

Notes to the Financial Statements

for the year ended 31 December 2004

1. General Information

The Company was incorporated in Bermuda as an exempted company with limited liability on 8 April 1994 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 16 to the financial statements.

The Directors consider the Company’s ultimate holding company to be Ko Bee Limited, which is incorporated in the British Virgin Islands with limited liability.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) *Basis of preparation*

The financial statements on pages 28 to 98 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties as set out in note 2(g) to the financial statements.

The financial statements have been prepared on the going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group had net current liabilities of approximately HK\$70 million as at 31 December 2004. Of this amount, other borrowings of approximately HK\$36 million had been repaid after the balance sheet date. The directors are optimistic that the Group will be able to meet its obligations in full as they fall due for the foreseeable future since the Group had made a profit of approximately HK\$28 million in the current year, had net assets of approximately HK\$1,806 million at the balance sheet date, together with an additional fund of HK\$26.3 million (net of expenses) raised from placing of 10,000,000 new shares on 10 January 2005.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(b) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its associates.

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 unamortized goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) *Goodwill*

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisition of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

In respect of acquisition of associates, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. The cost of goodwill less accumulated amortisation and impairment is included in the carrying amount of the interests in associates.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(d) *Subsidiaries*

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

(e) *Associates*

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of net assets of the associates.

An assessment of investment in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

(f) *Property, plant and equipment*

(i) *Depreciation and amortisation*

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

Leasehold improvements	30%
Furniture, fixtures and equipment	10%–20%
Motor vehicles	6%–15%

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(f) *Property, plant and equipment (Continued)*

(ii) *Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(g) *Properties*

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods longer than 20 years are carried at valuation and are valued annually by professionally qualified executives of the Group and at least every three years by external valuers holding professional qualifications. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment property revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease previously recognised as an expense.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the lease.

Upon disposal, the revaluation surpluses or deficits relating to the investment properties disposed of are released from the investment property revaluation reserve and charged to the income statement.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(g) *Properties (Continued)*

(ii) *Properties held for or under development*

Properties held for or under development with the intention for holding for long-term purposes when completed or where no decision has yet been made on their purposes are included in the balance sheet as non-current assets and stated at cost, less impairment loss. Cost comprises the cost of acquisition of such properties, together with development expenditure, other relevant direct costs and borrowing costs capitalised in accordance with the Group's accounting policy.

(h) *Intangible assets*

(i) *Measurement basis*

Intangible assets representing urban infrastructure development rights are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(ii) *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is amortised from the date of initial recognition. Other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Goodwill	20 years
Urban infrastructure development rights	20 years

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(i) *Leases*

Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the asset to the Group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the leases. The corresponding liabilities net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease terms.

(j) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(k) *Other investments*

Other investments are intended to be held on a continuing basis for an identified long-term purpose and are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(l) *Foreign currencies*

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(m) *Income tax*

Income tax for the year comprises current and deferred taxes.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(m) *Income tax (Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) *Cash and cash equivalents*

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) *Impairment*

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(o) *Impairment (Continued)*

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) *Provisions*

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(q) *Employee benefits*

(i) *Employee entitlements*

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

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) *Bonus plans*

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Pension obligations*

The Group contributes to defined contribution retirement benefits schemes which are available to all employees. Contributions to the schemes by the company and employees are calculated as a percentage of employees' basic salaries. The retirement benefits scheme cost charged to the income statement represents contributions payable by the Group to the schemes.

The Group's contributions to the defined contribution retirement benefits schemes are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(iv) *Equity compensations benefits*

Share options are granted to directors and employees at a price determined in accordance with the Company's share option scheme on the date of the grant and are exercisable at that price. No compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

Notes to the Financial Statements

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2. Principal Accounting Policies (Continued)

(r) *Revenue recognition*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease terms. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Income from management services, property repair and maintenance services are recognised in the period when the respective services are rendered.

Revenue from urban infrastructure projects, such as the construction works for telecommunication pipelines, are recognised on a completed contract basis. Completion is determined based on certification by independent third party quantity surveyors.

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rate applicable.

(s) *Borrowing costs*

Costs incurred on borrowings that are directly attributable to the development of properties are capitalised as part of the cost of properties up to the completion of their development. Any other borrowing costs are charged to the income statement in the period in which they are incurred.

(t) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

Notes to the Financial Statements

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2. Principal Accounting Policies (Continued)

(t) *Contingent liabilities and contingent assets (Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) *Related parties*

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.

(v) *Segment reporting*

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, investment properties, inventories, receivables and operating cash, and mainly exclude interests in associates. Segment liabilities comprise operating liabilities and exclude borrowings and convertible bonds.

Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

Notes to the Financial Statements

for the year ended 31 December 2004

2. Principal Accounting Policies (Continued)

(w) *Recently issued accounting standards*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Turnover

	2004 HK\$'000	2003 HK\$'000
Turnover represents:		
Property rental income	85,692	80,468
Revenue from urban infrastructure	22,945	23,341
Proceeds from sale of properties	—	1,000
Building management service income	5,082	4,022
Property repair and maintenance service income	5,321	4,489
Mortgage interest income	450	660
Signage rental	11,160	9,523
Office facilities and service income	3,728	1,100
	134,378	124,603

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for the year ended 31 December 2004

4. Segment Information

Primary reporting format — business segments

The Group is organised into four main business segments:

Property leasing	:	Property rental including signage rental
Building management services	:	Provision of property management, repair and maintenance services
Property development	:	Property development and sale of properties
Urban infrastructure	:	Urban infrastructure development

Secondary reporting format — geographical segments

The Group's four business segments operate in the following geographical areas:

Hong Kong — Property rental and provision of property management, repair and maintenance services, property development and sales of properties

Mainland China — Urban infrastructure development

There are no sales between the geographical segments.

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for the year ended 31 December 2004

4. Segment Information (Continued)

(i) *Primary reporting format — business segments*

The following table presents revenue and results information for the year ended 31 December 2004 and certain assets and liabilities information as at 31 December 2004 for the Group's business segments:

	Building												Total		
	Property leasing		Management Services		Property development		Urban infrastructure		Others		Elimination		2004	2003	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003			
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000		
Segment revenue															
External customers	100,580	91,091	10,403	8,511	—	1,000	22,945	23,341	450	660	—	—	134,378	124,603	
Inter-segments	3,207	3,278	—	—	—	3,560	—	—	357	—	(3,564)	(6,838)	—	—	
	103,787	94,369	10,403	8,511	—	4,560	22,945	23,341	807	660	(3,564)	(6,838)	134,378	124,603	
Segment results	94,685	85,988	7,040	5,204	(168)	(751)	(6,702)	552	(1,563)	44,146	—	—	93,292	135,139	
Inter-segment transactions	3,607	1,288	74	—	—	—	—	—	(3,681)	(1,288)	—	—	—	—	
Contribution from operations	98,292	87,276	7,114	5,204	(168)	(751)	(6,702)	552	(5,244)	42,858	—	—	93,292	135,139	
Unallocated income and expenses													(17,152)	(18,297)	
Profit from operations														76,140	116,842
Finance costs														(36,634)	(54,658)
Gain/(loss) on disposal of subsidiaries														1,053	(203)
Share of profits less losses of associates														17	(4)
Profit before taxation														40,576	61,977
Taxation														(13,109)	510
Profit after taxation														27,467	62,487
Minority interest														867	(681)
Profit attributable to shareholders														28,334	61,806
Segment assets	3,084,652	2,253,920	3,062	4,599	25,192	25,199	73,921	55,420	23,225	30,305			3,210,052	2,369,443	
Interests in associates													2,910	2,937	
Total assets														3,212,962	2,372,380
Segment liabilities	49,907	40,535	6,587	8,061	411	433	22,662	22,704	17,247	11,859			96,814	83,592	
Unallocated liabilities													1,299,875	1,356,700	
Total liabilities														1,396,689	1,440,292

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4. Segment Information (Continued)

(i) *Primary reporting format — business segments (Continued)*

Other segment information extracted from the income statement and balance sheet.

