# PALADIN LIMITED

(incorporated in Bermuda with limited liability)
Stock Code : 495 and 642 (Preference Shares)

# ANNUAL REPORT

# 2012

# Contents

## DIRECTORS

Law Fong *(Chairman)*
Chen Te Kuang Mike
Oung Shih Hua, James
Zhu Pei Qing
Lu Ti Fen
Kwok Wai Chi
Huang Weizong Martin

## COMPANY SECRETARY

Chan Chi Ho

## AUDITOR

Deloitte Touche Tohmatsu

## PRINCIPAL BANKERS

CITIC Bank International Limited
Wing Lung Bank Limited
Hang Seng Bank Limited

## SOLICITORS

Baker & Mckenzie
David Norman & Co.
Holman, Fenwick & Willan

## PRINCIPAL REGISTRARS

Appleby Management (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL OFFICE

45th Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the "Peak Road Project") and, investment holding.

## BUSINESS REVIEW AND PROSPECT

**Re-development**

The Peak Road Project located at Nos. 8, 10 and 12 Peak Road, Hong Kong consists of 34 apartment units and a 3-storey private house and the gross floor area is approximately 119,000 square feet. 15 apartment units have been sold in previous years. During the year, the Group did not sell any property. However, as the property market has shown signs of rebound recently, the Group will focus on selling of the remaining units in the coming year.

The returns from the Peak Road Project will significantly improve the Group's financial position.

**Property investment**

The income generated from the property investment was approximately HK$1 million for the current year.

**Research and development**

Sensors Integration Technology Limited, a wholly-owned subsidiary of the Group has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. The plan is on early stage and did not generate any revenue to the Group at this moment.

**Repayment of Loan**

In 2006, Banhart Company Limited ("Banhart"), a subsidiary of the Group entered into a loan agreement (the "Loan Agreement") with Fine Chiffon Corporation Limited ("Fine Chiffon") for Banhart to obtain a non-interest bearing loan facility of approximately HK$42 million. As part of the transaction, Banhart also has granted two options to Fine Chiffon for purchasing (i) part of Paladin's leasehold property at a consideration of approximately HK$32 million (the "Property") and (ii) 20% of the share capital of Banhart (the "Shares"), at a consideration of approximately HK$10 million in substitution for the repayment of the outstanding non-interest bearing loan at the end of the loan period.

As announced by the Group on 21 December 2011, Banhart and Fine Chiffon have entered into a settlement agreement under which amongst other things Banhart agreed to pay approximately HK$66 million in cash of which includes repayment of the outstanding debt plus notional compound interest thereon at the rate of 8% per annum (subject to adjustment depending on the exact date of payment) to Fine Chiffon in full and final settlement of any and all rights and claims of Fine Chiffon, and the parties released each other from all rights and claims, in relation to the Property, the Shares and the Loan Agreement.

The transaction will settle a long-outstanding liability of Paladin, reduce its gearing and terminate options which effectively restricted Paladin's ability to deal with a core asset.

**Insurance arrangement**

As announced by the Group on 1 March 2012, the Group acquired, through a wholly-owned subsidiary, a form of insurance on the life of Chen Te Kuang Mike ("Mr. Chen"), one of its directors. The policy holder is the subsidiary, and the sole beneficiary of the policy is that subsidiary. Mr. Chen is not a beneficiary. The insurance is a variant of traditional whole life and endowment plans and the ultimate value of the policy cannot be determined at the outset.

The Group has paid a premium of approximately HK$22 million funded in part by a bank facility of approximately HK$15 million made available to the Group to finance the taking out of the policy and in part by cash resources of the Group.

The insurance element of the policy is essentially "key man insurance". Mr. Chen is the Chief Executive Officer of the Group and is perceived by the board as key to the rejuvenation and growth of the Group. The purpose of taking out the insurance is to compensate the Group for the potential loss of income, growth and other benefits that it may suffer on the death of Mr. Chen and as such it is of benefit to the Group.

The policy also contains an investment element and the bulk of the premium will be accounted for as a "deposit". The Group can withdraw the deposit at any time but if it does so will incur surrender charges. The Group intends to hold the policy for six years.

**Open offer**

On 10 April 2012, the Group announced to raise approximately HK$33 million by way of Open Offer of ordinary shares on the basis of assured allotments of two open offer shares for every five ordinary shares at a subscription price of HK$0.155 per open offer share. The net proceeds were used to repay indebtedness owed by the Group to Uon Margaret, a director of the Group's major subsidiaries. Dealings in the open offer shares commenced on 24 May 2012.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2012, net current liabilities of the Group were approximately HK$472 million. The current ratio was 0.67. The pledged bank deposits, bank balances and cash were approximately HK$182 million.

As at 30 June 2012, the Group has outstanding liabilities of approximately HK$1,410 million comprising (i) secured bank borrowings and bank overdrafts of approximately HK$1,001 million, (ii) amount due to directors of subsidiaries of approximately HK$250 million, (iii) taxation payable of approximately HK$9 million, and (iv) other payables of approximately HK$150 million. The bank borrowings are on floating interest rates basis.

The majority of the Group's assets and borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. In view of the stability of the exchange rate of HK dollars and US dollars, the directors consider that the Group has no significant exposure to exchange fluctuation and does not pledge against foreign exchange risk.

The Group's bank loans were secured by investment properties, leasehold properties, deposit placed for a life insurance policy, bank deposits and properties held for sales of approximately HK$1,148 million.

The Directors consider that it is not meaningful to publish a gearing ratio of the Group until such time the Group is in a positive shareholders' equity position.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2012, the Group had no material acquisitions and disposals of subsidiaries.

As at 30 June 2012, the Group had no material investment.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group employed total of 32 employees. They were remunerated according to market conditions.

## CONTINGENT LIABILITIES

As at 30 June 2012, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate of amount of claims was approximately HK$21 million, full provision has been made in the consolidated financial statements.

## DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend (2011: nil).

## ACKNOWLEDGEMENT

On behalf of my fellow directors, I wish to thank all staff and employees for their diligence and loyal support during the year under review.

By order of the Board
**Law Fong**
*Chairman*

Hong Kong
26 September 2012

## EXECUTIVE DIRECTORS

**Mr. Law Fong**, aged 87, joined the Group in 1994. He is the Chairman of the Group. He has over 27 years of experience in the textile industry and 12 years of experience in property development. He retired from his textile and property development businesses in 1985. He is currently a resident of Hong Kong.

**Mr. Chen Te Kuang Mike**, aged 34, joined the Group in 2004. He is the Chief Executive Officer of the Group. He has more than 10 years' management and production experience in electronics industry. Mr. Chen is the cousin of Mr. Oung Shih Hua, James.

## NON-EXECUTIVE DIRECTOR

**Mr. Oung Shih Hua, James**, aged 37, joined the Group in 1995. He holds a bachelor degree in Science from New York University. He is engaging in textile trading and electronic business. He is currently a president of a private electronic company. He is the cousin of Mr. Chen Te Kuang Mike.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhu Pei Qing**, aged 75, joined the Group in 2000. He previously worked for the Ministry of Foreign Affairs of the People's Republic of China, and was the ambassador of Lebanon for the People's Republic of China before his retirement.

**Ms. Lu Ti Fen**, aged 51, joined the Group in 2003. She graduated from Mining Chuan University in Taiwan with a bachelor degree in management and has over 22 years of experience in manufacturing, accounting and financial management.

**Mr. Kwok Wai Chi**, aged 35, joined the Group in 2004. He holds a bachelor degree in Business Administration from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is currently a principal of a wealth management and financial planning company.

**Prof. Huang Weizong Martin**, aged 52, joined the Group in 2012. Prof. Huang obtained Doctor of Philosophy in Chinese and Comparative Literature from Washington University in 1991. He is currently a professor of Department of East Asian Languages and Literatures in the University of California, Irvine. Prof. Huang was also the Department Chair of the Department of East Asian Languages and Literatures in the University of California, Irvine from 2008 to 2011.

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company. The Board has adopted the code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (the "former Code"), which was revised and renamed as Corporate Governance Code (the "revised Code") on 1 April 2012, contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as the code of the Company (the "Code").

During the year ended 30 June 2012, the Company has complied with all the Code Provisions of the former Code for the period from 1 July 2011 to 31 March 2012 and of the revised Code for the period from 1 April 2012 to 30 June 2012 except for certain deviations disclosed herein.

The Company periodically reviews its corporate governance practices to ensure that they continuous meeting the requirements of the Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the year ended 30 June 2012.

## BOARD OF DIRECTORS

The Board comprises two executive directors, one non-executive director and four independent non-executive directors. The names and biographical details of the directors of the Company and the relationship amongst them, if any, are set out in the section "Biography of Directors" of this annual report.

The composition of the Board represents a mixture of expertise specializing in management, property market industry, electronics industry, accounts and finance and corporate development. All of the Directors have comprehensive qualifications and experience in and exposure to diversified businesses which is beneficial to the business development of the Company.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the Chief Executive Officer.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

Independent non-executive directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgment. At least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each independent non-executive director a written annual confirmation of independence. All the independent non-executive directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operation and the internal control system of the Group. Apart from these regular meetings, Board meetings are also held to approve major or special issues.

4 Board meetings were held during the year ended 30 June 2012.

Members of the Board, number of Board meetings held and the attendance of each member (either in person or by phone) during the year are set out as follows:

| | Number of meetings attended/ Number of Board meetings held |
|---|---|
| **Executive directors** | |
| Law Fong *(Chairman)* | 4/4 |
| Chen Te Kuang Mike *(Chief Executive Officer)* | 4/4 |
| **Non-executive director** | |
| Oung Shih Hua, James | 3/4 |
| **Independent non-executive directors** | |
| Zhu Pei Qing | 2/4 |
| Lu Ti Fen | 4/4 |
| Kwok Wai Chi | 2/4 |
| Huang Weizong Martin (appointed on 28 June 2012) | 0/4 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Law Fong whereas the Chief Executive Officer of the Company is Mr. Chen Te Kuang Mike. Their roles are separated, with a clear division of responsibilities. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting its agenda and taking into account any matters proposed by other directors for inclusion in the agenda. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Under the Code provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election.

Although the non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

The Company will review the current bye-laws as and when it becomes appropriate in future.

The Board has established a nomination committee to review the structure, size and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new directors is reserved for the Board's approval.

The nomination committee ensures that the Board comprises members with mixed skills and experience with appropriate knowledge necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. The nomination committee takes into account of that person's skill, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board. Although Ms. Lu Ti Fen has served the Company as independent non-executive director of the Company for nine years, she does not have any management role in the Company. The nomination committee considered that she has have continuously contributed to the Company and the Board with her relevant experience and knowledge throughout her years of service and she maintained to provide an independent view in relation to the Company's affairs.

According to the Bye-Laws of the Company, a newly appointed Director shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In addition, at each annual general meeting one-third of the Directors (those appointed in that year shall not be counted in determining the number of directors), for the time being or if their number is not a multiple of three, the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

The Company has arranged appropriate insurance cover in respective of legal action against the directors and senior officers.

## NOMINATION COMMITTEE

A nomination committee was established on 26 March 2012, currently comprising the Chairman of the Company, Mr. Law Fong, and two independent non-executive directors, being Mr. Kwok Wai Chi and Mr. Zhu Pei Qing. Mr. Law Fong is the chairman of the nomination committee. The terms of reference of the nomination committee are available on the respective websites of the Company and the Stock Exchange.

The main duties and responsibilities of the nomination committee are to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of Directors.

