

1. GENERAL

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

The Company’s ultimate holding company is Velocity International Limited (“Velocity”), a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 40.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the liquidity position of the Group in light of its net current liabilities of HK\$39,183,000 as at 31st December 2004. In particular, the Group has other borrowing of HK\$100,000,000 which is repayable on 30 June 2005. As disclosed in note 38(a), subsequent to the balance sheet date, a subsidiary of the Company entered into conditional sale and purchase agreements to dispose of its entire 100% interest in another subsidiary for an aggregate cash consideration of HK\$130,000,000. Under the terms of the agreements, the completion date is 24th May, 2005 and the directors are confident that all conditions will be met by that date. On this basis, the directors are satisfied that the Group will be able to repay the other borrowing on 30th June, 2005 and meet in full its other financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Recognition of revenue

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

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

Hotel revenue from rooms and other ancillary services is recognised when the services are rendered.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation surplus subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to the property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is of 20 years or less.

Property, plant and equipment

Properties under construction and construction in progress

Properties under construction and construction in progress are stated at cost, which includes land cost and the related construction costs in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction and construction in progress, are stated at cost less depreciation, amortisation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Furniture, equipment and motor vehicles	12.5% – 20%
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The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as an expense immediately.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost, less accumulated impairment losses. No depreciation or amortisation is provided on properties under/held for development.

Costs comprise land cost, development costs and other direct costs attributable to the properties.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Retirement benefit scheme

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Lease

All leases other than finance leases are classified as operating leases. Annual rental under operating leases are charged to the income statement on straight line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing 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 translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Taxation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 profit 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 year when the liability is settled or the asset is 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.

5. TURNOVER

Turnover represents the net amounts received and receivable from outside customers during the year and is analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Property rental income	12,605	12,517
Hotel operations	—	120,066
	12,605	132,583

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two major operating divisions - property sales and development and property rental. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property sales and development	–	sales and development of properties
Property rental	–	leasing of properties

Pursuant to the group reorganisation as detailed in the circular of the Company dated 31st October, 2003 (the “Group Reorganisation”), the hotel and leisure - related business engaged by the Group in prior years was discontinued on 12th December, 2003 (see note 10).

For the year ended 31st December, 2004

	Property sales and development HK\$'000	Property rental HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	–	12,605	12,605
	<u> </u>	<u> </u>	<u> </u>
RESULT			
Segment result	(119,490)	(94,403)	(213,893)
	<u> </u>	<u> </u>	
Unallocated corporate expenses			(10,570)
			<u> </u>
Loss from operations			(224,463)
Finance costs			(6,472)
			<u> </u>
Loss before taxation			(230,935)
			<u> </u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	Property sales and development HK\$'000	Property rental HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	40,528	123,588	164,116
Unallocated corporate assets			<u>69,295</u>
Consolidated total assets			<u>233,411</u>
LIABILITIES			
Segment liabilities	845	15,108	15,953
Unallocated corporate liabilities			<u>105,379</u>
Consolidated total liabilities			<u>121,332</u>

OTHER INFORMATION

	Property sales and development HK\$'000	Property rental HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	9,467	50	54	9,571
Depreciation and amortisation	-	40	39	79
Impairment losses and revaluation decrease	107,938	113,682	-	221,620
Allowance for loans to minority shareholders of subsidiaries	<u>9,363</u>	<u>-</u>	<u>-</u>	<u>9,363</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31st December, 2003

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	Hotel operation HK\$'000	
TURNOVER					
External sales	–	12,517	–	120,066	132,583
RESULT					
Segment result	(5,331)	(1)	4,651	(121,792)	(122,473)
Unallocated corporate expenses					(25,839)
Loss from operations					(148,312)
Finance costs					(36,391)
Loss before taxation					(184,703)
		Property sales and development HK\$'000	Property rental HK\$'000	Consolidated HK\$'000	
ASSETS					
Segment assets		294,741	313,724		608,465
Unallocated corporate assets					5,217
Consolidated total assets					613,682
LIABILITIES					
Segment liabilities		97,794	18,214		116,008
Unallocated corporate liabilities					133,581
Consolidated total liabilities					249,589

