NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. GENERAL

China Golden Development Holdings Limited (formerly known as I-Wood International Holdings Limited) (the "Company") was incorporated in Bermuda on 8 August 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 October 2000.

The Company is an investment holding company. Its subsidiaries (together with the Company hereinafter referred to as the "Group") are principally engaged in cruise and cruise-related business.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by HKICPA.

SSAP 12 (Revised)	Income taxes

SSAP 12 (Revised) requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary difference arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantively enacted at the balance sheet date.

Details of the relevant accounting policy are set out in note 3g to the financial statements.

The adoption of revised SSAP as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable HKFRS (which include all applicable SSAPs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, modified with respect to the measurement of certain fixed assets, as further explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

a. Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries, and are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of consolidation *(continued)*

Intra group balances and transactions and any unrealised profits arising from intra group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra group transactions are eliminated unless cost cannot be recovered.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

The equity and net profit attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

b. Subsidiaries

A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c. Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of the subsidiaries at the date of acquisition. It is carried at cost less accumulated amortisation and accumulated impairment losses, and is capitalised and amortised on a straight line basis over its estimated useful life of 5 years. The amortisation charge for each period is recognised as an expense.

Negative goodwill represents the excess, as at the date of the transaction, of the Group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. It is presented in the same balance sheet classification as goodwill and as a deduction from assets. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the Group's plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised as income immediately. For acquisitions prior to 1 April 2001, negative goodwill was taken directly to capital reserve on acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Goodwill *(continued)*

On disposal of an interest in a subsidiary, the attributable amount of goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the gain or loss on disposal.

d. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided to write off the cost of each asset over its estimated useful life using the straight line method. The annual rates of depreciation are as follows:

Cruise ship	4%
Furniture and equipment	20% - 50%
Motor vehicles	10% - $33^1/_3$%

Gain and loss on disposal of fixed assets is recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

e. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a first-in, first-out basis and includes all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated the selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Inventories *(continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

g. Income taxes

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Generally all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the company has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income taxes levied by the same tax authority on the same taxable entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the financial statements of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of individual companies within the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

i. Provision and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

j. Turnover and revenue recognition

Turnover represents cruise revenue (excluding business tax) and after allowances for returns and discounts.

The cruise revenue made in the People's Republic of China ("PRC") are subject to the PRC business tax at a rate of 3%.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Cruise revenue is recognised when the relevant services have been rendered. Cruise revenue, and all associated direct costs of a voyage, are generally recognised on a pro rata basis over the period. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k. Operating leases

Leases are classified as operating leases where substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor. Lease payments under operating leases are recognised as an expense in the income statement on a straight line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight line basis.

l. Employee benefits

Salaries, annual leave and other benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

m. Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

n. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

o. Segments

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. RELATED PARTY TRANSACTIONS

a. Particulars of significant transactions between the Group and related parties during the year included the interest expenses paid by the Group of HK$93,000 (2003: HK$240,000) to Best Mineral Resources Limited ("BMRL") which was incorporated in British Virgin Islands, a substantial shareholder of the Company in relation to a convertible bond issued to BMRL pursuant to a subscription agreement (note 25).

b. Details of balances due to related parties were as follows:

	2004	2003
	HK$'000	HK$'000
Mr. Wu Yijian, the chairman and an executive director	**500**	200
Mr. Sean Liu, an executive director	**57**	60
Mr. Mo Keung, an executive director	**1,246**	1,938
A company controlled by a minority shareholder of a subsidiary	**1,918**	–
Shareholder's loan payable to BMRL *(note 24)*	**12,000**	–
Convertible bond payable to BMRL *(note 25)*	**–**	12,000

5. SEGMENT INFORMATION

No analysis by principal activities and geographical markets of the Group's turnover and contribution to operating profit for the year is provided as the Group has only one business segment, cruise and cruise-related business, and the consolidated turnover and results of the Group are attributable to a single voyage from Haikou in Hainan, the PRC via Beihai in Guangxi, the PRC, to Halong Bay in Vietnam.