One nomination committee meeting was held during the year ended 30 June 2012 to, inter alia, review the structure, size and composition of the Board and the independence of the independent non-executive directors. The attendance of each member (either in person or by phone) during the year are set out as follows:

| | Number of meetings attended/ Number of meetings held |
|---|---|
| Law Fong *(Chairman)* | 1/1 |
| Kwok Wai Chi | 1/1 |
| Zhu Pei Qing | 1/1 |

## REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive directors namely Mr. Kwok Wai Chi and Mr. Zhu Pei Qing and one executive director namely Mr. Law Fong. Mr. Kwok Wai Chi is the Chairman of the remuneration committee. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company. The terms of reference of the remuneration committees are available on the respective websites of the Company and the Stock Exchange.

One remuneration committee meeting was held during the year ended 30 June 2012 to review the remuneration packages of the directors and the senior management. The attendance of each member (either in person or by phone) during the year are set out as follows:

| | Number of meetings attended/ Number of meetings held |
|---|---|
| Kwok Wai Chi *(Chairman)* | 1/1 |
| Law Fong | 1/1 |
| Zhu Pei Qing | 1/1 |

The summary of the work performed by the remuneration committee during the year ended 30 June 2012 included:

- Considering and confirming the policy for the remuneration of Executive Directors;

- Reviewing (which includes assessing the performance of Executive Directors) and making recommendation to the Board on the remuneration packages of the Directors and the senior management.

## AUDIT COMMITTEE

An audit committee currently comprising four independent non-executive directors, being Mr. Kwok Wai Chi, Mr. Zhu Pei Qing, Ms. Lu Ti Fen, Prof. Huang Weizong Martin and one non-executive director, Mr. Oung Shih Hua, James. Mr. Kwok Wai Chi is the chairman of the audit committee. Amongst the audit committee members, Mr. Kwok has the appropriate professional qualification and experience in financial matters as required by Rule 3.21 of the Listing Rules.

The main duties and responsibilities of the audit committee are to review the Company's financial information such as the interim and annual results, financial reporting principles and practices; to recommend the appointment and reappointment or removal of the external auditor; to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditor; to oversee the financial reporting system and the internal control and risk management system of the Company. The terms of reference of the audit committee are available on the respective websites of the Company and the Stock Exchange.

Two audit committee meetings were held during the year ended 30 June 2012. The attendance of each member (either in person or by phone) during the year are set out as follows:

| | **Number of meetings attended/ Number of meetings held** |
|---|---|
| Kwok Wai Chi *(Chairman)* | 2/2 |
| Zhu Pei Qing | 2/2 |
| Lu Ti Fen | 2/2 |
| Oung Shih Hua, James | 2/2 |
| Huang Weizong Martin (appointed on 28 June 2012) | 0/2 |

During the year ended 30 June 2012, the Audit Committee met mainly to review the Company's annual report for the year ended 30 June 2011, the Company's interim report for the six months ended 31 December 2011, the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and the internal control system and related issues.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Company. In preparing the financial statements for the year ended 30 June 2012, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statement of the Company is set out in the Independent Auditor's Report of this annual report.

## INDUCTION AND PROFESSIONAL DEVELOPMENT

Every newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment to make sure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities in the Company.

During the year under review, directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities. Respective seminars will be provided by the Company's solicitor, David Norman & Co. on the topics relating to the roles, functions and duties of the directors were organized so as to update and develop the Board members' expertise.

Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their records of training they received to the company secretary for record.

## COMPANY SECRETARY

The Company Secretary, Chan Chi Ho, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of directors.

During the year under review, Mr. Chan has attended relevant professional seminars to update his skills and knowledge. He met the training requirement set out in Rule 3.29 of the Listing Rules.

## EXTERNAL AUDITOR AND THEIR REMUNERATION

The Company's external auditor is Deloitte Touche Tohmatsu. The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report of this Annual Report. The independence of the external auditor is monitored by the audit committee which is also responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration. Apart from the statutory audit of the Group's consolidated financial statements, the Board engaged the auditor to perform certain agreed upon procedures in relation to the open offer for raising fund during the year.

During the year ended 30 June 2012, the fees payable by the Group to the external auditor in respect of audit and non-audit services provided by them were as follows:

| | *HK$'000* |
|---|---|
| Audit services | 820 |
| Non-audit services | 650 |
| Total | 1,470 |

## INTERNAL CONTROL

The Board is of the opinion that a sound internal control system will help achieving the Group's business objectives, safeguarding the Group's assets, contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations.

The Group's internal control procedures include a comprehensive budgeting, information reporting and performance monitoring system.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the Executive Directors. During the processes, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Various guidelines and procedures have been established for the approval and control of operating expenses, capital expenditures, project investments, unbudgeted items and acquisitions.

The executive directors review monthly management reports and hold periodical meetings with the senior operational and finance management to discuss business performance, budget variances, forecasts, market outlooks, and to address any accounting and finance related matters.

The Board acknowledges its responsibility for the Group's system of internal controls and for reviewing its effectiveness through the audit committee. Significant findings and risk concerns are reported to the audit committee at least once every year.

For the year under review, the Board has through the audit committee reviewed the effectiveness of the Group's internal control system.

## SHAREHOLDERS' RIGHTS

### (I) Convene a Special General Meeting

Pursuant to the Bermuda Companies Act, on requisition of one or more shareholders in aggregate holding not less than 10% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene a special general meeting.

**(II) Send Enquiries to the Board**

The Company's corporate website provides email address, postal address, fax number and telephone number by which shareholders may at any time address their concerns or enquiries to the Company's Board.

**(III) Make Proposals at General Meetings**

The procedures for proposing resolution(s) to be moved at a shareholders' meeting are as follows:

Shareholder(s) can submit a written requisition to move a resolution at a shareholders' meeting pursuant to Section 79 of the Bermuda Companies Act 1981 if they –

(a) represent not less than 5% of the total voting rights of all shareholders having at the date of the requisition a right to vote at the Shareholders' meeting; or

(b) are no less than 100 shareholders holding the Company's shares.

The written requisition must –

(1) contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);

(2) be deposited at the Company's registered office in Bermuda (Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda) and its principal office in Hong Kong (45th Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong) for the attention of the company secretary not less than 6 weeks (as required in most circumstances under the applicable laws) before the shareholders' meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before the Shareholders' meeting in the case of any other requisition; and

(3) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitions to all shareholders in accordance with the requirements under the applicable laws and rules.

## INVESTOR RELATIONS

During the year ended 30 June 2012, there has not been any change in the Company's constitutional documents.

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2012.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements. During the year under review, there were no significant change in the Group's principal activities.

## RESULTS

The results of the Group for the year ended 30 June 2012 are set out in the consolidated statement of comprehensive income on page 25.

## INVESTMENT PROPERTIES

The Group's investment properties were fair valued as at 30 June 2012 by a firm of independent professional property valuers and the loss arising on change in fair value of investment properties of approximately HK$6,000,000 had been credited directly to consolidated statement of comprehensive income. Details of these are set out in note 17 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for distribution as at 30 June 2012.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

**Executive directors:**

Law Fong *(Chairman)*
Chen Te Kuang Mike

**Non-executive director:**

Oung Shih Hua, James

**Independent non-executive directors:**

Zhu Pei Qing
Lu Ti Fen
Kwok Wai Chi
Huang Weizong Martin (appointed on 28 June 2012)

In accordance with the provisions of the Company's Bye-laws, Mr. Chen Te Kuang Mike, Ms. Lu Ti Fen and Prof. Huang Weizong Martin retire and, being eligible, offer themselves for re-election.

The term of office for each non-executive director or independent non-executive director, is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, the interests and short positions of the directors of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") were as follows:

Ordinary shares of HK$0.01 each of the Company (long position):

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of issued ordinary shares of the Company held |
|---|---|---|---|
| Chen Te Kuang Mike | Beneficial owner | 7,000,000 | 0.93% |
| | Held by a controlled corporation *(Note)* | 29,449,000 | 3.92% |
| | | 36,449,000 | 4.85% |
| Oung Shih Hua, James | Beneficial owner | 7,000,000 | 0.93% |

Convertible redeemable preference shares of HK$0.01 each of the Company (long position):

| Name of director | Capacity | Number of issued convertible redeemable preference shares held | Percentage of issued convertible redeemable preference shares held |
|---|---|---|---|
| Chen Te Kuang Mike | Beneficial owner | 2,500,000 | 0.98% |
| | Held by a controlled corporation *(Note)* | 9,099,014 | 3.56% |
| | | 11,599,014 | 4.54% |
| Oung Shih Hua, James | Beneficial owner | 2,500,000 | 0.98% |

*Note:* These shares are held by Goldenfield Equities Limited, a company in which Chen Te Kuang Mike has 40% beneficial interest.

Other than as disclosed above, as at 30 June 2012, none of the directors, chief executive of the Company nor their associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the persons (other than the directors of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position:

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of issued ordinary shares of the Company held |
|---|---|---|---|
| Five Star Investments Limited ("Five Star") *(Note a)* | Beneficial owner | 374,941,023 | 49.86% |
| Gold Seal Holdings Limited ("Gold Seal") *(Note b)* | Beneficial owner | 93,591,179 | 12.45% |

| Name of shareholder | Capacity | Number of issued convertible redeemable preference shares held | Percentage of issued convertible redeemable preference shares held |
|---|---|---|---|
| Five Star | Beneficial owner | 133,907,508 | 52.46% |
| Oung Da Ming | Beneficial owner | 50,000,000 | 19.59% |

*Notes:*

(a) Five Star is owned as to 67% by Oung Chin Liang Fung, grandmother of Oung Shih Hua, James and Chen Te Kuang Mike, and 33% by Lilian Oung, mother of Chen Te Kuang Mike.

(b) Gold Seal is owned as to 66.7% by Oung Da Ming, brother of Lilian Oung and 33.3% by Uon Margaret, sister of Lilian Oung.

Other than as disclosed above, as at 30 June 2012, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

## SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the spouses or children under the age of 18 of the directors had any right to subscribe for the securities of the Company or had exercised such rights during the year.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the directors' interest in contracts of significance are set out in note 37 to the consolidated financial statements.

Save as disclosed above, there was no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of The Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules"), the following disclosure is included in respect of the Group's loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the loan agreement entered into between the Group and a bank in June 2006 relating to a 300-months loan facility up to HK$550 million, a default event would arise if Five Star ceases to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital of the Company and the issued convertible redeemable preference shares of the Company. In April 2010, the terms of loan was revised to 201-months with the facility up to HK$260 million after an early partial repayment of the loan.

## CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in note 37 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practice are set out in the "Corporate Governance Report" section to the annual report.