	Property leasing		Building Management Services		Property development		Urban infrastructure		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	33,158	2,259	—	7	367	—	929	1,153	326	48	34,780	3,467
Depreciation	561	793	22	25	—	—	414	121	293	254	1,290	1,193
Amortisation of goodwill	—	—	—	—	—	—	73	73	—	—	73	73
Amortisation of intangible assets	—	—	—	—	—	—	199	134	—	—	199	134
Provision for doubtful debts	83	943	145	—	—	—	—	—	45	—	273	943
Bad debts written off	840	—	—	—	—	—	—	—	1,215	—	2,055	—
Impairment loss on goodwill	3,714	5,566	—	—	—	—	—	—	—	—	3,714	5,566

(ii) *Secondary reporting format — geographical segments*

The Group's operations are located in Hong Kong and other parts of the People's Republic of China ("PRC"). The following table provides an analysis of the Group's sales revenue by geographical market:

	Sales revenue by geographical market	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong	111,433	101,262
PRC	22,945	23,341
	134,378	124,603

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4. Segment Information (Continued)

(ii) Secondary reporting format — geographical segments (Continued)

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

	Carrying amount of segment assets		Additions to property, plant, equipment, and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	3,136,131	2,314,023	33,851	2,313
PRC	73,921	55,420	929	1,154
	3,210,052	2,369,443	34,780	3,467

5. Other Income

	2004 HK\$'000	2003 HK\$'000
Interest income	73	27
Miscellaneous income	3,308	4,944
Write back of overprovision for doubtful debts	222	295
Write back of provision for unlisted warrants*	5,318	—
Waiver of interest on other borrowings by ultimate holding company	—	46,064
	8,921	51,330

* The unlisted warrants granted by the Company to the Group's banks, in connection with the debt restructuring arrangement with the banks in 2000 which guaranteed a minimum return, lapsed on 31 January 2003. The liability in relation to the minimum return on the unlisted warrants no longer exists, and therefore provision of such unlisted warrants is written back.

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6. Profit from Operations

	2004 HK\$'000	2003 HK\$'000
Profit from operations is arrived at after charging:		
Amortisation of goodwill	73	73
Amortisation of intangible assets	199	134
Impairment loss on goodwill	3,714	5,566
Auditors' remuneration	926	716
Depreciation		
— owned assets	1,265	1,168
— leased assets	25	25
Cost of inventories recognised as expenses	17,217	14,274
Cost of properties sold	—	1,626
Operating lease charges in respect of premises	2,045	1,249
Provision for doubtful debts	273	943
Bad debts written off	2,055	—
Staff costs, excluding directors' remuneration (<i>Note 12</i>)	11,907	11,027
and crediting:		
Gross rental income from investment properties	85,692	77,572
Less: Outgoings	(3,389)	(2,346)
	82,303	75,226
Other rental income from other properties less outgoings	3,728	2,446
	86,031	77,672

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7. Finance Costs

	2004 HK\$'000	2003 HK\$'000
Interest charges on:		
Bank loans	20,942	30,782
Other borrowings		
— wholly repayable within five years	13,612	23,836
— not wholly repayable within five years	786	—
Convertible bonds	1,272	—
Finance charges on finance leases	22	40
Total borrowing costs	36,634	54,658

8. Taxation

The charge/(credit) comprises:

	2004 HK\$'000	2003 HK\$'000
Current tax — Hong Kong		
Tax for the year	109	19
Over provision in respect of prior years	—	(529)
	109	(510)
Deferred tax (<i>Note 28</i>)	13,000	—
Total income tax expense/(credit)	13,109	(510)

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8. Taxation (Continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

The Group's subsidiaries established and operating in PRC are exempt from enterprise income tax for the first two profitable years of operations, and thereafter, are eligible for a 50% relief from enterprise income tax for the following three years under the Income Tax Law of PRC.

For the year ended 31 December 2004, no provision for enterprise income tax has been made for the operations in PRC as the management consider that the Group's subsidiaries in PRC were still within the tax exemption period as described above.

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	40,576	61,977
Tax on profit, calculated at the rates applicable to profits in the tax jurisdiction concerned	8,450	10,098
Tax effect of non-deductible expenses	3,219	1,175
Tax effect of non-taxable revenue	(261)	(3,364)
Tax effect of taxable temporary differences not recognised	(531)	—
Tax effect of prior year's tax losses not recognised in prior year but utilised this year	(212)	(7,890)
Unrecognised tax losses	2,444	—
Over provision in prior years	—	(529)
Total taxation	13,109	(510)

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9. Profit Attributable to Shareholders

Of the consolidated profit attributable to shareholders of HK\$28,334,000 (2003: profit of HK\$61,806,000), a loss of HK\$16,945,000 (2003: profit of HK\$32,482,000) has been dealt with in the financial statements of the Company.

10. Dividend

(a) *Dividend attributable to the year*

	2004 HK\$'000	2003 HK\$'000
Proposed final dividend of HK\$0.025 (2003: HK\$0.02) per share	4,122	2,025

Final dividend of HK\$0.025 (2003: HK\$0.02) per share for the year to shareholders whose names appear on the register of members on 30 May 2005 (the "Record Date") was proposed by the Directors on 21 April 2005.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) *Dividend attributable to the previous financial year, approved and paid during the year*

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous financial year, of HK\$0.02 per share (2003: Nil)	2,025	—

Notes to the Financial Statements

for the year ended 31 December 2004

11. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$28,334,000 (2003: HK\$61,806,000) and on the weighted average of 111,487,217 shares (2003: 75,530,691 shares, restated) in issue during the year.

During the year, the Company made a bonus issue of shares on the basis of one new share for every five existing shares on 8 June 2004 (“Bonus Issue”). The weighted average number of shares for the year ended 31 December 2003, as if the Bonus Issue had occurred on 1 January 2003, was deemed to be 75,530,691 shares (62,942,243 shares before restatement). The calculation of diluted earnings per share for the previous year has been adjusted accordingly for this effect from 62,964,997 shares to 75,557,996 shares.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the year of HK\$28,859,000 (2003: HK\$61,806,000) and the weighted average of 129,994,685 shares (2003: 75,557,996 shares, restated) outstanding during the year, adjusted for the effects of all dilutive potential shares.