6. TURNOVER

The Group is principally engaged in cruise and cruise-related business. Cruise and cruise-related revenues comprise sales of passenger tickets and revenues from on-board services, licensing of amusement facilities and other related services, including food and beverage.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

7. PROFIT BEFORE TAXATION

	2004	2003
	HK$'000	HK$'000
Profit before taxation is arrived at after charging:		
Interest on borrowings wholly repayable within five years:		
– Long-term loan	**–**	5,084
– Interest-bearing borrowings	**400**	–
– Convertible bond	**93**	240
– Others	**15**	–
Auditors' remuneration	**350**	500
Staff costs, including directors' remuneration as set out in Note 8 below:		
– Contributions to defined contribution plans	**108**	121
– Salaries and other staff costs	**13,954**	11,731
Depreciation of fixed assets	**7,656**	7,829
Amortisation of goodwill	**1,410**	1,410
Minimum lease payments under operating lease	**1,292**	1,710
Loss on disposal of fixed assets	**49**	61
Legal and professional fee for the issuance of secured guaranteed floating rate notes	**2,807**	–
Net exchange loss	**133**	599
and after crediting:		
Recovery of bad debts previously written off	**–**	1,081
Interest income from loans receivable	**1,017**	655

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

8. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

a. Details of directors' emoluments were:

	2004 HK$'000	2003 HK$'000
Fees		
– Executive directors	–	–
– Non-executive directors	12	–
	12	–
Other emoluments for executive directors		
– Basic salaries and allowances	2,170	1,950
– Contribution to pension scheme	32	24
	2,202	1,974
	2,214	1,974

No directors waived any emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument are within the following bands:

	2004 HK$'000	2003 HK$'000
Executive directors		
– Nil to HK$1,000,000	5	4
– HK$1,000,000 to HK$1,500,000	1	1
Non-executive directors		
– Nil to HK$1,000,000	2	2
	8	7

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

8. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS *(continued)*

b. Details of emoluments of the five highest paid individuals included three directors (2003: two), details of whose emoluments are set out in note 8a to the financial statements above. The emoluments of the remaining individuals for the year are as follows:

	2004 HK$'000	2003 HK$'000
Basic salaries and allowances	540	860
Contribution to pension scheme	13	6
	553	866

The remuneration of each of the aforesaid employees are within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK$1,000,000	2	3

9. TAXATION

The Company and its subsidiaries are subject to income tax on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

The Company is exempted from taxation in Bermuda until March 2016.

The profit from cruise and cruise-related business is exempted from the PRC enterprise income tax.

Provision for Hong Kong profits tax has not been made as the companies in the Group did not have assessable profits during the year.

Details of the deferred taxation are shown in note 26 to the financial statements.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

During the year, the consolidated profit attributable to shareholders included a loss of HK$4,583,000 (2003: HK$13,255,000) dealt with in the financial statements of the Company.

11. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2004 (2003: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 30 June 2004 was based on the profit attributable to shareholders of approximately HK$22,796,000 (2003: HK$15,954,000) and on the weighted average number of 409,222,500 (2003: 409,222,500) shares in issue during the year.

No potential dilutive shares existed as at 30 June 2004.

The calculation of the diluted earnings per share for the year ended 30 June 2003 is as follows:

	2003
Diluted earnings per share:	
Profit attributable to shareholders (in HK$'000)	15,954
Interest on convertible bond (in HK$'000)	240
Adjusted profit attributable to shareholders (in HK$'000)	16,194
Weighted average number of shares (in '000)	409,223
Potential dilutive shares (in '000)	
– Convertible bond	30,000
Adjusted weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	439,223
Diluted earnings per share (HK cents)	3.7

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

13. FIXED ASSETS

The Group

	Cruise ship	Furniture and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
As at 1 July 2003	200,036	1,705	1,001	202,742
Additions	–	363	–	363
Disposals	–	(154)	–	(154)
As at 30 June 2004	200,036	1,914	1,001	202,951
Accumulated depreciation				
As at 1 July 2003	14,999	627	159	15,785
Charge for the year	7,180	366	110	7,656
Disposals	–	(105)	–	(105)
As at 30 June 2004	22,179	888	269	23,336
Carrying amount				
As at 30 June 2004	177,857	1,026	732	179,615
As at 30 June 2003	185,037	1,078	842	186,957

The cruise ship was acquired by the Group on 28 June 2002 in connection with the acquisition of a 51% interest of Pacific Cruises (Hainan) Limited ("Pacific Cruises"). The last valuation of the cruise ship prior to acquisition was performed by Vigers Hong Kong Limited, independent qualified valuers, on 26 April 2002 on an open market value basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

13. FIXED ASSETS *(continued)*

The Company

	Office equipment HK$'000
Cost	
As at 1 July 2003	33
Disposals	(33)
As at 30 June 2004	–
Accumulated depreciation	
As at 1 July 2003	18
Charge for the year	2
Disposals	(20)
As at 30 June 2004	–
Carrying amount	
As at 30 June 2004	–
As at 30 June 2003	15

14. INTERESTS IN SUBSIDIARIES

	2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	160,281	133,793
	160,282	133,794
Impairment losses	(1,619)	(1,619)
	158,663	132,175

The amounts due from subsidiaries are unsecured, interest-free and not expected to be realised within one year from the balance sheet date.

