

Notes to the Financial Statements

year ended December 31, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on the Stock Exchange. Its ultimate holding company is Giant Glory Assets Limited, a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards (collectively “new HKFRSs”) which are effective for accounting periods beginning on or after January 1, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

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year ended December 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill on acquisition in so far as it has not already been amortised, less any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

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year ended December 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Properties for sale

Completed properties and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Property, plant and equipment

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

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:

Motor vehicles	20%
Leasehold improvements	20%
Furniture and equipment	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice (“SSAP”), in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Notes to the Financial Statements

year ended December 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (CONTINUED)

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 difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme contributions

Payments to retirement benefit schemes are charged as an expense as they fall due.

Notes to the Financial Statements

year ended December 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

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. Related parties may be individuals or corporate entities.

Revenue recognition

Sales of properties

Income from sales of properties is recognised upon the execution of a binding sales agreement or upon the issuance of an occupation permit/completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

Income from travel and related services

Income from travel and related services is recognised when the services are rendered.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (CONTINUED)

Dividend income

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income

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

4. TURNOVER

Turnover represents the aggregate of proceeds from sales of properties and amounts received and receivable for the provision of travel and related services, less allowances, to outside customers and is summarised as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Sales of properties	4,220	317,533
Travel and related services	43,622	18,686
	47,842	336,219

5. SEGMENT INFORMATION

(a) Business segment

For management purpose, the Group is currently organised into two operating divisions, sales of properties and provision of travel and related service. These divisions are the basis on which the Group reports its primary segment information.

Notes to the Financial Statements

year ended December 31, 2004

5. SEGMENT INFORMATION (CONTINUED)

(a) Business segment (CONTINUED)

Segment information about these businesses is presented below:

	Sales of properties		Travel and related services		Unallocated		Group	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue	4,220	317,533	43,622	18,686	-	-	47,842	336,219
Results								
Segment results	(14,746)	76,509	(1,365)	(637)	-	-	(16,111)	75,872
Unallocated corporate income							10,846	1,836
Unallocated corporate expenses							(13,739)	(11,345)
(Loss)/profit from operations							(19,004)	66,363
Finance costs							(18)	(7)
Release of negative goodwill to income	16,994	12,843	56	28	-	-	17,050	12,871
Share of results of associates	145,897	(1,713)	-	-	-	-	145,897	(1,713)
Profit before taxation							143,925	77,514
Taxation							(22,247)	(12,992)
Profit before minority interests							121,678	64,522
Assets								
Segment assets	1,370,265	706,615	5,486	8,137	-	-	1,375,751	714,752
Interests in associates	447,094	30,895	-	-	-	-	447,094	30,895
Unallocated assets							295,114	109,578
Total assets							2,117,959	855,225
Liabilities								
Segment liabilities	1,251,547	264,236	3,078	4,150	-	-	1,254,625	268,386
Unallocated liabilities							434,153	291,725
Total liabilities							1,688,778	560,111
Other information								
Capital expenditure	2,228	1,814	68	480	18	52	2,314	2,346
Depreciation and amortisation	1,099	801	336	138	52	45	1,487	984
Release of negative goodwill	16,994	12,843	56	28	-	-	17,050	12,871

Notes to the Financial Statements

year ended December 31, 2004

5. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segment

The Group's operations are principally located in Hong Kong, Macau and the People's Republic of China, other than Hong Kong and Macau ("PRC"). Group administration is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market and analysis of total assets and capital expenditure by the geographical area in which the assets are located.

	Turnover		Carrying amount of assets		Capital expenditure	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	38,111	16,373	299,513	116,028	18	526
PRC	4,220	317,533	1,817,359	737,510	2,228	1,814
Macau	5,511	2,313	1,087	1,687	68	6
	47,842	336,219	2,117,959	855,225	2,314	2,346

Notes to the Financial Statements

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6. (LOSS)/PROFIT FROM OPERATIONS

	Group	
	2004 HK\$'000	2003 HK\$'000
(Loss)/profit from operations has been arrived at after charging:		
Auditors' remuneration	260	260
Depreciation	1,338	909
Staff costs, excluding directors' emoluments and retirement benefits scheme contributions	14,446	5,146
Loss on disposal of property, plant and equipment	34	472
Loss on disposal of investment in securities	5,123	–
Directors' emoluments (<i>Note 8</i>)	1,771	1,480
Retirement benefit scheme contribution, excluding directors'	325	190
Unrealised holding loss on investment in securities	1,250	61
Amortisation of goodwill (included in administrative expenses)	149	75
and after crediting:		
Gain on disposal of investment in securities	–	119
Gain on disposal of subsidiaries	555	–
Interest income	2,261	1,406
Dividend income	927	311

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdraft	22,868	12,391
Less: Amount capitalised in properties for sale	(22,850)	(12,384)
	18	7

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8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	291	260
	291	260
Other emoluments for executive directors:		
Salaries and other benefits	1,456	1,200
Retirement benefits scheme contributions	24	20
	1,480	1,220
Total emoluments	1,771	1,480

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil-HK\$1,000,000	9	8
HK\$1,000,001-HK\$1,500,000	1	1

During the year ended December 31, 2004, no director waived any emoluments (2003: Nil).