## PURCHASE, SALE AND REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## AUDIT COMMITTEE

The audit committee comprises one non-executive director and four independent non-executive directors and reports to the board of the directors. The audit committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the board of directors of the Company after recommendation from the Remuneration Committee, having regard to the responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year ended 30 June 2012 as required under the Listing Rules.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
**Law Fong**
*Chairman*

Hong Kong
26 September 2012

Deloitte.
德勤

**TO THE MEMBERS OF PALADIN LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Paladin Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 95, which comprise the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
26 September 2012

# Consolidated Statement of Comprehensive Income

*For the Year ended 30 June 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Turnover | 8 | **1,276** | 750 |
| Other income | 9 | **17,446** | 17,717 |
| Administrative expenses | | **(52,186)** | (52,643) |
| Research and development costs | 11 | **–** | (3,603) |
| (Loss) gain arising from change in fair value of investment properties | 17 | **(6,000)** | 50,000 |
| Gain (loss) arising from change in fair value of derivative financial instruments | 30 | **52,787** | (27,540) |
| Provision for litigations | 34 (b) & (c) | **(21,377)** | – |
| Finance costs | 12 | **(22,008)** | (20,136) |
| Loss before taxation | | **(30,062)** | (35,455) |
| Taxation charge | 13 | **(14,793)** | – |
| Loss for the year | 14 | **(44,855)** | (35,455) |
| Other comprehensive income (expense) | | | |
| Exchange differences arising on translation | | **(30)** | (1,059) |
| Fair value gain on available-for-sale investments | | **2,472** | 1,614 |
| Other comprehensive income for the year | | **2,442** | 555 |
| Total comprehensive expenses for the year | | **(42,413)** | (34,900) |
| LOSS PER SHARE | 16 | | |
| Basic | | **(8.01) HK cents** | (6.60) HK cents |
| Diluted | | **(8.01) HK cents** | (6.60) HK cents |

# Consolidated Statement of Financial Position

*At 30 June 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 17 | **242,000** | 248,000 |
| Property, plant and equipment | 18 | **77,607** | 81,174 |
| Available-for-sale investments | 19 | **13,586** | 11,114 |
| Deposits for acquisition of property, plant and equipment | | **–** | 459 |
| Deposit placed for a life insurance policy | 20 | **21,028** | – |
| Pledged bank deposits | 21 | **50,366** | 61,271 |
| | | **404,587** | 402,018 |
| Current assets | | | |
| Properties held for sale | 22 | **774,911** | 774,911 |
| Trade and other receivables, deposits and prepayments | 23 | **32,189** | 36,161 |
| Tax reserve certificates | 13 | **–** | 4,000 |
| Bank balances and cash | 24 | **131,183** | 13,721 |
| | | **938,283** | 828,793 |
| Current liabilities | | | |
| Bills payable | 25 | **–** | 9,080 |
| Other payables and accrued charges | 26 | **142,545** | 90,941 |
| Amounts due to directors of subsidiaries | 27 | **249,626** | 106,246 |
| Provision for litigations | | **8,000** | – |
| Taxation payable | | **9,578** | 43,400 |
| Bank overdrafts | 28 | **25,072** | 52,874 |
| Secured bank borrowings | 29 | **975,497** | 869,187 |
| Derivative financial instruments | 30 | **–** | 118,800 |
| | | **1,410,318** | 1,290,528 |
| Net current liabilities | | **(472,035)** | (461,735) |
| | | **(67,448)** | (59,717) |

*At 30 June 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 31 | **7,520** | 5,372 |
| Reserves | | **(109,906)** | (95,649) |
| | | **(102,386)** | (90,277) |
| Non-current liabilities | | | |
| Convertible redeemable preference shares | 32 | **34,938** | 30,560 |
| | | **(67,448)** | (59,717) |

The consolidated financial statements on pages 25 to 95 were approved and authorised for issue by the Board of Directors on 26 September 2012 and are signed on its behalf by:

| **Law Fong** | **Chen Te Kuang Mike** |
|---|---|
| *CHAIRMAN* | *DIRECTOR* |

# Consolidated Statement of Changes in Equity

*For the Year ended 30 June 2012*

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Share premium** *HK$'000* | **Capital reserve** *HK$'000* *(note a)* | **Other reserve** *HK$'000* *(note b)* | **Translation reserve** *HK$'000* | **Investment revaluation reserve** *HK$'000* | **Accumulated losses** *HK$'000* | **Total** *HK$'000* |
| At 1 July 2010 | 5,372 | 2,126 | 24,262 | 21,766 | (3,917) | 2,000 | (106,990) | (55,381) |
| Loss for the year | – | – | – | – | – | – | (35,455) | (35,455) |
| Other comprehensive (expense) income for the year | – | – | – | – | (1,059) | 1,614 | – | 555 |
| Total comprehensive expenses for the year | – | – | – | – | (1,059) | 1,614 | (35,455) | (34,900) |
| Issue of shares on conversion of convertible redeemable preference shares | – | 10 | (6) | – | – | – | – | 4 |
| At 30 June 2011 | 5,372 | 2,136 | 24,256 | 21,766 | (4,976) | 3,614 | (142,445) | (90,277) |
| Loss for the year | – | – | – | – | – | – | (44,855) | (44,855) |
| Other comprehensive (expense) income for the year | – | – | – | – | (30) | 2,472 | – | 2,442 |
| Total comprehensive expenses for the year | – | – | – | – | (30) | 2,472 | (44,855) | (42,413) |
| Issue of shares on conversion of convertible redeemable preference shares | – | 10 | (6) | – | – | – | – | 4 |
| Open offer of shares *(note 31)* | 2,148 | 31,155 | – | – | – | – | – | 33,303 |
| Transaction costs attributable to open offer of shares | – | (3,003) | – | – | – | – | – | (3,003) |
| At 30 June 2012 | 7,520 | 30,298 | 24,250 | 21,766 | (5,006) | 6,086 | (187,300) | (102,386) |

*Notes:*

(a) The capital reserve represents the equity component of convertible redeemable preference shares.

(b) The other reserve represents the amount transferred from liability component of convertible redeemable preference shares upon the alteration of the terms of the existing convertible redeemable preference shares during the year ended 30 June 2008.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the Year ended 30 June 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| OPERATING ACTIVITIES | | |
| Loss before taxation | **(30,062)** | (35,455) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **3,567** | 3,459 |
| Finance costs | **22,008** | 20,136 |
| Interest income | **(683)** | (115) |
| Loss (gain) arising from change in fair value of investment properties | **6,000** | (50,000) |
| (Gain) loss arising from change in fair value of derivative financial instruments | **(52,787)** | 27,540 |
| Gain on disposal of property, plant and equipment | **–** | (64) |
| Impairment loss recognised in respect of property, plant and equipment | **–** | 398 |
| Premium charged on a life insurance policy | **293** | – |
| Provision for litigations | **8,000** | – |
| Operating cash flows before movements in working capital | **(43,664)** | (34,101) |
| Decrease (increase) in trade and other receivables, deposits and prepayments | **11,435** | (2,754) |
| (Decrease) increase in bills payable | **(9,080)** | 7,362 |
| Decrease in other payables and accrued charges | **(15,093)** | (7,323) |
| Decrease in provision for litigations | **–** | (28,274) |
| Cash used in operations | **(56,402)** | (65,090) |
| Acquisition of tax reserve certificates | **–** | (4,000) |
| Tax paid | **(44,615)** | – |
| NET CASH USED IN OPERATING ACTIVITIES | **(101,017)** | (69,090) |
| INVESTING ACTIVITIES | | |
| Withdrawal of pledged bank deposits | **11,185** | – |
| Interest received | **370** | 115 |
| Payment of deposit placed for a life insurance policy | **(21,887)** | – |
| Placement of pledged bank deposits | **(280)** | (40,039) |
| Purchase of property, plant and equipment | **–** | (70) |
| Proceed from disposal of property, plant and equipment | **–** | 118 |
| NET CASH USED IN INVESTING ACTIVITIES | **(10,612)** | (39,876) |

*For the Year ended 30 June 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| FINANCING ACTIVITIES | | |
| Bank borrowings raised | **255,319** | 207,000 |
| Advance from directors of subsidiaries | **189,662** | 106,246 |
| Proceed from open offer of shares | **33,303** | – |
| Repayment of bank borrowings | **(149,009)** | (179,840) |
| Repayment to a director of subsidiaries | **(52,866)** | (9,516) |
| Interest paid | **(16,454)** | (16,313) |
| Transaction cost attributable to open offer of shares | **(3,003)** | – |
| NET CASH FROM FINANCING ACTIVITIES | **256,952** | 107,577 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **145,323** | (1,389) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **(39,153)** | (37,785) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **(59)** | 21 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | **106,111** | (39,153) |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | **131,183** | 13,721 |
| Bank overdrafts | **(25,072)** | (52,874) |
| | **106,111** | (39,153) |

## 1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company and ultimate holding company is Five Star Investments Limited ("Five Star"), a company which is incorporated in the British Virgin Islands. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD") which is the same as the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiaries are engaged in investment holding, property development and investment.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the net liabilities and net current liabilities of the Group amounting to approximately HK$102,386,000 and HK$472,035,000 respectively as at 30 June 2012.

Taking into account the available unutilised bank credit facility of HK$206,741,000 (2011: HK$245,563,000) as at 30 June 2012 and the estimated proceeds from sales of developed properties of HK$161,500,000 (see note 40), the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related party disclosures |
| Amendments to HKFRS 7 | Disclosures – Transfers of financial assets |
| Amendment to HK(IFRIC*) – INT 14 | Prepayments of a minimum funding requirement |

* IFRIC represents the IFRS Interpretations Committee.

The application of the above new or revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009 – 2011 cycle[2] |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities[2] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory effective date of HKFRS 9 and transition disclosures[4] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[2] |
| HKFRS 9 | Financial instruments[4] |
| HKFRS 10 | Consolidated financial statements[2] |
| HKFRS 11 | Joint arrangements[2] |
| HKFRS 12 | Disclosures of interests in other entities[2] |
| HKFRS 13 | Fair value measurements[2] |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income[1] |
| HKAS 19 (as revised in 2011) | Employee benefits[2] |
| HKAS 27 (as revised in 2011) | Separate financial statements[2] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[2] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[3] |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[2] |

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

**HKFRS 9 Financial instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**HKFRS 9 Financial instruments** (Cont'd)

Based on the consolidated statement of financial position of the Group as at 30 June 2012, the directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on the classification and measurement of the amounts reported in respect of the Groups' available-for-sale equity investments, but do not expect the application of HKFRS 9 will have material effect on the financial liabilities and other financial assets of the Group.

**New and revised standards on consolidation, joint arrangements, associates and disclosures**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK (SIC) – Int 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 July 2013 and the application of these five standards will have no material impact on the results and financial position of the Group. However, the application of HKFRS 12 may result in more extensive disclosures in the consolidated financial statements.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**HKFRS 13 Fair value measurement**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipates that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 July 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

**Amendments to HKAS 1 Presentation of items of other comprehensive income**

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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 in line with those used by other members of the Group.

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for properties sold and rental income and services rendered in the normal course of business.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Income from indent trading represents the handling income for indent trading, which is recognised when services are rendered.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Revenue recognition** (Cont'd)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

In cases where classification between investment properties and properties held for sale in the ordinary course of business is difficult, the Group classifies the properties being actively marketed for sale as properties held for sale and other properties which are not marketed for immediate disposal as investment property held for long term capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value using the fair value model. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Investment properties** (Cont'd)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

**Properties held for sale**

Properties held for sale are stated at lower of cost and net realisable value.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into two categories including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial instruments** (Cont'd)

*Financial assets* (Cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposit placed for a life insurance policy, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial instruments** (Cont'd)

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial instruments** (Cont'd)

*Impairment of financial assets* (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial instruments** (Cont'd)

*Financial liabilities and equity instruments* (Cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Convertible redeemable preference shares

Convertible redeemable preference shares are regarded as compound instruments consisting of a liability component and an equity component. 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 without the conversion feature. The difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the liability component of the convertible redeemable preference shares into equity of the Company, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible redeemable preference shares is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the conversion option is exercised (in which case the balance stated in capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and equity components in proportion to the allocation of the proceeds. Issue costs relating to the equity component are charged directly to equity. Issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible redeemable preference shares using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial instruments** (Cont'd)

*Financial liabilities and equity instruments* (Cont'd)

Financial liabilities

Financial liabilities (including bills payable, other payables, amounts due to directors of subsidiaries, bank overdrafts and secured bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognise financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Impairment loss**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

**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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Foreign currencies** (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**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 consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary difference 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 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 associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Taxation** (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property", such properties are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is held within a business model the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

**Leasing**

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.