The underlying value of the investments in subsidiaries is, in the opinion of the directors, not less than its carrying value as at 30 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

14. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the subsidiaries as at 30 June 2004 are as follows:

Name	Place of incorporation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activity
Held directly:				
All Chance Resources Limited	British Virgin Islands	US$1	100%	Investment holding
Bright Chance (Asia) Limited	Hong Kong	HK$1,000	100%	Provision of administrative services
Held indirectly:				
Best Paradise Assets Limited	British Virgin Islands	US$2	100%	Investment holding
Pacific Cruises (Hainan) Limited	Hong Kong	HK$10,000,000	51%	Cruise services
Ming Fai Princess Entertainment Limited (formerly known as China Faith Management Limited)	British Virgin Islands	US$1,000	100%	Dormant
China Golden Fountain Limited (formerly known as China Golden Development Holdings Limited)	Hong Kong	HK$1	100%	Dormant

None of the subsidiaries had any loan capital in issue at any time during the year ended 30 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

15. GOODWILL

	HK$'000
Cost	
As at 30 June 2003 and 30 June 2004	7,052
Accumulated amortisation	
As at 1 July 2003	1,430
Amortisation for the year	1,410
As at 30 June 2004	2,840
Carrying amount	
As at 30 June 2004	4,212
As at 30 June 2003	5,622

The goodwill was related to the acquisition of the entire equity interests in Best Paradise Assets Limited ("BPAL"). BPAL owns a 51% equity interest in Pacific Cruises, a company incorporated in Hong Kong and act as an operator of a cruise ship.

16. INVENTORIES

	2004	2003
	HK$'000	HK$'000
Consumable inventories for cruise operations		
– Food and beverages	**482**	295
– Supplies, spares and consumables	**1,073**	937
	1,555	1,232

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

17. LOANS RECEIVABLE

	2004	2003
	HK$'000	HK$'000
Loans initiated in		
– January 2003 *(Note a)*	**–**	23,325
– June 2004 *(Note b)*	**20,023**	–
	20,023	23,325

a. The loan with an original principal of HK$23,000,000 was unsecured, interest-bearing at 3% per annum and fully settled during the year.

b. The loans with an original principal of HK$20,000,000 were unsecured, interest-bearing at 6% per annum and repayable on or before 23 March 2005, The loans have been fully settled in October 2004.

The directors have reviewed and assessed the collectibility of the outstanding loan balance as at 30 June 2004 and considered no provision for doubtful loan receivable is necessary.

18. TRADE RECEIVABLES

The credit terms of the Group range from 0 to 90 days. The aging analysis of trade receivables is as follows:

	2004	2003
	HK$'000	HK$'000
Aged for:		
0 to 30 days	**7,602**	8,236
31 to 60 days	**7,609**	8,100
61 to 90 days	**7,600**	8,134
Over 90 days	**6,975**	9,411
	29,786	33,881

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

19. CASH AND CASH EQUIVALENTS

	2004 HK$'000	2003 HK$'000
Cash and bank deposits denominated in RMB	**1,834**	1,324
Cash and bank deposits denominated in other currencies	**18,957**	35
	20,791	1,359

At present, RMB is not a freely convertible currency in the international market and its exchange rate is fixed by the PRC government.

20. INTEREST-BEARING BORROWINGS

	2004 HK$'000	2003 HK$'000
Secured guaranteed floating rate notes		
Wholly repayable		
Within one year	**18,018**	–
Between one to two years	**13,474**	–
	31,492	–
Portion classified as current liabilities	**(18,018)**	–
Non-current portion	**13,474**	–

At the balance sheet date, the Company had a net outstanding secured guaranteed floating rate notes due 2006 in the principal amount of US$4,037,500 (the "Floating Rate Notes"). The Floating Rate Notes carry interest at the rate equivalent to LIBOR for deposits in US Dollars for one month plus a margin of 1.5% per annum and are repayable on 20 January 2006.