The adjusted net profit attributable to shareholders is calculated based on the net profit attributable to shareholders for the year of HK\$28,334,000 plus the reduction in interest payable of HK\$525,000 as a result of the deemed conversion of convertible bonds.

The weighted average number of shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 111,487,217 shares in issue during the year plus the weighted average of 18,507,468 shares deemed to be issued at no consideration as if all the Company’s dilutive potential shares been issued.

12. Staff Costs

	2004 HK\$'000	2003 HK\$'000
Staff costs, excluding directors’ emoluments, comprise:		
Salaries and wages	11,469	10,663
Pension costs — defined contribution benefits schemes	438	364
	11,907	11,027

Notes to the Financial Statements

for the year ended 31 December 2004

13. Investment Properties

Group

	2004 HK\$'000	2003 HK\$'000
Valuation		
As at 1 January	2,243,390	1,692,594
Transfer from properties held for sale	—	13,560
Transfer from properties held for development	—	12,000
Additions	18,050	1,750
Additions through acquisition of a subsidiary	11,436	—
Disposals	—	(1,000)
Surplus arising on revaluation	784,460	524,486
As at 31 December	3,057,336	2,243,390

All investment properties are situated in Hong Kong and are held under long term leases.

The investment properties of the Group were revalued at 31 December 2004 by an independent professional valuer, B.I. Appraisals Limited, on an open market value basis. The surplus arising on revaluation has been credited to investment property revaluation reserve in shareholders' equity.

Notes to the Financial Statements

for the year ended 31 December 2004

14. Property, Plant and Equipment

Group

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
As at 1 January 2004	8,433	8,420	1,798	18,651
Additions	367	654	559	1,580
Disposals	(79)	(97)	—	(176)
Disposal of subsidiaries	(268)	(4,356)	(1,102)	(5,726)
Translation difference	(1)	(16)	(3)	(20)
As at 31 December 2004	8,452	4,605	1,252	14,309
Accumulated depreciation				
As at 1 January 2004	7,172	6,406	1,217	14,795
Charge for the year	577	438	275	1,290
Disposals	—	(6)	—	(6)
Disposal of subsidiaries	(177)	(4,356)	(1,102)	(5,635)
Translation difference	—	(1)	—	(1)
As at 31 December 2004	7,572	2,481	390	10,443
Net book value				
As at 31 December 2004	880	2,124	862	3,866
As at 31 December 2003	1,261	2,014	581	3,856

The cost of properties, plant and equipment includes an amount of HK\$54,752 (2003: HK\$185,000) in respect of assets held under finance leases and the related accumulated depreciation amounts to HK\$54,752 (2003: HK\$97,000).

Notes to the Financial Statements

for the year ended 31 December 2004

15. Properties Held for Development

Group

	2004 HK\$'000	2003 HK\$'000
Cost		
As at 1 January	25,005	12,000
Transfer to investment properties	—	(12,000)
Transfer from deposits on acquisition of properties*	5,000	—
Transfer from properties for sale	—	25,005
As at 31 December	30,005	25,005

- * In prior years, there were deposits on acquisition of properties (the "Deposits") of HK\$5,000,000 arising from legal proceedings involving a wholly owned subsidiary of the Company (the "subsidiary") which was in the capacity of a plaintiff. Pursuant to the court order dated 17 April 2004, it was ordered by the High Court of the Hong Kong Special Administrative Region that, due to the failure of paying the said sum and accrued interests by the defendant, the subsidiary was granted the possession of the properties. The Deposits was therefore reclassified as properties held for development in the current year.

The properties held for development are situated in Hong Kong and are held under medium-term leases.

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries

Company

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	2,318,856	2,318,856
Less: Provision for impairment	(1,773,856)	(1,773,856)
	545,000	545,000
Amounts due from subsidiaries	1,477,687	1,471,161
Less: Provision for doubtful debts	(1,477,687)	(1,471,161)
	—	—
	545,000	545,000

Amounts due from subsidiaries are interest-free, unsecured and have no fixed repayment terms.

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries (Continued)

Particulars of the principal subsidiaries as at 31 December 2004 are as follows:

Name	Place of incorporation/ operations	Particulars of nominal value of issued share capital/ registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
Champion Fund Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100%	Property development
Digital World Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Property development
Future Base Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Property development
Gold Smart (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Provision of business centre and related services
Golden Relay Company Limited	Hong Kong	99,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Property development and property investment
Goldprofit (Consultant) Services Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Provision of building repairs and maintenance services
Goldwell Property Management Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100%	Provision of building management service
Join Success (Hong Kong) Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%	Property investment
Keyland Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%	Property investment
Pacific Well Realty Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Property investment
Rich Top Development Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%	Property investment
Solar Route Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Property investment

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ operations	Particulars of nominal value of issued share capital/ registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
Soundwill (BVI) Limited	British Virgin Islands	100,001,000 ordinary shares of HK\$1 each	100%	—	Investment holdings
Soundwill Finance Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Loan financing
Soundwill Real Estate Agency Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Provision of real estate agency services
Super Keep Investment Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$ 1 each	—	100%	Property development
Top Hill Holdings Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	70%	Property development
Wealthy Surplus Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Property Investment
Wonder Mark Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	—	100%	Property development
Soundwill (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Anhui) Limited	Hong Kong	9,999 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Investment holding
Soundwill (Chongqing) Limited	Hong Kong	100 ordinary shares of HK\$1 each	—	100%	Investment holding

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ operations	Particulars of nominal value of issued share capital/ registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
Soundwill (Fujian) Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Guangdong) Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Guangxi) Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Guizhou) Limited	Hong Kong	100,000 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Hebei) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Henan) Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Investment holding
Soundwill (Hubei) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Jiangsu) Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Investment holding
Soundwill (Jiangxi) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Jilin) Limited	Hong Kong	99 ordinary shares of HK\$1 each 1 non-voting deferred share of HK\$1 each	—	100%	Investment holding
Soundwill (Shaanxi) Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Shandong) Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	—	100%	Investment holding

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ operations	Particulars of nominal value of issued share capital/ registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
Soundwill (Sichuan) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Soundwill (Yunnan) Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
韶關城市管網建設投資管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
惠州市惠陽金朝陽城市管網 投資建設有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
柳州城市管網建設管理有限公司*	PRC	Registered capital of HK\$28,280,000**	—	30%	Urban infrastructure development
貴港金朝陽城市管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
南昌城市管網建設投資有限公司*	PRC	Registered capital of HK\$30,000,000**	—	30%	Urban infrastructure development
景德鎮城市管網建設投資管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
連雲港金朝陽城市管網 建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
武夷山市城市管道建設投資有限公司*	PRC	Registered capital of HK\$10,000,000**	—	30%	Urban infrastructure development
南平市(金朝陽)城市管道 建設投資管理有限公司*	PRC	Registered capital of HK\$25,000,000**	—	30%	Urban infrastructure development
威海市城市管網建設投資有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
資陽市金朝陽市政公用 管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
重慶金朝陽城市管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development

Notes to the Financial Statements

for the year ended 31 December 2004

16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ operations	Particulars of nominal value of issued share capital/ registered capital	Percentage of interest held by the Company		Principal activities
			Directly	Indirectly	
重慶合川市金朝陽城市 管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
重慶江津市金朝陽城市 管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
寶鷄市城市管網建設投資有限公司*	PRC	Registered capital of HK\$20,000,000	—	30%	Urban infrastructure development
渭南市城市管網建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
黃岡市城市管網建設投資有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
鄂州金朝陽城市管網 建設投資有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
玉溪市城市管道建設有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
許昌市市政公用管網 投資建設管理有限公司*	PRC	Registered capital of HK\$20,000,000**	—	30%	Urban infrastructure development
廣州金朝陽城市管網建設有限公司***	PRC	Registered capital of RMB10,000,000	—	100%	Urban infrastructure development

Note:

* These subsidiaries are cooperative joint ventures with limited liability.