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

OTHER INFORMATION

	Continuing operations			Discontinuing	Consolidated HK\$'000
	Property sales and development HK\$'000	Property rental HK\$'000	Unallocated HK\$'000	operation Hotel operation HK\$'000	
Capital additions	24,208	–	–	9,219	33,427
Depreciation and amortisation	–	58	1,314	19,659	21,031
Impairment losses and revaluation decrease	4,927	1,317	–	128,259	134,503
Unrealised loss on investment in securities	–	–	26	–	26
Amortisation of bank borrowings arrangement fee	–	–	–	424	424
Loss on disposal of property, plant and equipment	–	–	–	172	172

Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
People's Republic of China (the "PRC")	12,605	78,347
Hong Kong	–	54,236
	12,605	132,583

No analysis of the Group's carrying amount of segment assets and capital additions by geographical area is presented as less than 10% are located outside the PRC.

7. IMPAIRMENT LOSSES AND REVALUATION DECREASE

	2004 HK\$'000	2003 HK\$'000
Impairment losses and revaluation decrease recognised in respect of:		
– investment properties	113,682	1,317
– properties under construction	91,288	527
– properties held for sale	16,650	–
– hotel properties	–	110,259
– payment for investments	–	18,000
– properties under/held for development	–	4,400
	<u>221,620</u>	<u>134,503</u>

8. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments (<i>note 11</i>)	2,296	4,568
Other staff costs	5,091	59,763
	<u>7,387</u>	<u>64,331</u>
Total staff costs	7,387	64,331
Less: amount capitalised in construction in progress, properties under construction and properties under/held for development	–	(1,419)
	<u>7,387</u>	<u>62,912</u>
Depreciation and amortisation	79	21,031
Auditors' remuneration	640	1,288
Cost of inventories recognised	–	9,764
Unrealised loss on investments in securities	–	26
Loss on disposal of property, plant and equipment	–	172
and after crediting:		
Release of negative goodwill, included in other operating income	–	872
Gain on disposal of investments in securities	–	1,041
Interest income	24	126
Net rental income in respect of premises after outgoings of HK\$920,000 (2003: HK\$2,108,000)	<u>11,685</u>	<u>18,888</u>

Included in total staff costs is an aggregate amount of approximately HK\$120,000 (2003: HK\$4,523,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on		
– bank borrowings not wholly repayable within five years	–	12,180
– other borrowings wholly repayable within five years	6,472	6,613
– finance lease	–	262
– amount due to a related company	–	3,214
– convertible note	–	1,363
– promissory note	–	12,335
Amortisation of bank borrowings arrangement fee	–	424
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	6,472	36,391
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10. DISCONTINUING OPERATION

Pursuant to the Group Reorganisation in 2003, the Group discontinued its operations in hotel and leisure-related business by transferring the interest in those subsidiaries engaged in hotel and leisure-related business to Apex Quality Group Limited (“Apex”), a then wholly-owned subsidiary, and distributed the shares in Apex to the shareholders of the Company. The results for the period from 1st January, 2003 up to date of disposal and the carrying amounts of the assets and liabilities at the date of disposal are disclosed in notes 6 and 31, respectively.

11. DIRECTORS' EMOLUMENTS

	2004	2003
	HK\$'000	HK\$'000
Fees		
– Independent non-executive directors	226	255
Other emoluments		
– Executive directors		
Salaries and benefits	2,043	4,289
Retirement benefits schemes contributions	27	24
	2,296	4,568

The emoluments of the directors were within the following bands:

	No. of directors	
	2004	2003
Nil to HK\$1,000,000	14	13
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group included three directors (2003: two directors) of the Company whose emoluments are disclosed in note 11. The emoluments of the remaining highest paid individual(s) were as follows:

	2004	2003
	HK\$'000	HK\$'000
Remuneration,		
Salaries and benefits	1,656	1,626
Retirement benefits schemes contribution	24	36
	1,680	1,662

The emoluments of the individual(s) for both years were less than HK\$1,000,000.

13. TAXATION

The taxation credit for the year ended 31st December, 2003 represented deferred tax credit.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit in both years.

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

The taxation for the year can be reconciled to the loss before taxation per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(230,935)</u>	<u>(184,703)</u>
Tax at the domestic income tax rate of 17.5%	(40,414)	(32,323)
Tax effect of expenses that are not deductible in determining taxable profit	43,870	6,394
Tax effect on income that are not taxable in determining taxable profit	(2,852)	(957)
Utilisation of tax losses not recognised in previous years	(1,169)	–
Tax effect of tax losses not recognised	–	21,940
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>565</u>	<u>(5,709)</u>
Taxation for the year	<u>–</u>	<u>(10,655)</u>

Details of deferred taxation are set out in note 30.