*The Group as lessor*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Leasing** (Cont'd)

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment or investment properties (as appropriate) unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

**Retirement benefit scheme**

Payments to defined contribution retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

**Legal claims**

The Group is involved in legal proceeding as disclosed in note 34. Management has evaluated and assessed the claims made against the Group based on legal advice received and information presently available. Actual result of the legal proceeding and the amount of claims may differ from estimates, resulting in a decrease or increase in loss for compensation for litigations. Details of the provision for litigations are disclosed in note 34.

**Impairment loss on properties held for sale**

Management reviews the recoverability of the Group's properties held for sale amounting to HK$774,911,000 (2011: HK$774,911,000) with reference to current market environment whenever events or changes in circumstances indicate that the carrying amount of the assets may exceed its net realisable value, as appropriate. Appropriate write-down for estimated irrecoverable amounts is recognised in profit or loss when the net realisable value is below cost. The estimates of net realisable value are based on the evidence available at the time the estimates are made, and the amounts of the properties held for sale are expected to realise or recover. Actual realised amount may differ from estimates, resulting in a decrease or an increase in the net realisable value of the properties held for sale.

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include amounts due to directors of subsidiaries, bank overdrafts and secured bank borrowings as disclosed in notes 27, 28 and 29, respectively (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital and reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through new share issues as well as issue of new debts.

## 7. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables | | |
| (including cash and cash equivalents) | | |
| – trade and other receivables | **24,670** | 26,478 |
| – deposit placed for a life insurance policy | **21,028** | – |
| – pledged bank deposits | **50,366** | 61,271 |
| – bank balances and cash | **131,183** | 13,721 |
| | **227,247** | 101,470 |
| Available-for-sale financial assets | | |
| – available-for-sale investments | **13,586** | 11,114 |
| **Financial liabilities** | | |
| At amortised cost | | |
| – bills payable | **–** | 9,080 |
| – other payables | **75,637** | 13,199 |
| – amounts due to directors of subsidiaries | **249,626** | 106,246 |
| – bank overdrafts | **25,072** | 52,874 |
| – secured bank borrowings | **975,497** | 869,187 |
| – convertible redeemable preference shares | **34,938** | 30,560 |
| | **1,360,770** | 1,081,146 |
| Fair value through profit or loss | | |
| – derivative financial instruments | **–** | 118,800 |

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies**

The Group's financial instruments include available-for-sale investments, trade and other receivables, deposit placed for a life insurance policy, pledged bank deposits, bank balances and cash, bills payable, other payables, amount due to directors of subsidiaries, bank overdrafts, secured bank borrowings, derivative financial instruments and convertible redeemable preference shares. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged from prior year.

*Market risk*

Currency risk

The Group has foreign currency exposure from the handling service income which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Assets | | |
| United States Dollars ("USD") | **28,931** | 14,074 |
| Liabilities | | |
| USD | **14,553** | 9,080 |

The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The Group is mainly exposed to the foreign currency risk on HKD against USD. As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis on USD has been prepared.

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Market risk* (Cont'd)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank overdrafts and bank borrowings (see notes 28 and 29 for details of these borrowings). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits and deposit placed for a life insurance policy. The directors of the Company consider the Group's exposure of the fixed-rate pledged bank deposits to fair value interest rate risk is not significant as the interest rates are repriced every three months. For the Group's exposure for the fair value interest rate risk in relation to the deposit placed for a life insurance policy, please refer to note 20 for details.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Company consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period. Accordingly, no sensitivity analysis on short-term bank deposits is presented.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR") and Hong Kong dollars Prime Rate arising from the Group's borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating rate bank overdrafts and secured bank borrowings at the end of the reporting period and the stipulated changes taking place at the beginning of the year and held constant throughout the year. The analysis also assumed the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2011: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Market risk* (Cont'd)

Sensitivity analysis (Cont'd)

If interest rates on floating-rate bank overdrafts and secured bank borrowings had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the post-tax loss for the year ended 30 June 2012 would increase/decrease by approximately HK$4,177,000 (2011: increase/decrease by approximately HK$3,850,000). This is mainly attributable to the Group's exposure to interest rates on floating-rate bank overdrafts and secured bank borrowings.

Other price risk

The Group's available-for-sale investments is exposed the Group to other price risks. Details of the available-for-sale investments are set out in note 19.

Management has closely monitor the other price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risks at the end of the reporting period. 5% (2011: 5%) increase or decrease is used when reporting exposure to other price risk internally to key management personnel and represents management's assessment of the reasonably possible change in price.

Price risk of available-for-sale investments

If the prices of the available-for-sale debt investment had been 5% (2011: 5%) higher/lower, investment revaluation reserve for the year ended 30 June 2012 would increase/decrease by HK$679,000 (2011: increase/decrease by HK$556,000) as a result of the changes in fair value of available-for-sale investments.

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the directors of the Company continuously monitor exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk on liquid funds is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration risk on receivables from handling service and available-for-sale debt investments.

Receivables from handling service with approximately HK$6,584,000 (2011: HK$13,168,000) was from one customer. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of the trade receivable regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Available-for-sale debt investments with carrying value of approximately HK$13,586,000 (2011: HK$11,114,000) was the debenture issued by The Hong Kong Golf Club. However, having consider the strong financial background of the debenture issuer, the management believes there is no significant risk.

*Liquidity risk*

As mentioned in note 2, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its liquidity risk. Taking into account the available untilised bank credit facility of HK$206,741,000 (2011: HK$245,563,000) as at 30 June 2012 and the estimated proceeds from sales of developed properties, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and the Group does not have significant exposure to liquidity risk.

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Liquidity risk* (Cont'd)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Liquidity and interest risk tables

| | Weighted average interest rate | On demand | Less than 3 months | 3 months to 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amounts |
|---|---|---|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 June 2012** | | | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | | | |
| Other payables | N/A | 75,637 | – | – | – | – | – | 75,637 | 75,637 |
| Amount due to directors of subsidiaries | N/A | 249,626 | – | – | – | – | – | 249,626 | 249,626 |
| Bank overdrafts | 5.5% | 25,072 | – | – | – | – | – | 25,072 | 25,072 |
| Secured bank borrowings | 1.75% | 975,497 | – | – | – | – | – | 975,497 | 975,497 |
| Convertible redeemable preference shares | 13.83% | – | – | – | – | 63,814 | – | 63,814 | 34,938 |
| | | 1,325,832 | – | – | – | 63,814 | – | 1,389,646 | 1,360,770 |
| **As at 30 June 2011** | | | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | | | |
| Bills payable | N/A | – | 9,080 | – | – | – | – | 9,080 | 9,080 |
| Other payables | N/A | 13,199 | – | – | – | – | – | 13,199 | 13,199 |
| Amount due to directors of subsidiaries | N/A | 106,246 | – | – | – | – | – | 106,246 | 106,246 |
| Bank overdrafts | 5.25% | 52,874 | – | – | – | – | – | 52,874 | 52,874 |
| Secured bank borrowings | 1.87% | 869,187 | – | – | – | – | – | 869,187 | 869,187 |
| Convertible redeemable preference shares | 13.83% | – | – | – | – | – | 63,816 | 63,816 | 30,560 |
| | | 1,041,506 | 9,080 | – | – | – | 63,816 | 1,114,402 | 1,081,146 |
| Derivative financial instruments | N/A | 118,800 | – | – | – | – | – | 118,800 | 118,800 |

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Liquidity risk* (Cont'd)

Liquidity and interest risk tables (Cont'd)

For the purpose of managing liquidity risk, the management reviews the expected cash flow information of the Group's bank borrowings (excluding revolving loan) based on the scheduled repayment dates set out in the loan agreements as set out in the table below:

| | Weighted average interest rate | Less than 3 months | 3 months to 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amounts |
|---|---|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Secured bank borrowings** | | | | | | | | |
| As at 30 June 2012 | 1.75% | 31,295 | 85,082 | 99,400 | 147,003 | 559,211 | 921,991 | 860,497 |
| As at 30 June 2011 | 1.87% | 85,583 | 32,337 | 117,752 | 160,600 | 457,357 | 853,629 | 794,187 |

**Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of club debentures classified as available-for-sale debt investments are determined with reference to market price;
- the fair value of loans and receivables and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair values of derivative financial instruments are estimated with reference to market price of the underlying leasehold property. Details are set out in note 30.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value.

## 7. FINANCIAL INSTRUMENTS (Cont'd)

**Fair value** (Cont'd)

*Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **30 June 2012** | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Available-for-sale financial assets** | | | |
| Club debenture | **13,586** | **–** | **13,586** |

| | 30 June 2011 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Available-for-sale financial assets** | | | |
| Club debenture | 11,114 | – | 11,114 |
| **Financial liabilities at FVTPL** | | | |
| Derivative financial instruments | – | 118,800 | 118,800 |

There were no transfers between Level 1 and 2 in the current year.

## 8. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for leasing of investment properties and services rendered during the year. An analysis of the Group's turnover is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income from investment properties | **1,276** | – |
| Service income from indent trading of merchandise | **–** | 750 |
| | **1,276** | 750 |

## 9. OTHER INCOME

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **370** | 115 |
| Compensation received from settlement of a legal case | **3,467** | – |
| Consultancy fee income | **1,155** | 3,195 |
| Interest income from deposit placed for a life insurance policy | **313** | – |
| Net exchange gain | **56** | – |
| Rental income from properties held for sale | **11,611** | 13,489 |
| Gain on disposal of property, plant and equipment | **–** | 64 |
| Others | **474** | 854 |
| | **17,446** | 17,717 |

## 10. SEGMENT INFORMATION

The Group's operating segments are property development, property investment and indent trading of merchandise for the purposes of resources allocation and assessment of performance.

The segment information reported externally was analysed on the basis of their products and services provided by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the chairman of the board of directors, the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of performance. These operating decisions also reflect the basis of organisation in the Group.

## 10. SEGMENT INFORMATION (Cont'd)

Principal activities of the operating and reportable segments are as follows:

| | |
|---|---|
| Property development | Properties construction and redevelopment for sale purpose |
| Property investment | Completed investment properties held for capital appreciation purpose |

An operating segment regarding the indent trading of merchandise (representing provision of agency services in transactions of indent trading) was ceased during the year ended 30 June 2012. However, no discontinued operation was shown separately in the consolidated financial statements since the directors of the Company considered the assets, liabilities and financial results contributed by this operating segment for the year ended 30 June 2012 and 2011 were insignificant to the Group.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable operating segment:

*For the year ended 30 June 2012*

| | **Property development** *HK\$'000* | **Property investment** *HK\$'000* | **Consolidated** *HK\$'000* |
|---|---|---|---|
| Turnover | | | |
| External | **–** | **1,276** | **1,276** |
| Segment result | **(27,766)** | **(5,025)** | **(32,791)** |
| Other income | | | **17,446** |
| Gain arising on changes in fair value of derivative financial instruments | | | **52,787** |
| Provision for litigations | | | **(21,377)** |
| Unallocated corporate expenses | | | **(24,119)** |
| Finance costs | | | **(22,008)** |
| Loss before taxation | | | **(30,062)** |

## 10. SEGMENT INFORMATION (Cont'd)

**Segment revenue and results** (Cont'd)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment result represents the result incurred by each segment without allocation of gain (loss) arising on changes in fair value of derivative financial instruments, research and development costs, provision for litigations, corporate income and expenses, finance costs and taxation. This is the measure reported to the chairman of board of directors, the Group's CODM, for the purposes of resource allocation and performance assessment.

