

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Future Opportunity Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company while its subsidiaries are principally engaged in property development in the People's Republic of China ("PRC").

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group 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 HKFRSs would have significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and leasehold land and buildings, and 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 31st December each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

For the year ended 31st December, 2001, the Group has adopted Statement of Standard Accounting Practice ("SSAP") 30 "Business combinations" issued by the HKICPA and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight line basis following an assessment of its useful economic life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the 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 asset, it is recognised in income immediately.

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 independent professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement.

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

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings, are stated at cost less depreciation and amortisation and any identified impairment loss.

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation, and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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

Leasehold land	Over the remaining terms of the leasehold land or 10 years, whichever is applicable
Buildings	Over the remaining terms of the leasehold land or 10-50 years, whichever is applicable
Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Plant and machinery	10%
Motor vehicles	20%

The gain or loss arising from 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.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a 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 other SSAP.

Turnover

Turnover represents the amount received and receivable on sales of land and sales of developed properties, net of sales tax.

Revenue recognition

Sale of land is recognised when the title has passed or when the sale contracts signed become unconditional, whichever is earlier.

Sale of developed properties is recognised upon execution of the sale agreements.

When a development property is sold in advance of completion, income is recognised only when the property is completed and has passed the inspection process. Deposits received from the purchasers prior to this stage are recorded as customers' deposits and included in current liabilities.

Rental income is recognised on a straight line basis over the term of relevant lease.

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

Operating leases

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation 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 taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiary, 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 taxation asset 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 taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred taxation 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 taxation is also dealt with in equity.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 period in which they are incurred.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Translation 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.

Retirement benefits cost

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. SEGMENT INFORMATION

Business Segments

The Group's principal activities are sales of land and sales of developed properties. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2004			
Turnover	—	260,429	260,429
Result			
Segment result	—	73,898	73,898
Other operating income			15,020
Unallocated corporate expenses			(27,860)
Profit from operations			61,058
Finance costs			(1,193)
Profit before taxation			59,865
Taxation			(21,850)

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2004 (Continued)			
Profit before minority interests			38,015
Minority interests			(22,634)
Profit attributable to shareholders			<u>15,381</u>
As at 31st December, 2004			
Balance sheet			
Assets			
Segment assets	<u>4,917</u>	<u>387,118</u>	392,035
Unallocated corporate assets			<u>243,056</u>
Total assets			<u>635,091</u>
Liabilities			
Segment liabilities	<u>—</u>	<u>98,900</u>	98,900
Unallocated corporate liabilities			<u>216,535</u>
Total liabilities			<u>315,435</u>
Other information			
Additions of property, plant and equipment			6,881
Depreciation and amortisation of property, plant and equipment			<u>3,160</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2003			
Turnover	35,800	154,921	190,721
Result			
Segment result	22,646	40,526	63,172
Other operating income			3,498
Unallocated corporate expenses			(23,284)
Profit from operations			43,386
Finance costs			(5,571)
Profit before taxation			37,815
Taxation			(3,778)
Profit before minority interests			34,037
Minority interests			(1,510)
Profit attributable to shareholders			32,527

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SEGMENT INFORMATION (Continued)

Business Segments (Continued)

	Sales of land <i>HK\$'000</i>	Sales of developed properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31st December, 2003			
Balance sheet			
Assets			
Segment assets	5,304	358,319	363,623
Unallocated corporate assets			121,974
Total assets			485,597
Liabilities			
Segment liabilities	5,933	59,913	65,846
Unallocated corporate liabilities			141,528
Total liabilities			207,374
Other information			
Additions of property, plant and equipment			447
Depreciation and amortisation of property, plant and equipment			585

Geographical Segments

All of the Group's turnover for both years was generated in the PRC and over 90% (2003: over 90%) of the Group's segment assets were located in the PRC. Accordingly, no geographical segment information is presented.