14. DISTRIBUTION

	2004 HK\$'000	2003 HK\$'000
Distribution	<u>–</u>	<u>444,426</u>

Pursuant to the Group Reorganisation in 2003, shares in Apex were distributed in specie to the shareholders of the Company. The amount of distribution represents the Company's investment cost in Apex at the date of completion of the Group Reorganisation.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$235,515,000 (2003: HK\$170,207,000) and on 277,408,596 (2003: 277,408,596) ordinary shares in issue during the year.

No diluted loss per share has been presented as there is no potential ordinary share in issue during the year.

16. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1st January, 2004	281,955
Disposal of subsidiaries	(28,273)
Revaluation decrease	<u>(113,682)</u>
At 31st December, 2004	<u>140,000</u>

The valuation of the Group's investment properties at 31st December, 2004 was carried out by RHL Appraisal Limited, an independent firm of qualified professional valuers, on an open market value basis. The revaluation decrease of HK\$113,682,000 has been charged to the consolidated income statement for the year ended 31st December, 2004.

All the Group's investment properties are held for rental under medium term land use rights in the PRC.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Properties under construction	Furniture, equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
COST				
At 1st January, 2004	1,403	258,548	4,672	264,623
Additions	–	–	104	104
Disposals	–	–	(46)	(46)
Disposal of subsidiaries	(1,403)	–	(2,248)	(3,651)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31st December, 2004	–	258,548	2,482	261,030
	<u>–</u>	<u>258,548</u>	<u>2,482</u>	<u>261,030</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT				
At 1st January, 2004	–	155,666	4,116	159,782
Charge for the year	–	–	79	79
Impairment loss for the year	–	91,288	–	91,288
Eliminated on disposals	–	–	(46)	(46)
Eliminated on disposal of subsidiaries	–	–	(2,002)	(2,002)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31st December, 2004	–	246,954	2,147	249,101
	<u>–</u>	<u>246,954</u>	<u>2,147</u>	<u>249,101</u>
NET BOOK VALUE				
At 31st December, 2004	–	11,594	335	11,929
	<u>–</u>	<u>11,594</u>	<u>335</u>	<u>11,929</u>
At 31st December, 2003	1,403	102,882	556	104,841
	<u>1,403</u>	<u>102,882</u>	<u>556</u>	<u>104,841</u>

The properties under construction are situated in the PRC and are held under medium-term land use rights. The directors of the Company have re-assessed the carrying amount of the properties under construction with reference to the conditional sale and purchase agreements entered into by the Group subsequent to the balance sheet date (see note 38(a)). An impairment loss of approximately HK\$91,288,000 (2003: Nil) has been identified and recognised in the consolidated income statement in the current year.

18. PROPERTIES UNDER/HELD FOR DEVELOPMENT

	THE GROUP
	HK\$'000
COST	
At 1st January, 2004	347,525
Development costs incurred	9,467
Disposal of subsidiary	<u>(356,992)</u>
At 31st December, 2004	<u>–</u>
IMPAIRMENT	
At 1st January, 2004	188,925
Disposal of subsidiary	<u>(188,925)</u>
At 31st December, 2004	<u>–</u>
NET BOOK VALUE	
At 31st December, 2004	<u>–</u>
At 31st December, 2003	<u>158,600</u>

All the properties under/held for development are situated in the PRC, other than Hong Kong, under the following terms:

	2004	2003
	HK\$'000	HK\$'000
Medium-term land use rights	–	111,000
Long-term land use rights	<u>–</u>	<u>47,600</u>
	<u>–</u>	<u>158,600</u>

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	1,175,791	1,184,514
	<hr/>	<hr/>
	1,175,791	1,184,514
Less: Allowance	(977,324)	(720,767)
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	198,467	463,747
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The directors have reviewed the carrying amounts of the assets of the subsidiaries as at the balance sheet date in light of the current market condition and allowance for amounts due from subsidiaries of approximately HK\$977,324,000 have been recognised.

In the opinion of the directors, the amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year and are therefore shown as non-current.

Particulars of the Company's principal subsidiaries as at 31st December, 2004 are set out in note 40.