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8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Five highest paid individuals' emoluments

During the year, the five highest paid individuals included three directors (2003: one), details of whose emoluments are set out above. The emoluments of the remaining two (2003: four) individuals were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	657	1,320
Retirement benefits scheme contributions	22	47
	679	1,367

The emoluments of the remaining individuals are within the emoluments band of less than HK\$1,000,000.

9. TAXATION

	Group	
	2004 HK\$'000	2003 HK\$'000
Current tax		
Hong Kong	–	–
Other jurisdictions	3,589	15,160
	3,589	15,160
Deferred tax (Note 25)	(2,906)	(2,422)
Taxation attributable to the Group	683	12,738
Share of taxation attributable to associates	21,564	254
	22,247	12,992

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9. TAXATION (CONTINUED)

No provision for Hong Kong Profits Tax has been made as the Group made no assessable profit in Hong Kong for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The taxation charge for the year reconciled to the profit per the income statement is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Profit before taxation	143,925	77,514
Tax at the applicable Hong Kong Profits tax rate of 17.5% (2003: PRC enterprise income tax rate of 15%)	25,187	11,627
Tax effect of expenses that are not deductible in determining taxable profit	62	3,360
Tax effect of income that is not taxable in determining taxable profit	(5,131)	(1,995)
Tax effect of tax loss not recognised	3,522	–
Effect of different tax rates of subsidiaries and associates operating in other jurisdiction	(1,393)	–
Taxation for the year	22,247	12,992

10. DIVIDENDS

No dividend was paid or proposed during 2004, nor has any dividend been proposed since the balance sheet date (2003: Nil).

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11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$115,826,000 (2003: HK\$34,089,000) and on the weighted average number of 4,572,696,342 (2003: 4,330,782,558) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in issue during the current year and, accordingly, no diluted earnings per share was presented.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At January 1, 2004	3,057	358	1,989	5,404
Arising from acquisition of subsidiaries	3,020	–	384	3,404
Additions	797	638	879	2,314
Disposals	(67)	–	(9)	(76)
Disposal of subsidiaries	–	–	(89)	(89)
At December 31, 2004	6,807	996	3,154	10,957
DEPRECIATION				
At January 1, 2004	770	42	638	1,450
Arising from acquisition of subsidiaries	27	–	277	304
Provided for the year	830	75	433	1,338
Eliminated on disposals	(9)	–	(8)	(17)
At December 31, 2004	1,618	117	1,340	3,075
NET BOOK VALUES				
At December 31, 2004	5,189	879	1,814	7,882
At December 31, 2003	2,287	316	1,351	3,954

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12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At January 1, 2004	37	210	247
Additions	–	18	18
At December 31, 2004	37	228	265
DEPRECIATION			
At January 1, 2004	11	47	58
Provided for the year	7	45	52
At December 31, 2004	18	92	110
NET BOOK VALUES			
At December 31, 2004	19	136	155
At December 31, 2003	26	163	189

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13. GOODWILL

	Group <i>HK\$'000</i>
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COST	
At January 1, 2004	748
Arising on acquisition of subsidiaries during the year	8,524
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At December 31, 2004	9,272
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AMORTISATION	
At January 1, 2004	75
Charge for the year	149
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At December 31, 2004	224
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NET BOOK VALUE	
At December 31, 2004	9,048
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At December 31, 2003	673
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Goodwill on consolidation is amortised on a straight-line basis over 10 years.