During the year, over 90% (2003: over 90%) of the Group's additions to property, plant and equipment took place in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
— current year	1,080	1,020
— overprovision in prior year	(40)	—
Depreciation and amortisation	3,160	585
Directors' remuneration (note 6)	5,570	4,369
Other staff's retirement benefit scheme contributions	1,159	417
Other staff costs	5,415	5,394
	12,144	10,180
Operating lease rentals in respect of		
— land and buildings	844	840
— office equipment	11	8
and after crediting:		
Interest income	679	730
Gross rental income	1,406	1,310
Less: Outgoings	(101)	(62)
Net rental income from properties	1,305	1,248

Notes to the Financial Statements

For the year ended 31st December, 2004

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Fees for		
— executive directors	—	—
— independent non-executive directors	90	90
	90	90
Other emoluments for executive directors		
— basic salaries and allowance	5,444	4,236
— retirement benefit scheme contributions	36	43
	5,480	4,279
Total directors' remuneration	5,570	4,369

The remuneration of the directors falls within the following band:

	2004 Number	2003 Number
Nil — HK\$1,000,000	6	7
HK\$1,000,001 to HK\$1,500,000	1	—
	7	7

Employees' remuneration:

The five highest paid individuals of the Group included four (2003: four) directors, details of whose remuneration are set out above. The remuneration of the remaining individual is as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	271	260
Retirement benefit scheme contributions	12	12
	283	272

No remuneration has ever been paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have ever waived any emoluments.

Notes to the Financial Statements

For the year ended 31st December, 2004

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	(2,938)	(1,364)
Amounts due to minority shareholders	(122)	(235)
Loans from minority shareholders	(464)	(3,451)
Other borrowings wholly repayable within five years	—	(521)
	(3,524)	(5,571)
Less: Amount capitalised in properties under development	2,331	—
	(1,193)	(5,571)

8. TAXATION

	2004 HK\$'000	2003 HK\$'000
PRC Enterprise Income Tax and land appreciation tax		
— Current year	(23,694)	(6,051)
— Overprovision in prior years	1,844	2,273
	(21,850)	(3,778)

The PRC income tax is calculated at rates applicable to respective subsidiaries.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years.

Notes to the Financial Statements

For the year ended 31st December, 2004

8. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	59,865	37,815
Tax rate of 33% applicable to the Group's subsidiaries in the PRC (2003: 33%)	(19,755)	(12,479)
Tax effect of expenses not deductible for tax purpose	(1,632)	(485)
Tax effect of income not taxable for tax purpose	824	7,736
Overprovision in prior years	1,844	2,273
Tax effect of unrecognised tax losses	(1,800)	(1,345)
Land appreciation tax paid and payable	(2,149)	—
Effect of different tax rates of subsidiaries operating in the other jurisdictions	818	522
Taxation charge for the year	(21,850)	(3,778)

9. DIVIDEND

For the year ended 31st December, 2004, the directors of the Company proposed a final dividend of HK1.0 cent (2003: HK3.0 cents) per share, which is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$15,381,000 (2003: HK\$32,527,000) and 292,600,000 (2003: 292,600,000) shares in issue during the year.

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares outstanding in both years.

Notes to the Financial Statements

For the year ended 31st December, 2004

11. INVESTMENT PROPERTIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Valuation at 1st January	13,868	13,585
Surplus arising on revaluation	255	283
Valuation at 31st December	14,123	13,868

The Group's investment properties are held under the following lease terms:

	2004 HK\$'000	2003 HK\$'000
Under long leases	2,330	2,170
Under medium term leases	11,793	11,698
	14,123	13,868

The Group's investment properties are situated in the PRC and majority of the investment properties are rented out under operating leases. The investment properties were valued on an open market value basis at 31st December, 2004 by Chesterton Petty Limited, a firm of international property consultants. The revaluation surplus of approximately HK\$255,000 (2003: HK\$283,000) has been credited to the investment property revaluation reserve.