20. LOANS TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	30,771	30,771
Allowance for bad and doubtful debts	(9,363)	–
Disposal of subsidiaries	(21,408)	–
	<hr/>	<hr/>
At 31st December	–	30,771
	<hr/>	<hr/>

The amounts are unsecured, interest-free and will not be repaid within one year and are therefore shown as non-current.

21. PROPERTIES HELD FOR SALE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At 1st January	31,695	31,793
Disposal of subsidiaries	(3,695)	(98)
Impairment loss	(16,650)	—
	<hr/>	<hr/>
At 31st December, at net realisable value	11,350	31,695
	<hr/>	<hr/>

The carrying value of properties held for sale comprises:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Properties held under long-term land use rights in the PRC	11,350	28,000
Properties held under medium-term land use rights in the PRC	—	3,695
	<hr/>	<hr/>
	11,350	31,695
	<hr/>	<hr/>

In August 2004, a wholly owned subsidiary of the Group entered into various conditional sale and purchase agreements (“S&P Agreements”) with independent third parties for the disposal of all the properties held for sale with a carrying amount of approximately HK\$11,350,000 for a consideration of approximately RMB12,000,000 (equivalent to approximately HK\$11,225,000).

The title to the land use right and the property ownership in respect of these properties has not yet been transferred to the Group from the title holder since the date of acquisition. The Group has paid the full amount of the consideration in accordance with the sale and purchase agreement and is now negotiating with the title holder for the transfer of the titles to the purchaser in accordance with the S&P Agreements. At the balance sheet date, the S&P Agreements have not been completed and the directors are of the opinion that such transfer of titles will be completed in due course.

22. TRADE AND OTHER RECEIVABLES

The Group has a policy of agreeing credit terms with each of its trade customers in the light of the individual customer's merit. Included in trade and other receivables at 31st December, 2003 is trade receivables of HK\$128,000 which are aged within 0 to 90 days (2004: Nil).

In August 2004, the Group disposed of its entire interest in, and shareholders' loan to, Huizhou Gladly Property Limited, Huizhou World Express Property Limited and Huizhou Best Glory Limited (collectively referred to as the "Huizhou Companies") to State Achieve Properties Limited (the "Purchaser") for a cash consolidation of RMB50.0 million (equivalent to HK\$46.8 million). In accordance with the sale and purchase agreements, approximately HK\$9.3 million was settled and the remaining consideration of approximately HK\$13.5 million, HK\$9.4 million and HK\$14.6 million shall be settled on 31st December, 2004, 30th April, 2005 and 30th June, 2005, respectively. The unsettled amount of HK\$37.5 million at 31st December, 2004 were secured by the shares of the Purchaser, and included in trade and other receivables.

In September 2004, the Group disposed of its entire interest in, and shareholders' loan to, Fast Gain Investments Limited ("Fast Gain") and Meiner Investments Limited ("Meiner") for a cash consideration of HK\$32.0 million. In accordance with the sale and purchase agreement, approximately HK\$3.2 million was settled and the remaining balance of approximately HK\$28.8 million shall be settled on 31st December, 2004. The unsettled amount of HK\$28.8 million at 31st December, 2004 were secured by the shares of Fast Gain and Meiner and included in trade and other receivables. The amount was fully settled subsequent to the balance sheet date.

In the opinion of the directors, the underlying value of the shares of the Purchaser and disposed subsidiaries are not less than the carrying value of the consideration receivables.

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$845,000 (2003: HK\$1,623,000), and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 90 days	143	1,623
91 to 180 days	143	–
Over 180 days	559	–
	<u>845</u>	<u>1,623</u>
Construction cost payable	13,667	30,813
Other payables	6,153	4,017
	<u>20,665</u>	<u>36,453</u>

24. OTHER BORROWING

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unsecured other borrowing	<u>100,000</u>	<u>130,000</u>	<u>100,000</u>	<u>130,000</u>
The maturity profile of the above borrowing is as follows:				
Within one year	100,000	80,000	100,000	80,000
More than one year, not exceeding two years	<u>–</u>	<u>50,000</u>	<u>–</u>	<u>50,000</u>
	100,000	130,000	100,000	130,000
Less: Amount due within one year included under current liabilities	<u>(100,000)</u>	<u>(80,000)</u>	<u>(100,000)</u>	<u>(80,000)</u>
Amount due after one year	<u>–</u>	<u>50,000</u>	<u>–</u>	<u>50,000</u>

The amount is interest bearing at prime rate plus 0.25% and repayable on 30th June, 2005.