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year ended December 31, 2004

14. NEGATIVE GOODWILL

	Group <i>HK\$'000</i>
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GROSS AMOUNT	
At January 1, 2004	77,340
Arising on acquisition of additional interest in a subsidiary during the year	15,823
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At December 31, 2004	93,163
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RELEASED TO INCOME	
At January 1, 2004	12,871
Released in the year	17,050
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At December 31, 2004	29,921
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CARRYING AMOUNT	
At December 31, 2004	63,242
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At December 31, 2003	64,469
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Negative goodwill is released to income on a straight-line basis over 5 years, the remaining average useful life of the identifiable depreciable assets acquired.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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Unlisted shares, at cost	1	1
Amounts due from subsidiaries	143,078	114,927
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	143,079	114,928
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Particulars of the Company's subsidiaries at December 31, 2004 are set out in note 36.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

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16. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	149,469	27,896	–	–
Unamortised goodwill arising on acquisition of associates	28,453	2,249	–	–
	177,922	30,145	–	–
Amounts due from associates	271,653	750	1,522	1,522
Amount due to an associate	(2,481)	–	–	–
	447,094	30,895	1,522	1,522

Particulars of the Group's principal associates at December 31, 2004 are set out in note 37. The amounts due from/to associates are unsecured, interest free and have no fixed repayment term. In the opinion of the directors, the Group and the Company will not demand for repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Goodwill arising on the acquisition of associates is amortised on a straight-line basis over 10 years.

17. PROPERTIES FOR SALE

	Group	
	2004 HK\$'000	2003 HK\$'000
Properties for sale		
– Completed		
– Under development	3,034	4,408
	983,835	405,209
	986,869	409,617

The properties for sale are carried at cost. Properties for sale with carrying amount of HK\$827,000,000 were pledged to banks to secure bank loans granted to the Group.

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18. TRADE AND OTHER RECEIVABLES

The Group grants a credit period ranging from 30 to 60 days on average to its customers.

Included in trade and other receivables of the Group are trade receivables of HK\$4,651,000 (2003: HK\$18,982,000). The ageing analysis at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0-30 days	1,556	10,556
31-60 days	491	5,503
61-90 days	598	1,210
91-180 days	510	1,361
181-360 days	1,132	116
Over 360 days	364	236
	4,651	18,982

19. ADVANCE FOR INVESTMENT

Advance for investment represented the payment made to an independent third party for certain proposed investments. The amount has been fully repaid after the balance sheet date.

20. INVESTMENT IN SECURITIES

	Group Other investments	
	2004 HK\$'000	2003 HK\$'000
Equity securities listed in Hong Kong	630	3,914
Market value of the listed securities	630	3,914
Carrying amount analysed for reporting purposes as: Current	630	3,914

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21. RESTRICTED CASH

The amount represents deposit pledged with the government of Macau Special Administrative Region for provision of travel related services.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$8,108,000 (2003: HK\$61,272,000). The ageing analysis at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0-30 days	839	6,496
31-60 days	383	250
61-90 days	228	59
91-180 days	493	54,272
181-360 days	366	76
Over 360 days	5,799	119
	8,108	61,272

23. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR/SHAREHOLDER'S LOAN

The amounts are unsecured, non-interest bearing and have no fixed repayment term.

24. BANK LOANS – SECURED

	Group	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans repayable:		
On demand or within one year	141,509	150,943
More than one year but not exceeding two years	283,019	94,340
	424,528	245,283
Less: Amount due within one year shown under current liabilities	(141,509)	(150,943)
Amount due after one year	283,019	94,340

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25. DEFERRED TAX

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year:

	Group Revaluation of properties for sale	
	2004 HK\$'000	2003 HK\$'000
At January 1	12,110	–
Acquisition of a subsidiary	–	14,532
Credit to income for the year (<i>Note 9</i>)	(2,906)	(2,422)
At December 31	9,204	12,110

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.02 each		
Authorised:		
At December 31, 2003 and 2004	10,000,000,000	200,000
Issued and fully paid:		
At January 1, 2003 and December 31, 2003	4,330,782,558	86,616
Shares issued pursuant to Subscription (<i>Note</i>)	300,000,000	6,000
Shares repurchased and cancelled	(7,895,000)	(158)
At December 31, 2004	4,622,887,558	92,458

Note: Pursuant to a subscription agreement dated January 30, 2004 (the "Subscription"), Genuine Assets Limited subscribed for 300 million new shares of the Company at a price of HK\$0.1333 per share. The proceeds were used to provide additional working capital for the Group and finance potential investment projects in property related businesses. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on May 23, 2003 and rank pari passu with other shares in issue in all respects. The shares were issued on March 9, 2004.