The Floating Rate Notes are secured by (i) the Company's 51% equity interest in Pacific Cruises, (ii) the cruise ship known as "Ming Fai Princess" (the "Cruise Ship"), (iii) certain receivables and bank deposits of Pacific Cruises, (iv) all monies payable to Pacific Cruises in respect of the requisition of title or compulsory acquisition of the Cruise Ship and the insurance policies of the Cruise Ship, (v) joint and several personal guarantees executed by three executive directors of the Company, namely Messrs. Wu Yijian, Sean Liu and Mo Keung (the "Guarantors") and (vi) the subordination of the present and future indebtedness owing by the Company to the Guarantors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

21. TRADE PAYABLES

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade payables is as follows:

	2004	2003
	HK$'000	HK$'000
Aged for:		
0 to 30 days	**1,511**	116
31 to 60 days	**1,270**	53
61 to 90 days	**571**	886
91 to 180 days	**983**	1,647
181 to 365 days	**–**	1,253
	4,335	3,955

22. ACCRUALS AND OTHER PAYABLES

Details of accruals and other payables are as follows:

	2004	2003
	HK$'000	HK$'000
Amount due to a minority shareholder of a subsidiary *(note)*	**1,450**	16,746
Salaries, wages and other staff welfare payable	**1,024**	1,264
Individual income tax payable	**616**	337
Others	**3,450**	7,047
	6,540	25,394

This represents short-term advances from Mr. Wong Kin Ming. Mr. Wong Kin Ming owns 49% equity interests of Pacific Cruises, a 51% subsidiary of the Company. Such short-term advances were unsecured, interest-free and with no fixed terms of repayment.

23. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and with no fixed terms of repayment.

24. SHAREHOLDER'S LOAN

On 19 November 2003, the Company and BMRL has entered into an agreement that the outstanding balance of the convertible bond amounted to HK$12,000,000 has been converted into a shareholder's loan ("Shareholder's Loan"). The Shareholder's Loan is unsecured, interest-free and repayable on 20 January 2006.

Mr. Sean Liu and Mr. Wu Yijian, both are directors of the Company, held 70% and 30% shareholding interests in BMRL respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

25. CONVERTIBLE BOND

Pursuant to a subscription agreement (the "Subscription Agreement"), the Company issued a convertible bond on 19 November 2001 amounting to HK$16,000,000 to BMRL.

The convertible bond was unsecured, interest-bearing at 2% per annum and repayable on 18 November 2003 if not converted. Under the Subscription Agreement, BMRL has the right to convert the convertible bond into ordinary shares of the Company at HK$0.4 per share (subject to adjustment).

On 24 October 2003, the Bondholder agreed in writing that it will not demand the repayment of the outstanding principal amount of the convertible bond and the interest accrued thereon in the period of twelve months following the maturity date of the convertible bond.

On 18 November 2003, the Bondholder agreed in writing that it waived its right stated in the Subscription Agreement. The outstanding principal amount of the convertible bond was converted into the Shareholder's Loan which was unsecured, interest-free and repayable on 20 January 2006.

26. DEFERRED TAXATION

Deferred tax assets not recognised:

The Group did not have material deferred tax liabilities and assets recognised in the balance sheet.

27. SHARE CAPITAL

	Number of shares	**Nominal value**
	'000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised		
As at 30 June 2003 and 30 June 2004	1,000,000	100,000
Issue and fully paid		
As at 30 June 2003 and 30 June 2004	409,223	40,922

There were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

28. SHARE OPTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of attracting and retaining quality personnel and other persons and providing incentive to them, including any directors, employees, consultants and service providers of the Group and any persons or entities having business with the Group. The Scheme became effective on 6 November 2001 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company at 6 November 2001 ("General Limit") unless its shareholders in general meeting renew such a limit. The General Limit was refreshed to 40,922,250 shares at the special general meeting of the Company on 15 June 2004. Notwithstanding aforesaid in this paragraph, the aggregate number of shares issued or issuable under the Scheme and any other scheme(s) of the Company shall not exceed 30% of its issued share capital from time to time.

The offer of a grant of share options may be accepted by the grantee within 21 days from the date of the offer. The exercise period of the share options granted (including the minimum period, if any, for which an option must be held before it can be exercised) is determinable by the Company's directors, and in any event such period of time shall not exceed 6 November 2011.

The exercise price of the share options shall be the higher of (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant (subject to Scheme adjustments).