For the year ended 31st December, 2004

25. SHARE CAPITAL

	Number of shares	Value US\$'000
Authorised		
At 1st January, 2003	19,000,000,000	380,000
Subdivided into 10 shares of US\$0.002 each	<u>171,000,000,000</u>	<u>–</u>
Ordinary shares of US\$0.002 each	190,000,000,000	380,000
Consolidation of shares	<u>(171,000,000,000)</u>	<u>–</u>
At 31st December, 2003 and 2004, ordinary shares of US\$0.02 each	<u>19,000,000,000</u>	<u>380,000</u>
Issued and fully paid		
At 1st January, 2003	2,774,085,961	432,757
Adjustment to nominal value	<u>–</u>	<u>(389,481)</u>
Ordinary shares of US\$0.002 each	2,774,085,961	43,276
Consolidation of shares	<u>(2,496,677,365)</u>	<u>–</u>
At 31st December, 2003 and 2004, ordinary shares at US\$0.02 each	<u>277,408,596</u>	<u>43,276</u>

There were no changes in the share capital of the Company during the year ended 31st December, 2004.

26. SHARE OPTIONS

On 4th June, 2002, the Company adopted a new share option scheme (the “Scheme”) for the primary purpose of providing incentives and rewards to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries (the “Participants”) for their contribution to the Group. The Scheme will expire on 3rd June, 2012. Under the Scheme, the board of directors (the “Board”) may grant options to the participants to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The exercise price is to be determined by the Board and shall not be less than the highest of

- (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date which must be a business day (and for this purpose, shall be taken to be the date of the Board meeting at which the Board proposes to grant the options);
- (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and
- (c) The nominal value of a share.

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 13,624,193 shares, representing 10% of the issued share capital of the Company as at the date of adoption of the Scheme or approximately 4.9% of the issued share capital of the Company as at 31st December, 2004. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of the Stock Exchange (the “Listing Rules”) from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12 month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting. The participants and his associates (as defined in the Listing Rules) are abstained from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

26. SHARE OPTIONS (continued)

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

During the year ended 31st December, 2003 and 2004, no options under the Scheme were granted or exercised by any directors or employees of the Company and its subsidiaries and no options were cancelled or lapsed since the adoption date.

27. RESERVES

	Share premium HK\$'000	Capital Contributed reserve HK\$'000 (Note a)	surplus HK\$'000 (Note b)	Deficit HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 2003	271,023	945	3,088,504	(2,834,581)	525,891
Capital Reorganisation	(271,023)	–	660,504	–	389,481
Set off against contributed surplus	–	–	(2,834,581)	2,834,581	–
Net loss for the year	–	–	–	(180,133)	(180,133)
Distribution (note 14)	–	–	(444,426)	–	(444,426)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	–	945	470,001	(180,133)	290,813
Net loss for the year	–	–	–	(240,456)	(240,456)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2004	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

27. RESERVES (continued)

Notes:

- (a) The capital reserve of the Company represents capital redemption reserve fund.
- (b) The contributed surplus of the Company represents the aggregate of the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company under a group reorganisation in 1995 of approximately HK\$3,088,504,000; an amount of approximately HK\$660,504,000 arising from Capital Reorganisation in 2003; the set off of deficit of the Company amounting to approximately HK\$2,834,581,000; and distribution approximately HK\$444,426,000 pursuant to the Group Reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

28. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and has no fixed repayment terms. The amount will not be repaid within one year and are therefore shown as non-current.

29. DEPOSITS RECEIVED THE GROUP

According to two pre-sale agreements dated 7th September, 1994, the properties held by the Huizhou Companies were pre-sold at an aggregate consideration of RMB818,491,770 (equivalent to approximately of HK\$766,380,000) and 10% of the sale proceeds were received and classified as deposits received in the consolidated balance sheet at 31st December, 2003.

During the year ended 31st December, 2004, the deposits received were disposed of as a result of the disposal of the Huizhou Companies.

30. DEFERRED TAX LIABILITIES

The movement for the year in the deferred tax liabilities in relation to the temporary difference attributable to the hotel properties were as follows:

	HK\$'000
At 1st January, 2003	243,105
Credit to consolidated income statement for the year	(10,655)
Disposal of subsidiaries by way of distribution	(232,450)
	<hr/>
At 31st December, 2003 and 31st December 2004	—
	<hr/>

At the balance sheet date, the Group has unutilised tax losses of approximately HK\$52,275,000 (2003: HK\$88,258,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream.