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26. SHARE CAPITAL (CONTINUED)

Share option scheme

The Company has adopted a share option scheme on July 18, 2002, (the “Share Option Scheme”), for the primary purpose of providing incentives to eligible participants. Details of the Share Option Scheme is as follows:

On July 18, 2002, the Company adopted the Share Option Scheme which will expire on July 17, 2012. Pursuant to the terms of the Share Option Scheme, the Company may grant options to eligible participants (including directors, shareholders, eligible employees, suppliers and customers of the Company or its subsidiaries) to subscribe for shares in the Company at a consideration of HK\$1. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company’s share as quoted on the Stock Exchange on the date of grant, (ii) the average closing price of Company’s shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the Company’s shares. Options granted are exercisable at any time during a period to be notified by the board of directors of the Company but limited to a maximum period of ten years after the date on which the options are granted. Options granted should be accepted within 28 days from the date of offer.

The maximum number of the Company’s shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option scheme of the Company shall not exceed 10% of the Company’s shares in issue at the date on which the Share Option Scheme has been adopted (the “Scheme Limit”).

The Scheme Limit may be refreshed at any time by the approval of the shareholders in general meeting provided that the total number of the Company’s shares which may be issued upon exercise of all options to be granted under Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Company’s shares in issue as at the date of such shareholder’s approval. For the avoidance of doubt, options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Company) will not be counted for the purpose of calculating the refreshed 10% limit.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before shareholders’ approval is sought.

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26. SHARE CAPITAL (CONTINUED)

Share option scheme (CONTINUED)

Unless approved by the shareholders as set out herein, the total number of the Company's shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's shares in issue. Where any further grant of options to a participant would result in the Company's shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant in aggregate exceeding 1% of the Company's shares in issue, such further grant must be separately approved by the shareholders in general meeting with such participant and his associates abstaining from voting.

However, the overall limit on the number of the Company's shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

At the date of this report, no share option has been granted to any participant under the Share Option Scheme.

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27. RESERVES

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special capital reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Total HK\$'000
At January 1, 2003	172,029	1,074	68,541	(203,540)	38,104
Net loss for the year	–	–	–	(11,121)	(11,121)
At December 31, 2003	172,029	1,074	68,541	(214,661)	26,983
Shares issued at premium	34,000	–	–	–	34,000
Share issue expense	(286)	–	–	–	(286)
Shares repurchased and cancelled	(662)	–	–	–	(662)
Net loss for the year	–	–	–	(6,826)	(6,826)
At December 31, 2004	205,081	1,074	68,541	(221,487)	53,209

Note: The special capital reserve of the Company represents the credit arising from the effect of reduction in share capital in the previous year.

At December 31, 2004, the Company has no reserve available for distribution (2003: Nil).

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year ended December 31, 2004

28. ACQUISITION OF SUBSIDIARIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	3,100	3,387
Negative goodwill	–	(280)
Properties for sale	9,859	384,665
Trade and other receivables	17,482	51,329
Deposits for property development	41,864	208,492
Advance for investment	–	47,170
Restricted cash	–	500
Bank balances and cash	35,921	204,942
Trade and other payables	(10,864)	(206,487)
Receipts in advance	–	(232,769)
Taxation	(30)	(28)
Bank loans – secured	–	(183,962)
Deferred taxation	–	(14,532)
	97,332	262,427
Minority interests	(26,367)	(92,747)
Negative goodwill	–	(77,060)
Goodwill	8,524	748
Total consideration	79,489	93,368
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash consideration	(79,489)	(93,368)
Bank balances and cash acquired	35,921	204,942
Net cash (outflow)/inflow arising on acquisition	(43,568)	111,574

The subsidiaries acquired during the year ended December 31, 2004 have no contribution to the Group's turnover and contributed a loss of HK\$4,818,000 to the Group's loss from operations.

Notes to the Financial Statements

year ended December 31, 2004

29. DISPOSAL OF SUBSIDIARIES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	89	—
Properties for sale	25,478	—
Trade and other receivables	16,994	—
Bank balances and cash	6,617	—
Trade and other payables	(25,665)	—
Shareholders' loan	(4,000)	—
Minority interests	(3,087)	—
	16,426	—
Gain on disposal of subsidiaries	555	—
Total consideration	16,981	—
Satisfied by:		
Partial consideration for acquisition of additional interest in a subsidiary	16,981	—
Net cash inflow arising on disposal:		
Cash consideration	—	—
Bank balances and cash disposed of	(6,617)	—
	(6,617)	—

The subsidiaries disposed of during the year have no contribution to the Group's turnover (2003: Nil) and contributed a loss of HK\$1,081,000 (2003: HK\$18,000) to the Group's loss from operations.