** Pursuant to the joint venture agreements, the PRC parties to the agreements are required to contribute certain urban infrastructure development rights as capital contributions to these subsidiaries. As at the balance sheet date, such urban infrastructure development rights had not been injected to the subsidiaries as capital contributions.

*** This subsidiary is a foreign wholly-owned limited liability company.

Notes to the Financial Statements

for the year ended 31 December 2004

17. Interests in Associates

Group

	2004 HK\$'000	2003 HK\$'000
Share of net liabilities	(12,580)	(12,597)
Amounts due from associates	15,482	15,526
Premium on acquisition	8	8
	2,910	2,937

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

Name of associates	Place of incorporation/ operation	Percentage of interest held by the Group	Principal activities
Happy Wealth Industries Limited	Hong Kong	30%	Property investment
Wellway Estate Limited	Hong Kong	30%	Investment holding and property investment

Notes to the Financial Statements

for the year ended 31 December 2004

18. Other Investments

Group

	2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	6,660	6,660
Provision for impairment losses	(6,650)	(6,650)
	10	10
Listed equity securities, at cost — listed in Hong Kong	1	1
	11	11
Market value of listed investments	1	1

Unlisted investment represents 35% of the issued ordinary share capital of an unlisted company incorporated in Hong Kong.

The unlisted investment is classified as other investment because in the opinion of the Directors, the Group has no significant influence over the financial and operating policy decisions of the investee company.

Notes to the Financial Statements

for the year ended 31 December 2004

19. Instalments Receivable

Group

	Notes	2004 HK\$'000	2003 HK\$'000
Secondary mortgage loans	(a)	66	874
Long-term receivable	(b)	—	2,883
		66	3,757
Current portion		66	3,490
Non-current portion		—	267
		66	3,757

- (a) The amount represents the principal amounts of secondary mortgage loan to be received by instalments less any provision for doubtful debts. The gross amounts repayable by mortgagor where appropriate include principal and interest accrued on the balance outstanding at contracted rates.
- (b) The amount represents portion of sale proceeds of disposal of investment properties to be received by instalments.

Notes to the Financial Statements

for the year ended 31 December 2004

20. Intangible Assets

Group

	Urban infrastructure development rights
	HK\$'000
<hr/>	
Opening net book amount at 1 January 2004	3,895
Amortisation charge	(199)
Translation difference	(53)
<hr/>	
Closing net book amount at 31 December 2004	3,643
<hr/>	
At 31 December 2004	
Cost	4,029
Accumulated amortisation	(386)
<hr/>	
Net book amount	3,643
<hr/>	
At 31 December 2003	
Cost	4,029
Accumulated amortisation	(134)
<hr/>	
Net book amount	3,895
<hr/>	

The amortisation charge for the year is included in other operating expenses.

Notes to the Financial Statements

for the year ended 31 December 2004

21. Goodwill

Group

	HK\$'000
Opening net book amount at 1 January 2004	1,387
Additions	3,714
Amortisation charge for the year	(73)
Impairment loss	(3,714)
Closing net book amount at 31 December 2004	1,314
At 31 December 2004	
Cost	301,934
Accumulated amortisation	(300,620)
Net book amount	1,314
At 31 December 2003	
Cost	306,648
Accumulated amortisation and impairment losses	(305,261)
Net book amount	1,387

The amortisation charge for the year is included in administrative expenses.

Notes to the Financial Statements

for the year ended 31 December 2004

22. Inventories

Group

	2004 HK\$'000	2003 HK\$'000
Raw materials	465	67
Work in progress	17,405	7,414
Finished goods	10,206	6,651
	28,076	14,132

All inventories are carried at cost. Work in progress and finished goods represented urban infrastructure construction works either in progress or completed and available for sale respectively as at the balance sheet date.

23. Trade Debtors

As at balance sheet date, the Group's trade debtors included in debtors, prepayments and deposits amounted to HK\$29,173,000 (2003: HK\$25,959,000). The aging of these debtors is set out below:

	2004 HK\$'000	2003 HK\$'000
0-30 days	20,944	23,300
31-90 days	1,751	1,434
91-180 days	—	1,225
Over 180 days	6,478	—
	29,173	25,959

The credit terms of the Group range from 30 to 90 days.

Notes to the Financial Statements

for the year ended 31 December 2004

24. Trade Creditors

As at balance sheet date, the Group's trade creditors of HK\$27,588,000 (2003: HK\$29,825,000) were included in creditors, accruals and deposits received. The aging of these creditors is set out below:

	2004 HK\$'000	2003 HK\$'000
0-30 days	18,712	29,825
31-90 days	189	—
Over 90 days	8,687	—
	27,588	29,825

25. Borrowings

Group

	2004 HK\$'000	2003 HK\$'000
Loans		
Bank loans — secured	1,054,775	1,047,229
Other loans	96,576	106,647
Amount due to ultimate holding company	—	202,707
	1,151,351	1,356,583
Obligations under finance leases	25	117
	1,151,376	1,356,700
Less: Current portion due within one year included under current liabilities	(100,124)	(352,918)
Non current portion included under non-current liabilities	1,051,252	1,003,782

Notes to the Financial Statements

for the year ended 31 December 2004

25. Borrowings (Continued)

Group (Continued)

Loans of the Group are payable as follows:

	2004			2003		
	Bank loans- secured HK\$'000	Other loans HK\$'000	Due to ultimate holding company HK\$'000	Bank loans- secured HK\$'000	Other loans HK\$'000	Due to ultimate holding company HK\$'000
On demand or within one year	63,686	36,426	—	343,262	9,598	—
Within a period of more than one year not exceeding two years	53,719	26,150	—	39,572	8,400	202,707
Within a period of more than two years not exceeding five years	872,383	—	—	664,395	88,649	—
Due after five years	64,987	34,000	—	—	—	—
Total	1,054,775	96,576	—	1,047,229	106,647	202,707

Bank loans of the Group are secured by certain properties of the Group as set out in note 26 to the financial statements. Other loans are unsecured and interest bearing at 6% to 14% (2003: 5%–14%) per annum.