28. SHARE OPTIONS *(continued)*

During the year, share options were granted under the Scheme as follows:

Name of category of participant	Number of share options: As at 1 July 2003	Issued during the year	Exercised during the year	As at 30 June 2004	Date of grant of share options	Exercise period of share options	Price of share options HK$
Directors							
Mo Keung	–	4,092,225	–	4,092,225	23 February 2004	23 February 2004 to 22 February 2009	0.54
Chan Wing Yau George	–	4,092,225	–	4,092,225	23 February 2004	23 February 2004 to 22 February 2009	0.54
Employees	–	2,046,113	–	2,046,113	24 February 2004	24 March 2004 to 23 March 2009	0.54
	–	2,046,112	–	2,046,112	24 February 2004	24 August 2004 to 23 August 2009	0.54
	–	4,092,225	–	4,092,225	26 March 2004	26 March 2004 to 25 March 2009	0.463
Consultants	–	4,092,225	–	4,092,225	23 February 2004	23 February 2004 to 22 February 2009	0.54
	–	12,276,675	–	12,276,675	26 March 2004	26 March 2004 to 25 March 2009	0.463
	–	32,737,800	–	32,737,800			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

29. RESERVES

The Group

	Share premium	Capital reserve	Statutory reserve	Revaluation reserve	Cumulative translation adjustments	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note a)	*(Note c)*				
As at 30 June 2002	43,973	19,193	1,799	9,754	(187)	17,103	91,635
Attributable to disposal of subsidiaries	–	30,693	(1,799)	(9,754)	–	(19,140)	–
Translation adjustments	–	–	–	–	1,195	–	1,195
Net profit for the year	–	–	–	–	–	15,954	15,954
As at 30 June 2003	43,973	49,886	–	–	1,008	13,917	108,784
Net profit for the year	–	–	–	–	–	22,796	22,796
As at 30 June 2004	43,973	49,886	–	–	1,008	36,713	131,580

The Company

	Share premium	Contributed surplus	Accumulated loss	Total
	HK$'000	HK$'000	HK$'000	HK$'000
		(Note b)		
As at 30 June 2002	43,973	49,886	(2,444)	91,415
Net loss for the year	–	–	(13,255)	(13,255)
As at 30 June 2003	43,973	49,886	(15,699)	78,160
Net loss for the year	–	–	(4,583)	(4,583)
As at 30 June 2004	43,973	49,886	(20,282)	73,577

Notes:

a. Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to a group reorganisation (the "Reorganisation") by which the Company became the holding company of the other companies comprising the Group on 28 September 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

29. RESERVES *(continued)*

b. Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

c. Statutory reserve

The subsidiary established in PRC was required by PRC Company Law to appropriate 10% of it statutory after-tax profit to a general reserve fund until the balance of the fund reached 50% of share capital and thereafter any further appropriation was optional. The general reserve fund could be utilised to offset prior years' losses or to increase share capital on the condition that the general reserve fund must be maintained at a maximum of 25% of the share capital after such issuance.

30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Details of disposal of a subsidiary for the year ended 30 June 2003 were as follows:

	2003 HK$'000
Fixed assets	58,473
Trade receivables	3,657
Prepayments and other receivables	5,048
Inventories	17,547
Cash and bank deposits	35,895
Trade payables	(10,950)
Other payables	(13,930)
Tax payable	(17,105)
Bank loan	(22,384)
Group's share of net assets disposed of	56,251
Loss on disposal of a subsidiaries	(10,251)
Consideration	46,000

Net cash outflow from disposal of subsidiaries are as follows:

Cash and bank deposits disposed of	(35,895)
Cash consideration received	46,000
Net cash outflow from disposal of subsidiaries	10,105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

b. Major non-cash transactions:

Save as disclosed elsewhere, the following major non-cash transactions were entered into during the year:

1. The balance of trade receivable of HK$61,250,000 was received by a minority shareholder on behalf of the Group as repayment of the outstanding amount due to such shareholder.

2. An amount of convertible bond of HK$12,000,000 was settled by the Shareholder's Loan.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 30 June 2004, the Group had total future minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2004	2003
	HK$'000	HK$'000
Within one year	**814**	990
In the second to fifth years inclusive	**540**	949
	1,354	1,939

32. ASSETS PLEDGED

At the balance sheet date, the Cruise Ship with carrying amount of HK$177,857,000, the Company's 51% equity interest in Pacific Cruises and certain receivables and bank deposits of Pacific Cruises have been charged as collateral for the security of the issuance of the Floating Rate Notes.

33. CONTINGENT LIABILITIES

As at 30 June 2004, the Group and the Company had no (2003: no) contingent liabilities.