*For the year ended 30 June 2011*

| | Property development | Property investment | Indent trading of merchandise | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | | | | |
| External | – | – | 750 | 750 |
| Segment result | (15,153) | 49,710 | (315) | 34,242 |
| Other income | | | | 17,717 |
| Loss arising on changes in fair value of derivative financial instruments | | | | (27,540) |
| Research and development costs | | | | (3,603) |
| Unallocated corporate expenses | | | | (36,135) |
| Finance costs | | | | (20,136) |
| Loss before taxation | | | | (35,455) |

## 10. SEGMENT INFORMATION (Cont'd)

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by operating segment:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Segment assets** | | |
| Property development | **851,139** | 854,696 |
| Property investment | **242,119** | 248,229 |
| Indent trading of merchandise | **6,584** | 13,168 |
| Total segment assets | **1,099,842** | 1,116,093 |
| Available-for-sale investments | **13,586** | 11,114 |
| Pledged bank deposits | **50,366** | 61,271 |
| Tax reserve certificates | **–** | 4,000 |
| Deposit placed for a life insurance policy | **21,028** | – |
| Bank balances and cash | **131,183** | 13,721 |
| Unallocated | **26,865** | 24,612 |
| Consolidated assets | **1,342,870** | 1,230,811 |
| **Segment liabilities** | | |
| Property development | **83,789** | 78,199 |
| Property investment | **1,859** | 2,337 |
| Indent trading of merchandise | **–** | 9,450 |
| Total segment liabilities | **85,648** | 89,986 |
| Amounts due to directors of subsidiaries | **249,626** | 106,246 |
| Bank overdrafts | **25,072** | 52,874 |
| Secured bank borrowings | **975,497** | 869,187 |
| Derivative financial instruments | **–** | 118,800 |
| Taxation payable | **9,578** | 43,400 |
| Convertible redeemable preference shares | **34,938** | 30,560 |
| Unallocated | **64,897** | 10,035 |
| Consolidated liabilities | **1,445,256** | 1,321,088 |

## 10. SEGMENT INFORMATION (Cont'd)

**Segment assets and liabilities** (Cont'd)

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating segments other than available-for-sale investments, pledged bank deposits, tax reserve certificates, deposit placed for a life insurance policy and bank balances and cash; and

– all liabilities are allocated to operating segments other than amounts due to directors of subsidiaries, bank overdraft, secured bank borrowings, derivative financial instruments, taxation payable and convertible redeemable preference shares.

**Other segment information**

*For the year ended 30 June 2012*

| | **Property development** *HK$'000* | **Property investment** *HK$'000* | **Unallocated** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| Amounts included in the measure of segment asset or segment result: | | | | |
| Depreciation | **3,099** | **110** | **358** | **3,567** |

*For the year ended 30 June 2011*

| | Property development *HK$'000* | Property investment *HK$'000* | Unallocated *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Amounts included in the measure of segment asset or segment result: | | | | |
| Capital additions | – | – | 70 | 70 |
| Depreciation | 3,088 | 110 | 261 | 3,459 |

## 10. SEGMENT INFORMATION (Cont'd)

**Other entity-wide information**

The Group's operations are located in Hong Kong.

The Group's revenue from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

| | **2012** | |
|---|---|---|
| | **Revenue from external customers** | **Non-current assets** |
| | ***HK$'000*** | ***HK$'000*** |
| Hong Kong (Place of domicile) | **1,276** | **319,607** |

| | 2011 | |
|---|---|---|
| | Revenue from external customers | Non-current assets |
| | *HK$'000* | *HK$'000* |
| Hong Kong (Place of domicile) | – | 329,633 |
| People's Republic of China | 750 | – |
| | 750 | 329,633 |

*Note:* Non-current assets excluded financial instruments and deposit placed for a life insurance policy.

**Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A[1] | **1,276** | – |
| Customer B[2] | **–** | 750 |

[1] Revenue from property investment

[2] Revenue from indent trading of merchandise

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs represented expenditure on several research projects carried out by LLC RPC Sensoris, a wholly owned subsidiary of the Group. The research projects was ceased during 2011 and no further research and development cost was incurred in the current year.

During the year ended 30 June 2011, the directors of the Company considered that the research projects were in research stage and not qualify the capitalisation criteria set out in HKAS 38 "Intangible assets". Accordingly, the research and development costs of HK$3,603,000 was recognised as an expense in profit or loss.

## 12. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings: | | |
| – wholly repayable within five years | **5,858** | 5,442 |
| – not wholly repayable within five years | **10,292** | 9,250 |
| Interest on bank overdrafts | **1,476** | 1,621 |
| Finance costs on convertible redeemable preference shares *(note 32)* | **4,382** | 3,823 |
| | **22,008** | 20,136 |

## 13. TAXATION CHARGE

The charge comprises:

| | **2012** | 2011 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Current tax: | | |
| Hong Kong Profits Tax for the year | **–** | – |
| Underprovision in prior years: | | |
| Hong Kong Profits Tax | **(14,793)** | – |
| Tax charge attributable to the Company and its subsidiaries | **(14,793)** | – |

In August 2007, January 2009 and February 2010, a subsidiary of the Company received the Assessment Demanding Final Tax (the "Assessments") for the years of assessment 2006/2007, 2007/2008 and 2008/2009 from the Hong Kong Inland Revenue Department ("IRD") respectively. By issuing the Assessments, the IRD disagreed the basis adopted by this subsidiary for computation of Hong Kong Profits Tax liability. In addition, the IRD disagreed the tax losses brought forward and certain items claimed by this subsidiary for the years of assessment from 1997/1998 to 1999/2000 and 2004/2005 to 2005/2006 with aggregated amount of approximately HK\$279,990,000.

The Group has lodged objections against the Assessments received from IRD in September 2007 and March 2010 respectively. The IRD has agreed to holdover the tax in dispute of approximately HK\$109,277,000 unconditionally and HK\$26,877,000 on condition that the tax reserve certificate is purchased on instalment basis (in which HK\$4,000,000 has been paid as at 30 June 2011).

During the current year, the Group submitted a proposal for settlement of the case for the years of assessment of 1997/1998 to 2010/2011. The IRD accepted the proposal and issued the revised statement of loss for the years of assessment from 1997/1998 to 2006/2007 and the Revised Assessment Demanding Final Tax (the "Revised Assessment") for the years of assessment, 2007/2008 and 2008/2009 accordingly. According to the Revised Assessment, the tax liability of this subsidiary is in the aggregate amount of approximately HK\$58,193,000. During the current year, the Group has made tax payment of approximately HK\$44,615,000, and also utilised the tax reserve certificates of HK\$4,000,000 to settle part of the total tax liability of this subsidiary. With the tax provision of HK\$43,400,000 made in prior year, an additional amount of income tax of HK\$14,793,000 is made in the current year in respect of underprovision in prior years.

## 13. TAXATION CHARGE (Cont'd)

Taxation for the year can be reconciled to loss per the consolidated statement of comprehensive income as follows:

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Loss before taxation | **(30,062)** | (35,455) |
| Tax credit at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%) | **4,960** | 5,850 |
| Tax effect of income not taxable for tax purpose | **9,490** | 8,473 |
| Tax effect of expenses not deductible for tax purpose | **(7,571)** | (8,579) |
| Utilisation of tax losses previously not recognised | **1,140** | – |
| Tax effect of unrealised intragroup profits on properties held for sale not recognised | **(8,019)** | – |
| Underprovision in respect of prior years | **(14,793)** | – |
| Tax effect of tax losses not recognised | **–** | (5,744) |
| Tax charge for the year | **(14,793)** | – |

## 14. LOSS FOR THE YEAR

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year has been arrived at after charging: | | |
| Directors' emoluments *(note 15)* | **1,328** | 1,206 |
| Other staff costs, including retirement benefit scheme contributions | **4,306** | 7,632 |
| Total staff costs | **5,634** | 8,838 |
| Auditor's remuneration | **820** | 820 |
| Depreciation of property, plant and equipment | **3,567** | 3,459 |
| Impairment loss recognised in respect of property, plant and equipment | **–** | 398 |
| Legal and professional fee (included in administrative expenses) | **12,968** | 8,924 |
| Net exchange loss | **–** | 124 |
| and after crediting: | | |
| Gross rental income from investment properties | **1,276** | – |
| Less: Direct expenses that generated rental income during the year | **(102)** | – |
| Less: Direct expenses not generated rental income during the year | **(199)** | (290) |
| | **975** | (290) |
| Gross rental income from properties held for sale | **11,611** | 13,489 |
| Bank interest income | **370** | 115 |
| Interest income from deposit placed for a life insurance policy | **313** | – |
| Net exchange gain | **56** | – |
| Gain on disposal of property, plant and equipment | **–** | 64 |

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors of the Company and the five highest paid individuals are as follows:

### (a) Directors' emoluments

The emoluments paid or payable to each of the six (2011: six) directors of the Company were as follows:

**2012**

| | Law Fong HK$'000 | Chen Te Kuang Mike HK$'000 | Oung Shih Hua, James HK$'000 | Zhu Pei Qing HK$'000 | Lu Ti Fen HK$'000 | Kwok Wai Chi HK$'000 | Prof. Huang Weizong Martin HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Directors' fees | **128** | **260** | **260** | **65** | **325** | **172** | **–** | **1,210** |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | **118** | **–** | **–** | **–** | **–** | **–** | **–** | **118** |
| Retirement benefit scheme contributions | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **118** | **–** | **–** | **–** | **–** | **–** | **–** | **118** |
| Total | **246** | **260** | **260** | **65** | **325** | **172** | **–** | **1,328** |

2011

| | Law Fong HK$'000 | Chen Te Kuang Mike HK$'000 | Oung Shih Hua, James HK$'000 | Zhu Pei Qing HK$'000 | Lu Ti Fen HK$'000 | Kwok Wai Chi HK$'000 | Prof. Huang Weizong Martin HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Directors' fees | 118 | 240 | 240 | 60 | 286 | 144 | – | 1,088 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 118 | – | – | – | – | – | – | 118 |
| Retirement benefit scheme contributions | – | – | – | – | – | – | – | – |
| | 118 | – | – | – | – | – | – | 118 |
| Total | 236 | 240 | 240 | 60 | 286 | 144 | – | 1,206 |

*Note:* Prof. Huang Weizong Martin was appointed as an independent non-executive director and a member of the audit committee with effect from 28 June 2012.

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

### (b) Employees' emoluments

During the year, the five highest paid individuals of the Group included four (2011: four) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining one (2011: one) individuals are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **207** | 173 |
| Retirement benefit scheme contributions | **10** | 9 |
| | **217** | 182 |

The emoluments of this employee fall within the following band:

| | **Number of employees** | |
|---|---|---|
| | **2012** | 2011 |
| Nil to HK$1,000,000 | **1** | 1 |

During both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both years, no director waived any emoluments.

## 16. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | **For the year ended 30 June** | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share | **(44,855)** | (35,455) |

## 16. LOSS PER SHARE (Cont'd)

| | **2012** | 2011 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of shares for the purposes of calculating basic and diluted loss per share | **560,040,080** | 537,134,862 |

The weighted average number of shares has not been retrospective adjusted for the open offer since the exercise price of the open offer is higher than the market price on the date of open offer.

The calculation of diluted loss per share for the years ended 30 June 2012 and 30 June 2011 has not assumed the conversion of the Company's outstanding convertible redeemable preference shares which would reduce the loss per share.

## 17. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1 July 2010 | 198,000 |
| Increase in fair value recognised in profit or loss | 50,000 |
| At 30 June 2011 | 248,000 |
| Decrease in fair value recognised in profit or loss | (6,000) |
| At 30 June 2012 | 242,000 |

The fair value of the Group's investment properties as at 30 June 2012 has been arrived at on the basis of a valuation carried out on that day by Messrs. Savills Valuation and Professional Services Limited, the independent qualified professional property valuers not connected with the Group. Messrs. Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties are two developed properties located at Nos.8, 10 and 12 Peak Road which are held by the Company for long-term capital appreciation. These properties are classified as investment properties and are measured using the fair value model.