The amount due to the ultimate holding company (the “Shareholder’s loan”) is unsecured, bears interest at the Hong Kong Dollar Prime Lending Rate plus 1.75% per annum. During the year, the outstanding balance of the Shareholder’s loan was fully settled by the events as disclosed in note 36 to the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2004

25. Borrowings (Continued)

Group (Continued)

The analysis of the obligations under finance leases is as follows:

	2004 HK\$'000	2003 HK\$'000
Due within one year	14	80
Due in the second to fifth years	15	65
	29	145
Future finance charges on finance leases	(4)	(28)
Present value of finance lease liabilities	25	117
The present value of finance lease liabilities is as follows:		
Due within one year	12	58
Due in the second to fifth years	13	59
	25	117
Less: Portion due within one year included under current liabilities	(12)	(58)
Non-current portion included under non-current liabilities	13	59

Notes to the Financial Statements

for the year ended 31 December 2004

25. Borrowings (Continued)

Group (Continued)

The analysis of the maturities of the Group's borrowings is as follows:

	2004 HK\$'000	2003 HK\$'000
Wholly repayable within five years		
Loans		
— Bank loans — secured	989,788	1,047,229
— Other loans	62,576	106,647
— Amount due to ultimate holding company	—	202,707
	1,052,364	1,356,583
Obligation under finance leases	25	117
	1,052,389	1,356,700
Not wholly repayable within five years		
Loans		
— Bank loans — secured	64,987	—
— Other loans	34,000	—
	98,987	—
	1,151,376	1,356,700

Company

	2004 HK\$'000	2003 HK\$'000
Amount due to ultimate holding company	—	202,707

The amount due to the ultimate holding company was settled by the events as disclosed in note 36 to the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2004

26. Pledge of Assets

As at balance sheet date, properties of the Group with an aggregate net book value of HK\$3,008,976,000 (2003: HK\$2,216,046,000) were pledged to secure bank loans of HK\$1,054,776,000 (2003: HK\$1,047,229,000).

27. Convertible Bonds

Company and Group

	2004 HK\$'000	2003 HK\$'000
Convertible bonds due 2008	148,499	—

On 17 June 2004, the Company entered into an agreement (the “Agreement”) with Ko Bee Limited (“Ko Bee”) for the subscription by Ko Bee of the convertible bonds (the “Bonds”) of the Company with final maturity date on 17 June 2008 in the aggregate principle amount of HK\$148,499,490 which was set-off against the outstanding principal and interest of the unsecured loan granted by Ko Bee to the Company calculated up to and inclusive of the date before the Completion Date (as defined in the Agreement). Upon full conversion of the Bonds, 88,392,554 conversion shares will be issued at the conversion price of HK\$1.68 (subject to adjustment) each. The Bonds bear interest on the outstanding principal from the date of issue at the rate of 3% per annum below prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited. Upon the top-up placing made in January 2005, the conversion price and the total number of underlying shares was adjusted to HK\$1.66 and 89,457,524 respectively. As at 31 December 2004, none of the Bonds had been converted.

Notes to the Financial Statements

for the year ended 31 December 2004

28. Deferred Tax

Group

	2004 HK\$'000	2003 HK\$'000
At 1 January	—	—
Deferred tax charged to income statement (Note 8)	13,000	—
At 31 December	13,000	—

As at 31 December 2004, the amount of unrecognised deferred tax assets is mainly represented by tax effect of temporary differences attributable to unrecognised tax losses of HK\$50,173,000 (2003: HK\$48,342,000).

No deferred tax asset has been recognised due to the uncertainty of future profit streams against which the asset can be utilised.

The Company did not have any material temporary differences as at 31 December 2003 and 2004.

Notes to the Financial Statements

for the year ended 31 December 2004

29. Share Capital

	2004		2003	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At 1 January 2004	69,698,443	6,970	3,116,402,151	31,164
Share consolidation	—	—	(3,054,074,108)	—
Capital reduction	—	—	—	(24,931)
Exercise of warrants (note (a))	271,789	27	7,370,400	737
Exercise of share options (note (b))	400,000	40	—	—
New issue of shares (note (c))	13,939,688	1,394	—	—
Loan capitalisation (note (d))	17,000,000	1,700	—	—
Bonus issue (note (e))	20,253,971	2,025	—	—
Share repurchased (note (f))	(398,000)	(40)	—	—
	121,165,891	12,116	69,698,443	6,970

- (a) During the year, 271,789 warrants were exercised for 271,789 shares of HK\$0.10 at a price of HK\$2 each.
- (b) During the year, 400,000 share options were exercised for 400,000 shares of HK\$0.10 at a price of HK\$1.5 per share.
- (c) On 13 February 2004, the ultimate holding company of the Company, Ko Bee Limited (“Ko Bee”) subscribed for 13,939,688 shares at HK\$2.20 per share. Direct expenses incurred for this new issue of shares amounted to approximately HK\$567,000. Details are set out in note 36(c) to the financial statements.
- (d) Pursuant to a special resolution passed on 5 May 2004, Ko Bee subscribed for 17,000,000 shares at HK\$2.55 per shares in accordance with the terms of the Loan Capitalisation Agreement dated 17 March 2004. Details are set out in note 36(d) to the financial statements.
- (e) On 8 June 2004, the Company made a bonus issue of shares on the basis of one bonus share for every five shares of HK\$0.10 each held by the shareholders of the Company whose names appeared on the register of members of the Company on 31 May 2004.
- (f) During the year, the Company repurchased 398,000 shares of HK\$0.10 each on the Stock Exchange at the aggregate consideration of HK\$634,440.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes

The Company operates two share option schemes adopted on 25 February 1997 (the “1997 Share Option Scheme”) and 22 July 2002 (the “2002 Share Option Scheme”) (collectively the “Schemes”) respectively.

The Stock Exchange introduced changes to the provisions of the Chapter 17 of the Listing Rules in relation to share option schemes which took effect on 1 September 2001. In order to comply with the new provisions, the 1997 Share Option Scheme was terminated on 22 July 2002 when the 2002 Share Option Scheme was adopted. Since then, no further share option may be granted under the 1997 Share Option Scheme. However, in respect of the outstanding share options granted under the 1997 Share Option Scheme, the 1997 Share Option Scheme shall remain in force and such outstanding share options shall continue to be subject to the provisions of the 1997 Share Option Scheme and the new provisions of Chapter 17 of the Listing Rules.

The principal terms of the Schemes are set out as follows:

Purpose of the Schemes

The purpose of the Schemes is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

Eligible Participants of the Schemes

1997 Share Option Scheme

Any employee of the Company or its subsidiaries and any executive director of the Company or its subsidiaries.

2002 Share Option Scheme

(i) any executive or non-executive directors of the Group or any employees of the Group; (ii) any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; (iii) any consultant(s) and professional adviser(s) to the Group; (iv) Chief Executive (as defined under the Listing Rules) or Substantial Shareholder (as defined under the Listing Rules) of the Company; (v) Associates (as defined under the Listing Rules) of Director, Chief Executive or Substantial Shareholder of the Company; and (vi) employees of the Substantial Shareholder.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

Total Number of Securities Issuable

1997 Share Option Scheme

The 1997 Share Option Scheme has been terminated and no further share options may be granted thereunder.