Notes to the Financial Statements

For the year ended 31st December, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP					THE COMPANY	
	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Furniture, fixtures and equipment HK\$'000
COST OR VALUATION							
At 1st January, 2003	9,771	—	1,834	278	2,883	14,766	50
Additions	—	4,892	1,159	—	830	6,881	12
Transferred from properties held for sales	3,322	—	—	—	—	3,322	—
Transferred from properties held under development	16,544	—	—	—	—	16,544	—
Revaluation	4,688	—	—	—	—	4,688	—
At 31st December, 2004	34,325	4,892	2,993	278	3,713	46,201	62
Comprising:							
— at cost	—	4,892	2,993	278	3,713	11,876	62
— at valuation	34,325	—	—	—	—	34,325	—
	34,325	4,892	2,993	278	3,713	46,201	62
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	—	—	1,249	78	2,426	3,753	14
Provided for the year	1,989	823	203	12	133	3,160	11
Eliminated on revaluation	(335)	—	—	—	—	(335)	—
At 31st December, 2004	1,654	823	1,452	90	2,559	6,578	25
NET BOOK VALUES							
At 31st December, 2004	32,671	4,069	1,541	188	1,154	39,623	37
At 31st December, 2003	9,771	—	585	200	457	11,013	36

Notes to the Financial Statements

For the year ended 31st December, 2004

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings situated in the PRC are held under the following lease terms:

	2004 HK\$'000	2003 HK\$'000
Under long leases	17,382	9,372
Under medium term leases	15,289	399
	32,671	9,771

The Group's leasehold land and buildings are situated in the PRC and were valued on an open market existing use basis at 31st December, 2004 by Chesterton Petty Limited, a firm of international property consultants. The Group's share of revaluation surplus of approximately HK\$1,884,000 (2003: HK\$172,000) has been credited to the leasehold land and building revaluation reserve.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK\$25,457,000 (2003: HK\$7,580,000).

At the balance sheet date, approximately HK\$16,544,000 (2003: HK\$nil) of the leasehold land and buildings are in the process of obtaining the building ownership certificate.

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	128,074	128,074
Amounts due from subsidiaries	43,130	47,451
	171,204	175,525

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the group reorganisation taken place in May 2002.

The amounts due from subsidiaries are unsecured, bear interest at prevailing market rates and do not have fixed repayment terms.

Details of the subsidiaries as at 31st December, 2004 are set out in note 34.

Notes to the Financial Statements

For the year ended 31st December, 2004

14. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The properties under development are due for completion:		
Within one year	69,943	108,094
More than one year	69,927	69,927
	139,870	178,021

The properties under development situated in the PRC are held under the following lease terms:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Under long leases	69,943	83,940
Under medium term leases	69,927	94,081
	139,870	178,021

As at the balance sheet date, the properties under development included interest capitalised of approximately HK\$7,122,000 (2003: approximately HK\$7,516,000).

15. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

For the year ended 31st December, 2004

16. PROPERTY SALE RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
An aged analysis of the property sale receivable is as follows:		
Within three months	43,431	44,423
Four months to one year	4,480	17,335
Between one to two years	12,100	2,799
Over two years	1,388	666
	61,399	65,223

Under the Group's current credit policy on sales of developed properties, individual customer has to fully settle the purchase consideration before the Group transfers the title of the property to the customers.

For sales of land, individual customer has to substantially settle the purchase consideration before the Group transfers the title of the land to the customers.

17. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
An aged analysis of the trade creditors, included in the creditors and accrued charges, is as follows:		
Within three months	75,669	2,459
Four months to one year	1,042	77
Over one year	9,995	21,688
	86,706	24,224

In 2003, creditors and accrued charges included a loan due to a third party of approximate HK\$848,000. The loan was unsecured, bore interest at 10% per annum and was fully repaid during the year.

Notes to the Financial Statements

For the year ended 31st December, 2004

18. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, interest-free and repayable on demand.

19. AMOUNTS DUE TO MINORITY SHAREHOLDERS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest bearing advances	587	3,074
Non-interest bearing advances	265	291
	852	3,365

The amounts are unsecured and have no fixed terms of repayment. The interest paid was charged at interest rate of 5.85% (2003: 5.85%) per annum on the interest bearing advances.

20. AMOUNT DUE TO A RELATED COMPANY

The amount represents, the amount due to a company in which a director of the Company, Mr. So Pang Gen, has a beneficial interest and the amount is unsecured, interest-free and repayable on demand.

21. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	73,584	8,491	—	—
Bank overdraft	92	81	92	81
	73,676	8,572	92	81
Secured	73,584	8,491	—	—
Unsecured	92	81	92	81
Total	73,676	8,572	92	81

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For the year ended 31st December, 2004

21. BANK BORROWINGS (Continued)

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The bank borrowings are repayable as follows:				
Within one year	44,431	8,572	92	81
Between one to two years	29,245	—	—	—
	73,676	8,572	92	81
Less: Amount due within one year shown under current liabilities	(44,431)	(8,572)	(92)	(81)
	29,245	—	—	—

22. DEFERRED TAXATION

The following are the major deferred taxation liabilities recognised by the Group and movements thereon during the current and prior years:

	Revaluation of properties HK\$'000
At 1st January, 2003	3,045
Charge to revaluation reserves for the year	150
Charge to minority interests	95
Balance at 1st January, 2004	3,290
Charge to revaluation reserves for the year	706
Charge to minority interests	1,036
At 31st December, 2004	5,032

At the balance sheet date, the Group had unused tax losses of approximately HK\$196,000 (2003: HK\$196,000) available to offset against future assessable profits. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

The Company did not have any significant unprovided deferred taxation during the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. LOANS FROM MINORITY SHAREHOLDERS

THE GROUP

Loans of HK\$4,876,000 were included in the balance at 31st December, 2003, which unsecured, bore interest at 10% per annum and were fully repaid during the year. The remaining balance was reclassified to creditors and accrued charges as they were no longer minority shareholders of the Group.

24. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 HK\$	Amount HK\$'000
Authorised	1,000,000,000	100,000
Issued and fully paid	292,600,000	29,260

25. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15th May, 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time.

Options granted must be exercised in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not be more than 10 years from the date of offer of the grant of the option, upon payment of HK\$1 per option.

The exercise price is determined by the directors of the Company, and would not be less than the higher of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the Stock Exchange on date of offer; and the nominal value of the shares.

No options have been granted under the Scheme since its adoption.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. RESERVES

	THE COMPANY			
	Share premium	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	33,450	127,961	(3,933)	157,478
Dividend paid	—	(8,778)	—	(8,778)
Net loss for the year	—	—	(7,296)	(7,296)
At 31st December, 2003	33,450	119,183	(11,229)	141,404
Dividend paid	—	(8,778)	—	(8,778)
Net loss for the year	—	—	(7,866)	(7,866)
At 31st December, 2004	33,450	110,405	(19,095)	124,760

The contributed surplus of the Company represents the difference between the combined shareholders' funds of China Fair Land Properties Limited, the wholly owned subsidiary of the Company, at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition and less dividend paid afterwards.

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

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

The Company's reserves available for distribution to shareholders are as follows:

	2004 HK\$'000	2003 HK\$'000
Contributed surplus	110,405	119,183
Deficit	(19,095)	(11,229)
	91,310	107,954

Notes to the Financial Statements

For the year ended 31st December, 2004

27. MAJOR NON-CASH TRANSACTION

During the year, the directors of 寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd., a subsidiary of the Company, declared a dividend of approximately HK\$3,487,000 (2003: HK\$2,695,000) to its minority shareholders. Such dividend remained unpaid as at the balance sheet date.

28. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its properties under development and properties held for sales to banks in the PRC to secure the bank loans of approximately HK\$73,584,000 (2003: HK\$8,491,000) granted by these banks. The aggregate carrying value of the properties under development and properties held for sales at 31st December, 2004 pledged amounted to approximately HK\$nil and HK\$69,919,000 (2003: HK\$62,264,000 and HK\$nil) respectively.

29. CONTINGENT LIABILITIES

At 31st December, 2004, the Group provided guarantees of approximately HK\$13,198,000 (2003: HK\$11,274,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificate of the respective property by the banks from the customers as a pledge for security to the mortgage loan granted.

During the year, the State Administration of Taxation of the PRC issued a circular as Guo Shui Han [2004] No. 938 on 2nd August, 2004, to strengthen levy of land appreciation tax on property developers. In the opinion of the directors, after consulting the Group's PRC tax consultants and meeting with the officials responsible for land appreciation tax of the local tax authorities of the relevant cities in which the Group has property development projects, land appreciation tax will not be made in respect of properties already completed in certain cities, and for other cities, land appreciation is calculated according to certain deemed rates assessed by the local tax bureau. Accordingly, full provisions for land appreciation tax have not been made in the financial statements. The Group has not, however, been able to secure written confirmations from the relevant local tax authorities, but the directors consider that there is only a small possibility that land appreciation tax might be levied.