All the Group's investment properties are situated in Hong Kong with long lease. They were secured to support banking facilities granted to the Group.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties *HK$'000* | Leasehold improvements *HK$'000* | Office equipment, furniture and fixtures *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| COST | | | | |
| At 1 July 2010 | 113,079 | 2,022 | 12,904 | 128,005 |
| Additions | – | – | 70 | 70 |
| Disposals | – | – | (138) | (138) |
| Exchange realignment | – | – | 87 | 87 |
| At 30 June 2011 and 30 June 2012 | 113,079 | 2,022 | 12,923 | 128,024 |
| DEPRECIATION AND IMPAIRMENT | | | | |
| At 1 July 2010 | 32,752 | 402 | 9,864 | 43,018 |
| Provided for the year | 2,632 | 292 | 535 | 3,459 |
| Eliminated on disposals | – | – | (84) | (84) |
| Impairment loss recognised in profit or loss | – | – | 398 | 398 |
| Exchange realignment | – | – | 59 | 59 |
| At 30 June 2011 | 35,384 | 694 | 10,772 | 46,850 |
| Provided for the year | 2,632 | 303 | 632 | 3,567 |
| At 30 June 2012 | 38,016 | 997 | 11,404 | 50,417 |
| CARRYING VALUES | | | | |
| At 30 June 2012 | 75,063 | 1,025 | 1,519 | 77,607 |
| At 30 June 2011 | 77,695 | 1,328 | 2,151 | 81,174 |

*Note:* Owner-occupied leasehold interest in land situated in Hong Kong is included in property, plant and equipment as the allocation between the land and building elements cannot be made reliably.

## 18. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold properties | Over the estimated useful lives of 50 years or the period of the lease, whichever is the shorter |
| Leasehold improvements | Over the estimated useful lives of 10 years |
| Office equipment, furniture and fixtures | 15-25% |

The leasehold properties of the Group are situated in Hong Kong and are held under long leases. They were secured to a bank to support credit facilities granted to the Group.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Club debenture, at market value | **13,586** | 11,114 |
| Unlisted equity investment, at cost | **15,577** | 15,577 |
| Less: Impairment loss recognised | **(15,577)** | (15,577) |
| | **13,586** | 11,114 |

At 30 June 2012, the above unlisted investments comprised (i) 40% equity interest in the registered capital of Harbin Zheng Hua Real Estate Developing Company Limited ("Zheng Hua"), which was a company established in the People's Republic of China ("PRC") and engaged in property development, with zero carrying amount; and (ii) club debenture with market value of HK$13,586,000 (2011: HK$11,114,000).

The investment in Zheng Hua is not classified as an associate as, in the opinion of the directors of the Company, the Group is not able to exercise significant influence over its financial and operating policy decisions.

The unlisted equity investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value of the investment cannot be measured reliably.

## 20. DEPOSIT PLACED FOR A LIFE INSURANCE POLICY

In March 2012, the Company's subsidiary World Modern International Limited ("World Modern") entered into a life insurance policy with an insurance company to insure an Executive Director. Under the policy, the beneficiary and policy holder is World Modern and the total insured sum is US$10,000,000 (approximately HK$78,000,000). World Modern is required to pay an upfront deposit of US$2,806,000 (approximately HK$21,887,000) including a premium charge at inception of the policy amounting to US$168,000 (approximately HK$1,310,000). World Modern can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront payment of US$2,806,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value"). In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge. The insurance Company will pay World Modern an interest of 4.65% per annum on the outstanding Cash Value of the policy for the first year. Commencing on the 2nd year, the interest will become 2% per annum plus a premium determined by the insurance company.

As at 30 June 2012, the deposit placed for a life insurance policy was pledged to a bank to secure general banking facilities granted to the Group.

The deposit placed for a life insurance policy is denominated in USD, a currency other than the functional currency of the respective group entity.

## 21. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks to secure banking facilities and letter of guarantee granted to the Group. The pledged bank deposits carried interest at an average fixed interest rate of 0.74% (2011: 0.2%) per annum. The secured banking facilities consist of bank loans with scheduled repayment dates that are after one year from the end of the reporting period, the pledged bank deposits are classified as non-current assets.

## 22. PROPERTIES HELD FOR SALE

At 30 June 2012 and 2011, the properties held for sale are stated at cost.

Properties held for sale represent developed properties located at Nos.8, 10 and 12 Peak Road. The management of the Company actively markets these properties and seeks for potential buyers through property agents on a continuous basis.

Certain properties held for sale are leased to independent third parties to earn rental income of HK$11,611,000 (2011: HK$13,489,000). The directors of the Company retained the intention to sell these properties, including the benefit contributed by the tenancy agreement to potential investor. Accordingly, these properties are classified as properties held for sale as at 30 June 2012 and 30 June 2011.

The properties held for sale, except for car parks and motor-cycle parking spaces, are pledged or secured to support the credit facility granted to the Group. For details of pledged or secured assets, please refer to note 35.

## 23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Receivables of service rendered in indent trading | **6,584** | 13,168 |
| Other receivables, deposits and prepayments | **25,605** | 22,993 |
| | **32,189** | 36,161 |

The following is an aged analysis of receivables of service rendered in indent trading at the end of the reporting periods:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **–** | 1,475 |
| 61 to 120 days | **–** | 11,693 |
| 121 days to 1 year | **–** | – |
| Over 1 year | **6,584** | – |
| | **6,584** | 13,168 |

## 23. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS (Cont'd)

The Group allows a credit period of 120 days to its customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Included in the Group's receivables of service rendered in indent trading are debtors with a carrying amount of HK$6,584,000 (2011: HK$nil) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of receivables of service rendered in indent trading which are past due but not yet impaired at the end of the reporting periods.

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Past due 91 days to 1 year | **6,584** | – |

The Groups' management closely monitors the credit quality of receivables of service rendered in indent trading and considers the receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, all of the receivables of service rendered in indent trading as at 30 June 2012 and 2011 which are past due but not impaired are generally collectable.

Included in trade receivables, deposits and prepayments are the following receivables denominated in a currency other than the functional currency of the group entities to which it relates.

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| USD | **7,462** | 13,168 |

## 24. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.01% to 0.75% (2011: 0.001% to 0.4%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the group entities to which it relates.

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| USD | **441** | 906 |

## 25. BILLS PAYABLE

At 30 June 2011, the bills payable was aged within 60 days and dominated in USD.

## 26. OTHER PAYABLES AND ACCRUED CHARGES

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Rental deposits received | **2,301** | 2,985 |
| Sales deposits received | **7,500** | – |
| Accruals | **32,759** | 32,759 |
| Accrued construction costs | **24,348** | 41,998 |
| Other payables | **75,637** | 13,199 |
| | **142,545** | 90,941 |

The Group's other payable are all denominated in Hong Kong dollars.

## 27. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amounts as at 30 June 2012 represent amount due to Oung Da Ming and Uon Margaret, who are the directors of the Group's major subsidiaries. The amounts are unsecured, non-interest bearing and repayable on demand.

The amount as at 30 June 2011 represented amount due to Oung Da Ming, who is a director of the Group's major subsidiaries. The amount was unsecured, non-interest bearing and repayable on demand.

## 28. BANK OVERDRAFTS

Bank overdrafts carry interest at 0.25% over Hong Kong dollars Prime Rate, i.e. 5.5% (2011: 5.25%) per annum and secured by certain apartments of the Group's properties held for sale. The details of the pledged assets are set out in note 35.

## 29. SECURED BANK BORROWINGS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured: | | |
| Revolving loans | **115,000** | 75,000 |
| Mortgage loans | **845,944** | 719,187 |
| Bank loan | **14,553** | 75,000 |
| | **975,497** | 869,187 |
| Comprising amounts following due: | | |
| On demand and within one year | **239,595** | 192,440 |
| In more than one year but not more than two years | **96,011** | 115,590 |
| In more than two years but not more than three years | **41,986** | 86,362 |
| In more than three years but not more than four years | **42,628** | 32,560 |
| In more than four years but not more than five years | **42,529** | 32,995 |
| Over five years | **512,748** | 409,240 |
| | **975,497** | 869,187 |
| Less: Amounts due within one year shown under current liabilities | **(239,595)** | (192,440) |
| Carrying amount of bank loans that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities) | **(735,902)** | (676,747) |
| Amounts shown under non-current liabilities | **–** | – |

## 29. SECURED BANK BORROWINGS (Cont'd)

At 30 June 2012, the bank borrowings comprised:

(i) a mortgage loan with an outstanding amount of approximately HK$43,864,000 (2011: HK$46,024,000) that shall be repayable by 216 monthly installments and carries interest at a rate of 1.25% per annum over HIBOR;

(ii) a mortgage loan with an outstanding amount of approximately HK$230,922,000 (2011: HK$244,901,000) that shall be repayable by 176 monthly installments and carries interest at a rate of 1.2% per annum above HIBOR;

(iii) a revolving loan with an outstanding amount of approximately HK$60,000,000 (2011: HK$60,000,000) that carries interest at a rate of 2.0% per annum over HIBOR;

(iv) a mortgage loan with an outstanding amount of approximately HK$74,841,000 (2011: HK$80,073,000) that shall be repayable by 158 monthly installments and carries interest at a rate of 0.88% per annum over HIBOR and

(v) a mortgage loan with an outstanding amount of approximately HK$53,491,000 (2011: HK$56,764,000) that shall be repayable by 175 monthly installments and carries interest at a rate of 1.25% per annum above HIBOR;

(vi) a mortgage loan with an outstanding amount of approximately HK$26,268,000 (2011: HK$27,504,000) that shall be repayable by 231 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(vii) a mortgage loan with an outstanding amount of approximately HK$25,413,000 (2011: HK$26,608,000) that shall be repayable by 231 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(viii) a mortgage loan with an outstanding amount of approximately HK$79,924,000 (2011: HK$87,096,000) that shall be repayable by 3 monthly installments and carries interest at a rate of 1.2% per annum over HIBOR;

(ix) a mortgage loan with an outstanding amount of approximately of HK$57,546,000 (2011: HK$60,242,000) that shall be repayable by 233 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(x) a mortgage loan with an outstanding amount of approximately of HK$58,608,000 (2011: HK$62,198,000) that shall be repayable by 25 monthly installments and carries interest at a rate of 1.2% per annum below the HIBOR;

## 29. SECURED BANK BORROWINGS (Cont'd)

At 30 June 2012, the bank borrowings comprised: (Cont'd)

(xi) a revolving loan with an outstanding amount of HK$15,000,000 (2011: HK$15,000,000) that carries interest at a rate 2.00% per annum over HIBOR;

(xii) a mortgage loan with an outstanding amount of approximately HK$98,818,000 (2011: nil) that shall be repayable by 236 monthly installments and carries interest at a rate of 3% per annum over HIBOR;

(xiii) a revolving loan with an outstanding amount of approximately HK$30,000,000 (2011: nil) that carries interest at a rate of 3.5% per annum over HIBOR;

(xiv) a mortgage loan with an outstanding amount of approximately HK$96,249,000 (2011: nil) that shall be repayable by 229 monthly installments and carries interest at a rate of 1.75% per annum over HIBOR;

(xv) a revolving loan with an outstanding amount of approximately HK$10,000,000 (2011: nil) that carries interest at a rate of 2.25% per annum over HIBOR; and

(xvi) a bank loan with an outstanding amount of approximately HK$14,553,000 (2011: nil) that shall be repayable by 57 monthly installments and carries interest at a rate of 2.5% per annum over HIBOR, LIBOR or the Bank's cost of funds, whichever is higher;

During the year ended 30 June 2011, the Group had the following loans which were fully settled during the year:

(i) a mortgage loan with an outstanding amount of HK$27,777,000 that shall be repayable by 240 monthly installments and carries interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate; and

(ii) a short term loan with an outstanding amount of HK$75,000,000 that shall be repayable within three months and carries interest at a rate of 2.25% per annum over HIBOR.