2002 Share Option Scheme

The total number of shares which may be issued upon exercise of all share options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the 2002 Share Option Scheme provided that share options lapsed will not be counted for the purpose of calculating such 10% limit.

Under the 2002 Share Option Scheme, the Company may obtain a fresh approval from its shareholders in general meeting to refresh the above mentioned 10% limit. In such event, the total number of shares in respect of which share options may be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of such approval provided that share options previously granted under the 2002 Share Option Scheme (including those outstanding, cancelled, lapsed or exercised share options) will not be counted for the purpose of calculating such 10% limit.

At the annual general meeting of the Company convened on 31 May 2004, the said 10% limit was refreshed to the effect that the limit of number of shares available for issue was increased to 10,126,893 shares.

Notwithstanding anything hereinbefore contained and subject to the maximum entitlement of each participant hereinafter mentioned, the maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such other higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

As at the date of this annual report, the total number of shares available for issue under the 2002 Share Option Scheme was 8,712,893 representing approximately 5.28 % of the Company's shares in issue as at that date.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

Maximum Entitlement of Each Employee/Participant

1997 Share Option Scheme

No option may be granted to any one Employee (as defined in the 1997 Share Option Scheme) which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him would exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1997 Share Option Scheme.

2002 Share Option Scheme

Unless separately approved by the shareholders of the Company in general meeting with the particular Participant (as defined in the 2002 Share Option Scheme) and his or her associate (as defined under the Listing Rules) abstaining from voting, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12 months period shall not exceed 1% of the total number of shares in issue.

Period to Take Up Share Options and Minimum Period to Hold Before Exercise

Under the Schemes, the period within which the shares must be taken up under a share option and the minimum period, if any, for which a share option must be held before it can be exercised are to be decided by the Directors of the Company upon granting the relevant share options. Details of such information (if any) relating to the outstanding share options are set out below.

Amount Payable to Take Up Share Options and Time to Accept Offer

Under the Schemes, an offer for the granting of share options under the Schemes shall be accepted within 28 days from the offer date and by way of payment of a consideration of HK\$1.00.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

Exercise price

1997 Share Option Scheme

The exercise price shall be a price determined by the board of directors of the Company and shall be the higher of:

- (i) a price not less than 80% of the average of the closing prices of the shares quoted in The Stock Exchange for the five trading days immediately preceding the offer date;
- (ii) the nominal value of the shares.

2002 Share Option Scheme

The exercise price shall be a price determined by the board of directors of the Company and shall be at least the higher of:

- (i) the closing price of the shares quoted on the Stock Exchange on the offer date;
- (ii) a price being the average of the closing prices of the shares as quoted in the Stock Exchange for the 5 trading days immediately preceding the offer date;
- (iii) the nominal value of the shares.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

Life of the Schemes

The Schemes have a life of 10 years from their respective adoption dates. Remaining lives of the Schemes are approximate 1.8 years and 7.3 years respectively from the date of this annual report.

As at the balance sheet date, details of the outstanding options granted to several Directors and various employees of the Group are as follows:

1997 Share Option Scheme

Name of grantee	Date of grant	Exercise price	Exercise period	Number of options		As at 31 December 2004	
				As at 1 January 2004	Granted during the year		Lapsed during the year
Directors							
Foo Kam Chu, Grace	8 February 2000	HKD8.20 ¹	8 August 2000 to 31 December 2004	70,000	—	70,000	
	2 January 2001	HKD2.97 ²	2 July 2001 to 24 February 2007	76,000	—	76,000	
Chan Wai Ling	2 January 2001	HKD2.97 ²	2 July 2001 to 24 February 2007	60,000	—	60,000	
Tse Chun Kong, Thomas	8 February 2000	HKD8.20 ¹	8 August 2000 to 31 December 2004	40,000	—	40,000	
	2 January 2001	HKD2.97 ²	2 July 2001 to 24 February 2007	50,000	—	50,000	
Kwan Chai Ming	1 June 2000	HKD12.40 ³	1 June 2001 to 24 February 2007	20,000	—	20,000	
	2 January 2001	HKD2.97 ²	2 January 2002 to 24 February 2007	10,000	—	10,000	
Other Employees	8 February 2000	HKD8.20 ¹	8 August 2000 to 31 December 2004	70,000	—	70,000	
	1 June 2000	HKD12.40 ³	1 December 2000 to 1 December 2005	10,000	—	10,000	
	2 January 2001	HKD2.97 ²	2 July 2001 to 24 February 2007	188,000	—	188,000	
	14 June 2002	HKD2.55 ⁴	14 June 2002 to 24 February 2007	50,000	—	50,000	
				644,000	—	230,000	414,000

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

1997 Share Option Scheme (Continued)

Notes:

1. The original exercise price of HK\$0.164 was adjusted to HK\$8.20 upon consolidation of share capital of 50 to 1 effective on 4 April 2003 (“Share consolidation”).
2. The original exercise price of HK\$0.10 was adjusted to HK\$0.05936 upon capital re-organization effective on 23 July 2002 (“Capital re-organization”) and further adjusted to HK\$2.97 upon Share consolidation.
3. The original exercise price of HK\$0.248 was adjusted to HK\$12.40 upon Share consolidation.
4. The original exercise price of HK\$0.10 was adjusted to HK\$0.051 upon capital re-organization and further adjusted to HK\$2.55 upon Share consolidation.

Notes to the Financial Statements

for the year ended 31 December 2004

30. Share Option Schemes (Continued)

2002 Share Option Scheme

Name of grantee	Date of grant	Closing price immediately preceding date of grant	Exercise price	Weighted average closing price of shares immediately before Exercise Date	Exercise period	Number of options			As at 31 December 2004
						As at 1 January 2004	Granted during the year	Exercised/ Lapsed* during the year	
Directors									
Foo Kam Chu, Grace	11 July 2003	HKD1.50	HKD1.50	HKD2.200	8 January 2004 to 7 January 2009	80,000	—	80,000	—
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	200,000	—	200,000
Chan Wai Ling	10 July 2003	HKD1.50	HKD1.50	N/A	8 January 2004 to 7 January 2009	60,000	—	—	60,000
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	90,000	—	90,000
Tse Chun Kong, Thomas	14 July 2003	HKD1.50	HKD1.50	N/A	8 January 2004 to 7 January 2009	60,000	—	—	60,000
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	90,000	—	90,000
Kwan Chai Ming	10 July 2003	HKD1.50	HKD1.50	HKD2.725	8 January 2004 to 7 January 2009	40,000	—	40,000	—
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	75,000	—	75,000
Liu Hanbo	16 July 2003	HKD1.50	HKD1.50	N/A	8 January 2004 to 7 January 2009	60,000	—	—	60,000
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	90,000	—	90,000
Meng Qinghui	16 July 2003	HKD1.50	HKD1.50	N/A	8 January 2004 to 7 January 2009	60,000	—	—	60,000
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	90,000	—	90,000
Other Employees	10 July 2003	HKD1.50	HKD1.50	HKD2.024	8 January 2004 to 7 January 2009	230,000	—	210,000	40,000
	11 July 2003	HKD1.50	HKD1.50	HKD1.970	8 January 2004 to 7 January 2009	70,000	—	30,000*	30,000
	12 July 2003	HKD1.50	HKD1.50	HKD1.940	8 January 2004 to 7 January 2009	50,000	—	30,000	—
	14 July 2003	HKD1.50	HKD1.50	N/A	8 January 2004 to 7 January 2009	60,000	—	20,000*	—
	6 July 2004	HKD1.45	HKD1.47	N/A	6 January 2005 to 5 January 2010	—	580,000	105,000*	475,000
						820,000	1,215,000	615,000	1,420,000

Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be more appropriate.

