited 廣美投資有限公司	Hong Kong	HK$2	Ordinary	100%	–	Inactive
Konwide Development Limited 廣偉發展有限公司	Hong Kong	HK$2	Ordinary	100%	–	Inactive