The range of effective interest rates of the Group's bank borrowings were 1% to 3.6% (2011: 1.01% to 2.5%) per annum.

Pursuant to the loan agreement entered into between the Group and a bank, relating to a 201 months facility up to 260 million, a default event would arise if Five Star ceased to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital and the issued convertible redeemable preference shares of the Company.

All bank borrowings are secured by certain apartments of the Group's properties held for sale and all of the Group's investment properties to the banks. The details of pledged assets are disclosed in note 35.

## 29. SECURED BANK BORROWINGS (Cont'd)

Included in the secured bank borrowings are the following amounts denominated in a currency other than the functional currency of the group entities to which it relates.

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| USD | **14,553** | – |

## 30. DERIVATIVE FINANCIAL INSTRUMENTS

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1 July 2010 | 91,260 |
| Increase in fair value recognised in profit or loss | 27,540 |
| At 30 June 2011 | 118,800 |
| Decrease in fair value recognised in profit or loss | (52,787) |
| Settlement | (66,013) |
| At 30 June 2012 | – |

On 5 April 2006, Banhart Company Limited ("Banhart"), a subsidiary of the Company, entered into a loan agreement with Fine Chiffon Corporation Limited ("Fine Chiffon") to obtain a non-interest bearing loan facility of HK$42,000,000. The loan is unsecured, non-interest bearing and non-revolving in nature. The loan shall be repayable on or before 6 September 2008.

In addition, Banhart also granted two options to Fine Chiffon for purchasing (i) part of the Banhart's leasehold property at a consideration of HK$32,000,000 and (ii) 20% of the share capital of Banhart, at a consideration of HK$10,000,000, in substitution for the repayment of the outstanding non-interest bearing loan at the end of the loan period. Fine Chiffon is entitled to exercise the options at any time prior to the maturity date and the options are non-transferable.

On 6 September 2008, Fine Chiffon exercised the options. Accordingly, a derivative is recognised at the amount expected to be settled at the transfer date, which is estimated with reference to the market price of the underlying leasehold property. Upon the exercise of the two options, the loan from Fine Chiffon of HK$42,000,000 and the fair value of the two options of HK$43,700,000 at the exercise date were derecognised and became the initial cost of the derivative financial instruments.

## 30. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

As at 30 June 2011, Banhart was in negotiation with Fine Chiffon in relation to the timing for transferring the benefits of those assets to Fine Chiffon. The fair value of the underlying property was HK$220,000,000 and the fair value of the derivative financial instruments was HK$118,000,000 considering the portion shared by Fine Chiffon. Accordingly, a fair value loss of HK$27,540,000 was recognised in profit or loss during the year ended 30 June 2011.

On 21 December 2011, Banhart has entered into a settlement agreement to pay approximately HK$66,013,000 in cash to Fine Chiffon as the final settlement of the derivative financial instrument. Accordingly, the derivative financial instrument was derecognised and the fair value gain of HK$52,787,000 at the date of settlement was recognised in profit or loss during the year ended 30 June 2012. Upon the settlement, both parties released each other from all rights and claims in relation to the underlying property and the 20% of the share capital of Banhart. As at 30 June 2012, the amount of approximately HK$66,013,000 has not yet been settled and included in other payables.

The underlying property is currently occupied by the Company for own use and recognised as leasehold property and stated at cost less accumulated depreciation.

## 31. SHARE CAPITAL

| | **Nominal value per share** | **Numbers of shares** | **Amount** |
|---|---|---|---|
| | *HK$* | | *HK$'000* |
| Authorised: | | | |
| At 1 July 2010, 30 June 2011 and 30 June 2012 | 0.01 | 50,000,000,000 | 500,000 |
| Issued and fully paid: | | | |
| At 1 July 2010 | 0.01 | 537,131,492 | 5,372 |
| Issue of shares on conversion of convertible redeemable preference shares | | 10,000 | – |
| At 30 June 2011 | | 537,141,492 | 5,372 |
| Issue of shares on conversion of convertible redeemable preference shares | | 10,000 | – |
| Open offer of shares | | 214,860,596 | 2,148 |
| At 30 June 2012 | 0.01 | 752,012,088 | 7,520 |

All shares issued during both years rank pari passu in all respects with other shares in issue.

## 31. SHARE CAPITAL (Cont'd)

On 22 May 2012, the Company allotted 214,860,596 open offer shares of HK$0.01 each at the subscription price of HK$0.155 per open offer share on the basis of two open offer shares for every five existing ordinary shares held. The Company raised HK$30,300,000 (net of expenses) with the intention at the time of open offer to repay indebtedness owed by the Group to Uon Margaret, a director of the Company's major subsidiaries.

## 32. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

| | **Number of preference shares** | **Amount of par value** *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 1 July 2010, 30 June 2011 and 30 June 2012 | 1,270,000,000 | 12,700 |
| Issued and fully paid: | | |
| At 1 July 2010 | 255,275,930 | 2,552 |
| Conversion of issued convertible redeemable preference shares into ordinary shares | (10,000) | – |
| At 30 June 2011 | 255,265,930 | 2,552 |
| Conversion of issued convertible redeemable preference shares into ordinary shares | (10,000) | – |
| At 30 June 2012 | 255,255,930 | 2,552 |

The convertible redeemable preference shares with nominal value of HK$0.01 were issued at HK$0.25 per share on 24 November 2006.

## 32. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Movement of the convertible redeemable preference shares are as follows:

| | Liability component *HK$'000* | Equity component *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 1 July 2010 | 26,741 | 24,262 | 51,003 |
| Conversion of convertible redeemable preference shares | (4) | (6) | (10) |
| Interest charged for the year | 3,823 | – | 3,823 |
| At 30 June 2011 | 30,560 | 24,256 | 54,816 |
| Conversion of convertible redeemable preference shares | (4) | (6) | (10) |
| Interest charged for the year | 4,382 | – | 4,382 |
| At 30 June 2012 | 34,938 | 24,250 | 59,188 |

*Note:* As announced by the Company on 3 July 2007, the alternation of the terms of the existing convertible redeemable preference shares has been duly approved by the holders of convertible redeemable preference shares at the special general meeting held on 3 July 2007. The approved alternation of the terms of the existing convertible redeemable preference shares are summarised as follows:

**(i) Cumulative dividend**

The right to receive a fixed dividend of HK$0.02 per convertible redeemable preference share payable annually has been revoked and replaced with the right to receive a dividend per convertible redeemable preference share based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company. Sensors Integration Technology Limited is an investment holding company with its subsidiaries principally engaged in manufacture of optical sensor systems and optical communication products.

**(ii) Early redemption at the option of the Company**

The early redemption option of the Company in the event that the price of the ordinary share of the Company close on thirty consecutive trading days at a price that is 100% higher that the conversion price of convertible redeemable preference share has been revoked.

## 32. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

*Note:* (Cont'd)

**(iii) Further issues**

The right of the Company to issue convertible redeemable preference shares in priority to the existing convertible redeemable preference shares has been revoked. New issues of convertible redeemable preference shares shall be permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

As a result of the alternation of the terms of the existing convertible redeemable preference shares, the liability component of the existing convertible redeemable preference shares has been decreased by approximately HK$21,766,000 and, in turn the amount was transferred to other reserve at 3 July 2007.

The principal terms of the convertible redeemable preference shares at 30 June 2011 and 2012 include the following:

**(i) Early redemption at the option of the Company**

The Company has the option, but not the obligation, to redeem all but not a portion of the convertible redeemable preference shares at face value if there are less than 80 million convertible redeemable preference shares in issue.

**(ii) Conversion rights**

Holders of the convertible redeemable preference shares are entitled to convert all or any of their convertible redeemable preference shares into ordinary shares in the Company by paying HK$0.25 per share to the Company for entitling one ordinary share of the Company of HK$0.01 each, subject to anti-dilutive adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain changes in share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Holders of the convertible redeemable preference shares are not required to pay any extra amount should they convert their convertible redeemable preference shares into ordinary shares in the Company.

## 32. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

### (iii) Cumulative dividends

The dividend per convertible redeemable preference share is based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company.

Sensors Integration Technology Limited will declare a dividend to its shareholders only if Sensors Integration Technology Limited has received written confirmation from the Company that the Company is permitted to declare and pay a dividend in the same amount to the holders of the convertible redeemable preference shares and an undertaking to declare and pay such a dividend.

### (iv) Redemption

A holder of the convertible redeemable preference shares may by notice in writing to the Company requires the Company to redeem all or any of the outstanding convertible redeemable preference shares, whereupon subject to the requirements of the Bermuda Companies Act. The Company shall pay to such holder a redemption amount equal to the aggregate initial subscription price of such number of convertible redeemable preference shares so redeemed together with the cumulative dividend that has accrued and payable upon the occurrence of any of the following (whichever is the earliest):

(a) 31 December 2016;

(b) any consolidation, amalgamation or merger of the Company with any other corporation;

(c) listing of the ordinary shares of the Company are revoked or withdrawn (except in connection with the simultaneous listing of the ordinary shares on such other internationally recognised stock exchange);

(d) a directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company; or

(e) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company.

## 32. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

**(v) Priority**

The convertible redeemable preference shares rank in priority to the ordinary shares in the Company as to dividends and a return of the capital paid up on the convertible redeemable preference shares. Once the capital paid up has been returned and all the accumulative dividends has been paid, the convertible redeemable preference shares are not entitled to any further payment from or distributions by the Company.

**(vi) Voting**

The convertible redeemable preference shares do not entitle the holders to attend or vote at meeting of the Company except on resolutions which directly affect their rights or on a winding-up of the Company or a return or repayment of capital.

**(vii) Further issues**

New issues of convertible redeemable preference shares has been permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

The net proceeds received from the issue of the convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial Instruments: Presentation":

(i) Debt component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the period is calculated by applying effective interest rate of 13.83% per annum of the debt component for the period since the alternation of the terms of the convertible redeemable preference shares on 3 July 2007.

(ii) Equity component represents the difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component.

## 33. DEFERRED TAXATION

The following are the deductible temporary differences not recognised by the Group in the consolidated financial statements:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Tax losses | **437,778** | 444,685 |
| Unrealised intragroup profits on properties held for sale | **477,835** | 429,235 |
| Accelerated tax depreciation | **723** | 886 |
| | **916,336** | 874,806 |

At 30 June 2012, the Group has unused tax losses of approximately HK$437,778,000 (2011: HK$444,685,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$437,778,000 (2011: HK$444,685,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely.

The other deductible temporary difference of approximately HK$478,558,000 (2011: HK$430,121,000) as at 30 June 2012 had not been recognised as it was not probable that taxable profit would be available against which the other deductible temporary difference can be utilised.

## 34. CONTINGENT LIABILITIES

The Group had the following outstanding litigations as at 30 June 2012. Except as disclosed in (b) and (c) below, the directors of the Company are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

(a) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood Limited ("Holyrood"), a subsidiary of the Company, claiming damages for breach of an agreement for sale and purchase of Flat B on the 5th Floor of Block A1 and the car parking space No. 5 of the Peak Road Project. The pleading stage is completed and the litigation is still ongoing. As the amount of damages and claims have not been stated, no such details are available.