Notes to the Financial Statements

for the year ended 31 December 2004

31. Share Warrants

On 3 September 2003, a total 12,465,608 units of warrants (the “Warrants”) were granted by the Company to its shareholders on the basis of one Warrant for every five then existing issued shares held by the shareholders. Each of the Warrants entitled the warrant-holder to subscribe for one share of the Company of HK\$0.10 each at the initial subscription price of HK\$2.00 (subject to adjustment (if any)) during the period from 3 September 2003 until 2 March 2006 (both dates inclusive). During the year, 271,789 Warrants were exercised for 271,789 shares of HK\$0.10 at a price of HK\$2.00 per share. At the balance sheet date, the Company had 4,823,419 Warrants outstanding.

32. Reserves

Group

	2004	2003
	HK\$'000	HK\$'000
Share premium (note (a))	84,680	14,004
Investment property revaluation reserve (note (b))	2,003,957	1,219,497
Accumulated losses	(300,668)	(329,002)
Special reserve (note (c))	1,848	8,005
Exchange reserve	(462)	12
Proposed final dividend	4,122	2,025
	1,793,477	914,541

- (a) Share premium represents the excess of consideration received over the par value of shares issued.
- (b) The investment property revaluation reserve is set up and dealt with in accordance with the accounting policies adopted for the revaluation of investment properties.
- (c) The special reserve of the Group initially represented the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiaries pursuant to the Group's re-organisation in 1997. It has since been reduced by dividends paid to shareholders.

Notes to the Financial Statements

for the year ended 31 December 2004

32. Reserves (Continued)

Company

	Share premium (Note (a)) HK\$'000	Contributed surplus (Note (b)) HK\$'000	Accumulated losses HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
As at 31 December 2002	—	2,228,856	(1,966,485)	—	262,371
Capital reduction	—	—	24,931	—	24,931
Exercise of warrants	14,004	—	—	—	14,004
Profit for the year	—	—	32,482	—	32,482
Proposed final dividend for 2003 (note 10(a))	—	(2,025)	—	2,025	—
As at 31 December 2003	14,004	2,226,831	(1,909,072)	2,025	333,788
Exercise of warrants	516	—	—	—	516
Exercise of share options	560	—	—	—	560
New issue of shares	28,706	—	—	—	28,706
Loan capitalization	41,492	—	—	—	41,492
Bonus issue of shares	—	(2,035)	—	—	(2,035)
Share repurchased	(598)	—	—	—	(598)
Loss for the year	—	—	(16,945)	—	(16,945)
Final dividend paid for 2003 (note 10(b))	—	—	—	(2,025)	(2,025)
Proposed final dividend for 2004 (note 10(a))	—	(4,122)	—	4,122	—
As at 31 December 2004	84,680	2,220,674	(1,926,017)	4,122	383,459

Notes to the Financial Statements

for the year ended 31 December 2004

32. Reserves (Continued)

Company (Continued)

- (a) Share premium represents the excess of consideration received over the par value of share issued.
- (b) The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Lucky Spark Limited (a subsidiary) and the value of the net underlying assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to the shareholders under certain circumstances. However, the Company cannot declare or pay a dividend or make a distribution out of contribution surplus if:
 - (1) it is, or would after the payment be, unable to pay its liabilities as they become due or
 - (2) 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) Reserves of the Company available for distribution to shareholders amounted to HK\$298,779,000 (2003: HK\$319,784,000).

Notes to the Financial Statements

for the year ended 31 December 2004

33. Directors' and Employees' Remuneration

Details of the remuneration paid by the Group to the Directors and the five highest paid individuals (including directors and employees) for the year are as follows:

(a) *Directors' emoluments*

Remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 HK\$'000	2003 HK\$'000
Fees		
Executive directors	—	—
Non-executive directors	45	60
	45	60
Other emoluments		
Salaries and other benefits	3,815	3,904
Discretionary bonuses	265	240
Contributions to defined contribution retirement scheme	48	46
	4,128	4,190
Total	4,173	4,250

Notes to the Financial Statements

for the year ended 31 December 2004

33. Directors' and Employees' Remuneration (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors were within the following bands:

	2004 Number of Directors	2003 Number of Directors
Nil–HK\$1,000,000	9	8
HK\$1,000,001–HK\$1,500,000	2	2

None of the directors of the Company waived any emoluments during the years ended 31 December 2003 and 2004.

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2003: three) directors of the Company, whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2003: two) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,238	1,745
Contributions to defined contribution retirement scheme	24	24
	1,262	1,769

The emoluments of each of these remaining two (2003: two) individuals were within the band of nil to HK\$1,000,000.

During the year, no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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34. Defined Contribution Retirement Benefits Scheme

The Group has joined a mandatory provident fund scheme (“MPF Scheme”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

The defined contribution retirement scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable by the Group at the rates specified in the rules of the scheme.

Employees in the Company’s PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 20% of the employee payroll to the scheme to fund the retirement benefits to the employees. The Group has no further liability in respect of the retirement benefit of the employees of the PRC subsidiaries.

The details of the retirement benefits scheme contributions for the Directors and employees which have been dealt with in the income statement of the Group for the year, are as follows:

	2004 HK\$'000	2003 HK\$'000
Gross scheme contributions	486	410

35. Notes to the Consolidated Cash Flow Statement

(a) *Major non-cash transactions*

During the year, the Company settled the borrowings due to its ultimate holding company by way of placement and subscription of the Company’s shares, loan capitalisation and issuance of convertible bonds, details of which have been disclosed in notes 36(c), 36(d) and 36(f) to the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2004

35. Notes to the Consolidated Cash Flow Statement (Continued)

(b) *Purchase of a subsidiary*

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Property, plant and equipment	—	292
Investment properties	11,436	1,750
Intangible assets	—	4,029
Inventories	—	2
Prepayments and other receivables	—	1,371
Bank balances and cash	—	211
Accruals and other payables	—	(3,302)
Minority shareholders' interests	—	(4,029)
	11,436	324
Goodwill	3,714	7,026
	15,150	7,350
Satisfied by:		
Cash	15,150	7,350

Notes to the Financial Statements

for the year ended 31 December 2004

35. Notes to the Consolidated Cash Flow Statement (Continued)

(c) *Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary*

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(15,150)	(7,350)
Bank balances and cash acquired	—	211
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	(15,150)	(7,139)