Notes to the Financial Statements

year ended December 31, 2004

30. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund (the “MPF”) scheme for all eligible employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The retirement benefit cost charged to the consolidated income statement represents contributions payable to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

The Group contributed to a local Municipal Government retirement scheme to all qualified employees in the PRC. 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 retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The retirement benefit scheme contributions arising from the PRC Municipal Government retirement scheme charged to the income statement represent contributions paid or payable by the Group at rates specified in the rules of the scheme.

31. OPERATING LEASE COMMITMENTS

Group and Company as lessee

Minimum lease payments under operating lease of the Group recognised in the income statement during the year in respect of:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Premises	1,933	661

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year ended December 31, 2004

31. OPERATING LEASE COMMITMENTS (CONTINUED)

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operating leases which expire:				
Within one year	1,231	1,340	216	558
In the second to fifth year inclusive	285	522	47	129
	1,516	1,862	263	687

Operating lease payments in respect of rented premises represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of two years.

32. OTHER COMMITMENTS

At December 31, 2004, the Group had contracted commitments not provided for in the financial statements in respect of property development expenditure amounted to HK\$437,499,000 (2003: HK\$268,232,000).

The Company had no significant commitment at the balance sheet date.

Notes to the Financial Statements

year ended December 31, 2004

33. CONNECTED AND RELATED PARTIES TRANSACTIONS AND BALANCES

- (a) On May 15, 2004, the Group entered into an agreement to purchase a further 15% interest in the registered capital of a subsidiary, Shanghai Zendai Real Estate Company Limited, for a total consideration of RMB36,000,000 (equivalent to approximately HK\$33,962,000) from 上海証大投資發展有限公司, which is beneficially owned as to approximately 65.67% by Mr. Dai Zhikang, a director of the Company. The transaction was completed in July 2004.
- (b) On July 23, 2004, the Group entered into an agreement to purchase a further 24% interest in the registered capital of an associate, 上海証大三角洲置業有限公司, for a total consideration of RMB81,000,000 (equivalent to approximately HK\$76,415,000) in cash from 上海黎升商貿行, which is wholly-owned by Mr. Dai Zhichang, the brother of Mr. Dai Zhikang who is a director of the Company. The transaction was completed in September 2004.
- (c) Balance with related parties as at December 31, 2004 are set out in note 23 to the financial statements.

34. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities or outstanding litigation as at December 31, 2004.

35. POST BALANCE SHEET EVENT

On February 1, 2005, the Company entered into a conditional subscription agreement with Value Partners Limited in relation to (i) the issue and subscription of the convertible notes, in the principal amount of HK\$80,000,000 at an initial conversion price of HK\$0.24 per share (subject to adjustments) of the Company; and (ii) the grant of an option to Value Partners Limited to subscribe for shares in the Company. The maximum aggregate exercise price for the exercise of the option shall be equivalent to the aggregate principal amount of the aforesaid convertible notes outstanding immediately prior to the commencement of the exercise period of such option.

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36. SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued share capital/paid-up registered capital	Proportion of nominal value of issued capital held by the Group		Principal activities
			Directly	Indirectly	
Best East Developments Limited	The British Virgin Islands	US\$1	100%	–	Investment holding
Ample Century Limited	The British Virgin Islands	US\$1	100%	–	Investment holding
Victory Gateway Limited	The British Virgin Islands	US\$1	100%	–	Investment holding
上海証大置業有限公司 (Shanghai Zendai Real Estate Company Limited)	The PRC	RMB100,000,000	–	80%	Property development
Wah Kong Travel Limited	Hong Kong	HK\$1,250,000	–	60%	Provision of travel and related services
Wa Kong-Tourism and Travel Agency Limited	Macau	MOP1,000,000	–	60%	Provision of travel and related services
上海証大藝中房地產開發有限公司 (Note)	The PRC	RMB10,000,000	–	48%	Property development
揚州証大商旅發展有限公司	The PRC	RMB30,000,000	–	64%	Inactive
四川博覽置業有限公司	The PRC	RMB72,000,000	–	56%	Property development

Note: 上海証大藝中房地產開發有限公司 is a 60% subsidiary of Shanghai Zendai Real Estate Company Limited.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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37. PRINCIPAL ASSOCIATES

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

Name of associate	Place of establishment and operations	Paid-up registered capital	Proportion of nominal value of issued capital indirectly held by the Group	Principal activities
上海証大三角洲置業有限公司	The PRC	RMB80,000,000	44.20%	Property development
上海証大五道口房地產開發有限公司	The PRC	RMB30,000,000	39.78%	Property development
上海加來房地產開發有限公司	The PRC	RMB20,000,000	35.80%	Property development

None of the associates had any debt securities subsisting at the end of the year or at any time during the year.