31. DISPOSAL OF SUBSIDIARIES

On 10th August, 2004, the Company disposed of the entire interest in, and shareholders' loan to, the Huizhou Companies for a total consideration of RMB50,000,000 (equivalent to approximately HK\$46,817,000).

On 28th September, 2004, the Company disposed of the entire interest in, and shareholders' loan to, Yetwide Investments Limited for a consideration of HK\$31,000,000.

Further on 18th November, 2004, the Company disposed of the entire interest in, and shareholders' loan to, Fast-Gain and Meiner for a total consideration of HK\$32,000,000.

31. DISPOSAL OF SUBSIDIARIES (continued)

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Investment properties	28,273	–
Property, plant and equipment	1,649	1,520,214
Property under development	168,067	–
Negative goodwill released	–	(17,817)
Investments in securities	–	23
Payment for investments	–	90,000
Club debenture	–	713
Properties held for sale	3,695	98
Inventories	–	4,022
Trade and other receivables	1,314	59,088
Bank balances and cash	3,077	21,337
Trade and other payables	(18,885)	(105,104)
Deposit received	(93,311)	–
Obligations under a finance lease	–	(1,467)
Bank and other borrowings	–	(378,642)
Deferred taxation	–	(232,450)
Promissory note	–	(365,000)
Amount due to a related company	–	(81,406)
Loan to (from) minority shareholders of a subsidiary	21,408	(187)
Minority interests	(21,079)	(68,996)
	94,208	444,426
Gain on disposal of subsidiaries	15,609	–
Total consideration	109,817	444,426
Satisfied/represented by:		
Cash	43,563	–
Other receivables (note 22)	66,254	–
Distribution (note 14)	–	444,426
	109,817	444,426
Net inflow (outflow) arising on disposal of subsidiaries:		
Consideration received	43,563	–
Bank balances and cash disposed of	(3,077)	(21,337)
	40,486	(21,337)

The subsidiaries disposed of during the year contributed HK\$3,802,000 (2003: HK\$120,066,000) to the Group's turnover and loss of HK\$620,000 (2003: HK\$121,792,000) to the Group's loss from operations.

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2004, the Group had no major non-cash transactions.

During the year ended 31st December, 2003, shares in Apex were distributed in specie to the shareholders of the Company. The amount of distribution of approximately HK\$444,426,000 represents the Group's share of net assets in Apex distributed at the date of distribution.

33. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditures contracted for but not provided in the financial statements relating to:		
– properties under construction	129,393	129,393
– properties under/held for development	–	33,039
	129,393	162,432

At 31st December, 2003 and 2004, the Company had no significant capital commitments.

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group made minimum lease payments of approximately of HK\$565,000 (2003: HK\$3,067,000) under operating leases during the year in respect of office properties. Operating lease payments represent rent payable by the Group for certain of its office premises.

At 31st December, 2003 and 2004, the Group had no operating lease commitments.

34. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

Property rental income earned during the year was approximately HK\$12,605,000 (2003: HK\$12,517,000). All of the properties held have committed tenants for the next three to five years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	8,573	8,467
In the second to fifth years inclusive	2,223	1,795
	<u>10,796</u>	<u>10,262</u>

At 31st December, 2003 and 2004, the Company had no significant operating lease arrangements.

35. CONTINGENT LIABILITIES

Guarantees

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to bank in respect of bank facilities utilised by:				
Third parties	-	14,045	-	14,045
	<u>-</u>	<u>14,045</u>	<u>-</u>	<u>14,045</u>

35. CONTINGENT LIABILITIES (continued)

Litigation

- (a) In August 1999, the architect of Paul Y. Plaza located in Guangzhou, the PRC, initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of the Company in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively. Eventic engaged the architect for architectural services in respect of Paul Y. Plaza.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided by the architect.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing and are at the stage of the exchange documents. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have a material adverse financial effect to the Group.

- (b) In June 2002, a sub-contractor of Paul Y. Plaza initiated legal proceedings against Eventic in respect of a claim for payment of sub-contract works for approximately RMB5.2 million.