## 34. CONTINGENT LIABILITIES (Cont'd)

(b) On 1 June 2007, Gateway International Development Limited ("Gateway") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood a total sum of amount not less than HK$5,048,000, claiming, among others, damages for breach of an agreement for sale and purchase of Flat A on the 6th Floor of Block A2 and the car parking space No. 51 of the Peak Road Project, breach of the Deed of Mutual Covenant and nuisance on the development. The judgment was handed down on 1 March, 2012 against Holyrood. Holyrood was ordered to pay Gateway the sum of HK$4,967,000 plus interest. The judge has also made a costs order nisi that Holyrood shall pay the legal costs of Gateway on an indemnity basis, which is approximately HK$4,000,000. Holyrood has filed a notice of appeal on 29 March 2012 against the judgment. The appeal will be heard on 25 to 27 June 2013.

On 28 June 2012, Holyrood paid a deposit of HK$6,692,000 to the Court of Appeal, representing the aggregate of (i) the damages of HK$4,967,000 and (ii) interest of HK$1,725,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012.

The legal cost of HK$4,000,000 is charged to profit or loss during the year ended 30 June 2012.

(c) On 1 June 2007, Sun Crown Trading Limited ("Sun Crown") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood a total sum of amount not less than HK$5,154,000, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 6th Floor of Block A2 and the car parking spaces Nos. 47 and 48 of the Peak Road Project, breach of the Deed of Mutual Covenant and nuisance on the development. The judgment was handed down on 1 March 2012 against Holyrood. Holyrood was ordered to pay Sun Crown the sum of HK$4,953,000 plus interest. The judge has also made a costs order nisi that Holyrood shall pay the legal costs of Sun Crown on an indemnity basis, which is approximately HK$4,000,000. Holyrood has filed a notice of appeal dated 29 March 2012 against the judgment. The appeal will be heard on 25 to 27 June 2013.

On 28 June 2012, Holyrood paid a deposit of HK$6,685,000 to the Court of Appeal, representing the aggregate of (i) the damages of HK$4,953,000 and (ii) interest of HK$1,732,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012.

The legal cost of HK$4,000,000 is charged to profit or loss during the year ended 30 June 2012.

## 34. CONTINGENT LIABILITIES (Cont'd)

(d) On 18 July 2011, Century Pacific Holdings Limited ("Century Pacific") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 3rd Floor of Block A2 and the car parking space No. 38 of the Peak Road Project, breach of the Deed of Mutual Covenant and nuisance on the development. On 4 July 2012 and 3 September 2012, Century Pacific issued summons for extension to file and serve its statement of claim. The date of hearing has not been fixed. As the amount of damages and claims are to be assessed, no such details are available.

Based on the legal advice obtained by the Group, except for the damage, interest and legal cost stated in (b) and (c) above, the Board is of the opinion that the Group has grounds to successfully contest the remaining claims and the lawsuits will not have a material adverse effect on the consolidated financial statements of the Group. Accordingly, no further provision is considered necessary.

## 35. PLEDGED OR SECURED ASSETS

At the end of the reporting period, the following assets of the Group were pledged or secured to support credit facilities (including letter of guarantee) granted to the Group:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Properties held for sale | **759,107** | 759,107 |
| Investment properties | **242,000** | 248,000 |
| Leasehold properties | **75,063** | 77,695 |
| Deposit placed for a life insurance policy | **21,028** | – |
| Bank deposits | **50,366** | 61,271 |
| | **1,147,564** | 1,146,073 |

## 36. RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group joined the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65, death or total incapacity.

The aggregate employer's contributions during the year ended 30 June 2012 recognised in the consolidated statement of comprehensive income of the Group amounted to HK$77,000 (2011: HK$163,000).

## 37. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

The Group had the following transactions with parties/persons deemed to be "connected persons" by the Stock Exchange which are also the related parties to the Group under the definition of HKAS 24 "Related Party Disclosures".

(a) Lilian Oung, a director of certain subsidiaries and also one of the shareholders of Five Star, has provided personal guarantees in respect of the following:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Credit facilities granted to the Group | **326,681** | 722,105 |

(b) Margaret Oung, a director of certain subsidiaries and also one of the shareholders of Gold Seal Holdings Limited ("Gold Seal"), a shareholder of the Company, has provided personal guarantees in respect of the following:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Credit facilities granted to the Group | **320,000** | – |

## 37. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS (Cont'd)

(c) Details of the amounts due to directors of the subsidiaries are set out in note 27.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Directors' emoluments | **1,210** | 1,088 |
| Short-term employee benefits | **325** | 291 |
| Post-employment benefits | **10** | 9 |
| | **1,545** | 1,388 |

The remuneration of directors and key executives are determined by the board of directors after recommendation from the remuneration committee, having regard to the responsibilities of the directors and key executives, the operating results, individual performance and comparable market statistics.

## 38. OPERATING LEASE ARRANGEMENTS

At the end of the reporting period, for certain of the Group's properties held for sale the Group had contracted with tenants for the following future minimum lease payments.

**The Group as lessor**

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **7,897** | 13,007 |
| In the second year | **2,171** | 5,881 |
| | **10,068** | 18,888 |

Under the leases entered by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have tenants for a term of two years.

## 38. OPERATING LEASE ARRANGEMENTS (Cont'd)

**The Group as lessee**

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **324** | 561 |
| In the second year to fifth years, inclusive | **136** | 487 |
| | **460** | 1,048 |

The minimum lease payments under operating lease recognised as an expense for the year is HK$552,000 (2011: HK$897,000). Operating lease payments represent rentals payable by the Group for certain of its office properties, leases are negotiated for a term of 21 months.

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued share capital | Proportion of nominal value of issued share capital held by the Company at 30 June 2011 and 2012 | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Banhart Company Limited | Hong Kong | Ordinary HK$9,998 | – | 100% | Property holding |
| | | Non-voting deferred* HK$2 | | | |
| Alpard Limited | Hong Kong | Ordinary HK$10 | – | 100% | Property investment and holding |
| Bowen Hill Limited | British Virgin Islands# | US$1 | – | 100% | Investment holding |
| Gainbest Venture Limited | British Virgin Islands# | US$1 | 100% | – | Investment holding |

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued share capital | Proportion of nominal value of issued share capital held by the Company at 30 June 2011 and 2012 Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Holyrood Limited | Hong Kong | Ordinary HK$999,998<br><br>Non-voting deferred* HK$2 | 99.9% | 0.1% | Property holding |
| Homjade Trading Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | – | General trading |
| Paladin Leisure Limited | British Virgin Islands# | US$1 | 100% | – | Investment holding |
| Perfect Place Limited | British Virgin Islands# | US$1 | 100% | – | Investment holding |
| Petersham Limited | Hong Kong | Ordinary HK$2 | – | 100% | Property management |
| Sensors Integration Technology Limited | Hong Kong# | Ordinary HK$0.01 | – | 100% | Investment holding |
| Six Gain Investments Limited | Hong Kong# | Ordinary HK$2 | 100% | – | Investment holding |
| Venus Forture Limited | Hong Kong | Ordinary HK$1 | – | 100% | Property holding |
| Wayguard Limited | Hong Kong | Ordinary HK$10 | – | 100% | Property holding |
| World Modern International Limited | Hong Kong | Ordinary HK$1 | – | 100% | Property holding |

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or to vote at any general meetings of the company or to participate in any distribution on winding up.

\# These are investment holding companies which have no specific principal place of operations.

The above lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 30 June 2012 or at any time during the year.

## 40. EVENTS AFTER THE REPORTING PERIOD

During the year, the Group has entered into agreement with an independent third party for sale of a property held for sale with a consideration of HK$75,000,000. This transaction was completed on 28 August 2012, resulting to gross profit of HK$30,700,000. As at 30 June 2012, a sales deposit of HK$7,500,000 was received by the Group and included in other payables (note 26).

On 23 August 2012, the Group has entered into a provisional sale and purchase agreement with an independent third party for sale of a property held for sale with a consideration of HK$86,500,000. This transaction is expected to be complete in November 2012.

## 41. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period is set out below:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | | |
| Investment in subsidiaries | **33,360** | 33,360 |
| Other receivables | **23** | 223 |
| Bank balances | **9,188** | 6,735 |
| | **42,571** | 40,318 |
| Total liabilities | | |
| Other payable and accrued charges | **1,177** | 1,333 |
| Amount due to directors of subsidiaries | **53,667** | 92,364 |
| Amounts due to subsidiaries | **516,921** | 573,220 |
| Convertible redeemable preference shares | **34,938** | 30,560 |
| Net assets | **(564,132)** | (657,159) |
| Capital and reserve | | |
| Share capital | **7,520** | 5,372 |
| Reserves *(Note)* | **(571,652)** | (662,531) |
| Total equity | **(564,132)** | (657,159) |

*Note:* Movements of the Company's reserves during the current and prior years are as follows:

| | *HK$'000* |
|---|---|
| At 1 July 2010 | (655,418) |
| Convention of convertible redeemable preference shares | 4 |
| Total comprehensive expense for the year | (7,117) |
| At 30 June 2011 | (662,531) |
| Convention of convertible redeemable preference shares | 4 |
| Open offer of new shares | 33,303 |
| Transaction costs attributable to open offer of new shares | (3,003) |
| Total comprehensive income for the year | 60,575 |
| At 30 June 2012 | (571,652) |

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Turnover | 88,594 | 77,501 | 173,567 | 750 | **1,276** |
| (Loss) profit before taxation | (45,114) | 23,640 | 26,298 | (35,455) | **(30,062)** |
| Taxation charge | – | (1,145) | (43,400) | – | **(14,793)** |
| (Loss) profit for the year attributable to equity holders of the Company | (45,114) | 22,495 | (17,102) | (35,455) | **(44,855)** |

## ASSETS AND LIABILITIES

| | At 30 June | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 1,454,015 | 1,222,116 | 1,142,463 | 1,230,811 | **1,342,870** |
| Total liabilities | (1,513,397) | (1,261,381) | (1,197,844) | (1,321,088) | **(1,445,256)** |
| Deficiency of shareholders' funds | (59,382) | (39,265) | (55,381) | (90,277) | **(102,386)** |

Particulars of the properties held by the Group as at 30 June 2012 are as follows:

*(a)* *Properties held for sale*

| **Address** | **Purpose** | **Remaining unsold units** | **Approximate gross area** *(Sq. ft.)* | **Attributable interest of the Group** |
|---|---|---|---|---|
| Block A1<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 12 units | 39,407 | 100% |
| Block A2<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 5 units | 20,078 | 100% |
| Block B<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 1 house | 9,215 | 100% |
| Car parking spaces<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 31 units | – | 100% |
| Motorcycle parking spaces<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 5 units | – | 100% |

*(b) Leasehold properties*

| Address | Purpose | Approximate saleable area *(Sq. ft.)* | Lease term |
|---|---|---|---|
| Room 4501, 45th Floor<br>Office Tower<br>Convention Plaza<br>1 Harbour Road<br>Wanchai<br>Hong Kong<br>(21,061/4,000,000th shares of and in Inland Lot No. 8595) | Commercial | 8,260 | Long |

*(c) Investment properties*

| Address | Purpose | Approximate gross area *(Sq. ft.)* | Lease term |
|---|---|---|---|
| Duplex Unit A<br>G/F and 1/F<br>Block A2<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 4,227 | Long |
| Unit A, 2/F<br>Block A2<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential | 2,719 | Long |
| Car parking spaces<br>Nos. 8, 10 and 12<br>Peak Road<br>The Peak<br>Hong Kong | Residential<br>2 units | – | Long |