(d) *Disposal of subsidiaries*

	2004 HK\$'000	2003 HK\$'000
Net (liabilities)/assets disposed of:		
Property, plant and equipment	91	—
Debtors, prepayments and deposits	92	325
Bank balances and cash	12	17
Amount due from minority interests	970	—
Creditors and accruals	(2,217)	(89)
Gain/(loss) on disposal of subsidiaries	(1,052)	253
Consideration	1	50
Satisfied by:		
Cash	1	50

Notes to the Financial Statements

for the year ended 31 December 2004

35. Notes to the Consolidated Cash Flow Statement (Continued)

- (e) *Analysis of net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:*

	2004 HK\$'000	2003 HK\$'000
Cash and cash equivalents disposed of:		
Bank balances and cash	(12)	(17)
Cash consideration received	1	50
Net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries	(11)	33

36. Related Party Transactions

The following transactions with related parties were, in the opinion of the Directors, carried out in the ordinary course of business during the year:

- (a) On 25 March 2003, the unsecured loan facility (the "Loan") with a principal amount of approximately HK\$214,756,000 originally granted by the controlling shareholder of the Company, Ko Bee Limited ("Ko Bee") on 21 November 2000 was renewed and extended until 24 March 2005 on the same principal terms and conditions. The Loan was fully repaid by issuance of the Company's convertible bonds as mentioned in paragraph (f) below.
- (b) On 27 May 2003, a related company, in which the Chairman and an executive director of the Company have interests, advanced to a wholly owned subsidiary of the Company an unsecured revolving credit facility up to a maximum total principal amount of HK\$50,000,000 with interest rate at prime lending rate for Hong Kong dollars plus 2% per annum. The final maturity date is on 26 May 2006. As at the balance sheet date, approximately HK\$26,150,000 was utilised.

Notes to the Financial Statements

for the year ended 31 December 2004

36. Related Party Transactions (Continued)

- (c) On 13 February 2004, with a view to facilitate the Company to raise fund for its future business development and general working capital, Ko Bee entered into an agreement with Quam Securities Company Limited and the Company for the placement of 5,500,000 existing ordinary shares at a placing price of HK\$2.20 each to institutional, professional and/or investors who are independent third parties of the Company and the subscription of 13,939,688 new ordinary shares at the same price by Ko Bee. The total consideration of approximately HK\$30,670,000 was satisfied partly by offsetting against the Loan with accrued interest for an amount of approximately HK\$18,570,000 and the balance of approximately HK\$12,100,000 by cash payment.
- (d) On 17 March 2004, the Company entered into a loan capitalisation agreement with Ko Bee for the subscription by Ko Bee 17,000,000 shares of HK\$0.10 each of the Company at the subscription price of HK\$2.55 each. The total consideration of HK\$43,350,000 was set-off against part of the Loan with accrued interest.
- (e) A subsidiary of the Company entered into a tenancy agreement with a related company which is in association with the Chairman and an executive director of the Company for leasing a residential property situated in Hong Kong for a period of 3 years commencing from 1st May 2004 and expiring on 30 April 2007 at the monthly rental of HK\$80,000. Total rental charged for the year amounted to HK\$960,000 (2003: Nil).
- (f) On 17 June 2004, the Company entered into an agreement (the "Agreement") with Ko Bee for the subscription by Ko Bee of the convertible bonds of the Company in the aggregate principal amount of HK\$148,499,490 which was set-off against the outstanding principal and interest of the Loan calculated up to and inclusive of the date before the Completion Date (as defined in the Agreement). Upon full conversion of the convertible bonds, 88,392,554 conversion shares will be issued at the conversion price of HK\$1.68 (subject to adjustment) each.
- (g) On 10 December 2004, a wholly owned subsidiary of the Company renewed a tenancy agreement with a related company, in which the Chairman and an executive director of the Company have interests, for leasing a property situated at Guangzhou, PRC for office purpose at monthly rental and management charge at HK\$61,097 for a period of 12 months from 1 December 2004 until 30 November 2005. Total rental and management charges charged for the year amounted to HK\$733,164 (2003: HK\$874,133).
- (h) Interest accrued on amount due to ultimate holding company was approximately HK\$6,954,000 during the year (2003: HK\$14,433,000).
- (i) Interest on convertible bonds paid/payable to Ko Bee for the year amounted to approximately HK\$1,272,000 (2003: Nil).

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for the year ended 31 December 2004

37. Future Operating Lease Arrangements

As at 31 December 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	78,376	58,297
In the second to fifth years inclusive	57,183	37,591
	135,559	95,888

38. Commitments

(a) *Operating lease commitments*

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group

	2004 HK\$'000	2003 HK\$'000
Within one year	1,632	672
In the second to fifth years inclusive	1,280	—
	2,912	672

The Group leases a number of properties under operating leases. The leases run for period of 1 to 3 years. None of the leases includes contingent rentals.

Notes to the Financial Statements

for the year ended 31 December 2004

38. Commitments (Continued)

(b) Capital commitments

Group

	2004 HK\$'000	2003 HK\$'000
Commitments in respect of capital contribution to subsidiaries in the PRC	298,400	145,080

Of the total capital commitments, HK\$110,000,000 would be due for contribution by the subsidiaries of the Group in the coming twelve months.

The Company had no capital commitment as at 31 December 2003 and 2004.

39. Contingent Asset

A property related proceedings relating to the purchase of certain properties in Yuen Long by Pacific Well Realty Limited ("Pacific Well"), a subsidiary of the Company is still under progress. In such transaction, Pacific Well has already paid a deposit of HK\$65,000,000. The transaction has fallen through and the said deposit of HK\$65,000,000 has been forfeited by the Vendor. Judgement has been handed down by the High Court whereby it was ordered that out of the said sum of HK\$65,000,000, Pacific Well is entitled to a refund of HK\$45,000,000 together with interest thereon at the rate of 1% above the prime rate per annum from 8 May 1998 until 14 October 2004 and thereafter at usual rate for judgement debts and costs less the amount payable by Pacific Well to the Vendor in accordance with the terms of the supplemental agreement entered into on 31 March 1998 by way of interest and outgoings calculated from 31 March 1998 until 8 May 1998. The case is pending appeal.

40. Contingent Liabilities

As at balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee for banking facilities utilised by subsidiaries amounting to HK\$1,052,086,000 (2003: HK\$816,798,000).

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41. Post Balance Sheet Events

- (a) On 10 January 2005, with a view to facilitate the Company to raise fund for its further business development, repayment of short term borrowings and general working capital, Ko Bee entered into agreements with Sun Hung Kai International Limited and the Company respectively for the placement of 10,000,000 existing ordinary shares at a placing price of HK\$2.70 each to institutional, professional and/or other investors who are independent third parties of the Company and the subscription of 10,000,000 new ordinary shares at the same price by Ko Bee. The net consideration of approximately HK\$26,000,000 were satisfied by cash payment.
- (b) On 10 March 2005, Ko Bee exercised its rights and converted convertible bonds of the Company in total principal amount of HK\$55,000,000 at the conversion price of HK\$1.66 (adjusted) each whereby a total number of 33,132,530 shares of the Company were allotted to Ko Bee.

42. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

43. Approval of The Financial Statements

The financial statements on pages 28 to 98 were approved by the board of directors on 21 April 2005.