Eventic has vigorously defended the claim as there was no contractual relationship between Eventic and the sub-contractor. Eventic has also made a counterclaim and/or set off against the sub-contractor for the balance of unused advance payment and overpayment of approximately RMB4.2 million and RMB0.8 million respectively paid to the sub-contractor.

At the date of this report, the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Eventic.

36. PLEDGE OF ASSETS

At 31st December, 2004, the Group had no significant pledge of assets.

At 31st December, 2003, the Group has pledged certain part of properties under/held for development with a carrying value of HK\$47,600,000 to a bank for banking facilities utilised by a third party.

At 31st December, 2003 and 2004, the Company had no significant pledge of assets.

37. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the “Scheme”) for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group’s subsidiary in PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

38. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) On 25th February, 2005 and 21st April, 2005, a wholly-owned subsidiary of the Company, entered into conditional sale and purchase agreements with third parties for the disposal of respective 40% and 60% interest in More Cash Limited (“More Cash”), a wholly owned subsidiary of the Company, for a cash consideration of HK\$40,000,000 and HK\$90,000,000. More Cash, through its subsidiary, Guang Zhou Jiang Nan Property Co., Ltd., is engaged in property investment and development in Guangzhou, the PRC. Details of the disposal of 40% interest are set out in the circular of the Company dated 24th March, 2005. Under the terms of the agreements, the completion date for both of the transactions is 24th May, 2005.
- (b) On 4th April, 2005, a wholly owned subsidiary of the Company entered into a conditional sales and purchase agreement with a third party for the acquisition of the entire interest in, and shareholders’ loan to, Renowed Holdings Limited (“Renowed”) for a cash consideration of HK\$35,000,000. Renowed, through its subsidiary, Superwide Development Limited, is engaged in property development in Shenzhen, the PRC. Details of the acquisition are set out in the announcement of the Company dated 7th April, 2005. The transaction has not been completed at the date of the report.
- (c) On 13th April, 2005, a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement with a third party for the acquisition of the entire interest in Zhong Hua Health Food Culture Research Limited (“Health Food”) and Zhong Hua Jin Long Teng Health Food (Holdings) Limited (“JLT”) for a cash consideration of HK\$5,500,000. Health Food and JLT, through its subsidiaries, were engaged in restaurant operations in Shenzhen and Beijing, the PRC. The transaction has not been completed at the date of the report.

39. RELATED PARTY DISCLOSURES

Other than as disclosed in notes 20 and 28 to the financial statements, the Group had no other significant related party disclosures.

40. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly	Indirectly	
			%	%	
Alpha Sheen Development Limited	HK\$100	Hong Kong	–	100	Property investment, PRC
Best Glory Limited	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong
Bremer Assets Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Bright Regent Limited	HK\$2	Hong Kong	–	100	Dormant
China Land Group Limited	HK\$2	Hong Kong	–	100	Management services, Hong Kong
China Land Holdings Limited	US\$1	BVI	100	–	Investment holding, Hong Kong
China Land (HK) Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
China Land (PRC) Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
China Land Resources Limited	US\$1	BVI	–	100	Inactive, Hong Kong

40. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
China Velocity Investments Limited	HK\$6,000,000	Hong Kong	–	100	Investment holding, Hong Kong
Dionysus Investments Limited	US\$10	BVI	–	70	Investment holding, Hong Kong
Eventic	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Exburg Ltd.	US\$1	BVI	–	70	Investment holding, Hong Kong
Gladly Development Limited (“Gladly”)	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong
Goldsmith Assets Limited	US\$1	BVI	–	70	Investment holding, Hong Kong
Guang Zhou Jiang Nan Property Co., Ltd. (Note)	HK\$68,000,000	PRC	–	75	Property development, PRC
Holburn Property Limited	US\$1	BVI	–	70	Investment holding, Hong Kong
Hongkong Macau (Nominees) Limited	HK\$2	Hong Kong	–	100	Nominee services, Hong Kong
Hongkong Macau (International) Ltd.	US\$1	BVI	100	–	Investment holding, Hong Kong

For the year ended 31st December, 2004

40. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Issued and fully paid ordinary share capital/ registered capital	Place of incorporation/ registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly	Indirectly	
			%	%	
Hongkong Macau Secretarial Services Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
More Cash	US\$2	BVI	–	100	Investment holding, Hong Kong
Pearlbound Properties Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
World Express Limited	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong

Note: This is a PRC sino-foreign co-operative joint venture.

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

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