Under the Implementation Regulations on the Provisional Regulations of the PRC on land appreciation tax promulgated on 13th December, 1993, all added value from transfer of real estate in the PRC from 1st January, 1994 is subject to land appreciation tax at progressive rates up to 60 per cent. Based on the Circular issued by the Ministry of Finance of the PRC on 27th January, 1995, an exemption to land appreciation tax is applicable to those property development contracts signed before 1st January, 1994, or those related project proposals approved before 1st January, 1994 and whose capital for the development has been injected according to the contract. The exemption to land appreciation tax in respect of the first transfer of real estate expired on 31st December, 1998. On 24th December, 1999, the Ministry of Finance of the PRC issued a circular to further extend the exemption period of land appreciation tax from 1st January, 1999 to 31st December, 2000. The directors of the Company consider that, after taking into consideration of the opinion obtained from its legal advisors in the PRC and other professional advisors, and the results of discussions with local tax authorities in the PRC, the Group is eligible for the application of the exemption to land appreciation tax for the sales of land and developed properties before 31st December, 2000. Should such levies take place, then land appreciation tax amounting to approximately HK\$57,200,000 (2003: HK\$55,112,000) for the period from 1st January, 2001 to 31st December, 2004 has to be provided for in these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2004

30. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group and the Company were committed to make the following minimum lease payments under non-cancellable operating leases with average lease terms of 2 years which fall due as follows:

	THE GROUP				THE COMPANY			
	2004		2003		2004		2003	
	Rented premises	Office equipment	Rented premises	Office equipment	Rented premises	Office equipment	Rental premises	Office equipment
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:								
Within one year	149	11	684	11	149	11	208	11
In the second to fifth year inclusive	—	19	—	30	—	19	—	30
	149	30	684	41	149	30	208	41

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	12,888	1,258
In the second to fifth year inclusive	50,703	1,227
After five years	125,373	—
	188,964	2,485

The Company had no operating commitments as a lessor for both years.

Notes to the Financial Statements

For the year ended 31st December, 2004

31. RELATED PARTY TRANSACTION

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Rental paid to Chance Fair International Development Limited ("Chance Fair International") (Note)	355	325

Note: The Group entered into a sub-tenancy agreement with an intermediate holding company, on 22nd May, 2001 pursuant to which the intermediate holding company agreed to sub-lease a portion of the office premises to the Group. The sub-tenancy agreement was renewed for a term commencing from 20th May, 2003 to 19th May, 2004 (both dates inclusive) and 20th May, 2004 to 21st May, 2005 (both dates inclusive) at a monthly rental of approximately HK\$25,000 and HK\$32,000, respectively, exclusive of other charges.

The above transaction was carried out in accordance with the terms of the relevant agreement governing such transaction.

32. RETIREMENT BENEFIT SCHEME

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

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the relevant local government authorities in the PRC. All employees are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to make contributions to the retirement schemes at rates ranging from 4% to 5% of the basic salaries of its employees.

During the year, the Group contributed in amount of approximately HK\$1,195,000 (2003: HK\$460,000) for the above mentioned retirement benefit schemes.

Notes to the Financial Statements

For the year ended 31st December, 2004

33. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE

Details of the Company's subsidiaries and co-operative joint venture at 31st December, 2004 are as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
Subsidiary:					
長春長信國際房地產開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd.	PRC for a term of 15 years commencing from 1993 *	RMB40,000,000	—	75%	Property development
China Fair Land (Changchun) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,001	—	100%	Investment holding
China Fair Land (Qingdao) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Shenyang) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Nanjing) Limited	Hong Kong	Ordinary HK\$10,002	—	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Ningbo")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,000	—	100%	Investment holding
China Fair Land Properties Limited	British Virgin Islands	Ordinary US\$221	100%	—	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

33. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
China Fair Land (Shanghai) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,002	—	100%	Investment holding
Falcon Fair Development Limited ("Falcon Fair")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,002	—	100%	Investment holding and property investment
青島正輝廣廈房地產開發有限公司 Qingdao Zhenghuiguangsha Real Estate Development Co. Ltd.	PRC for a term of 20 years commencing from 2003 *	RMB20,000,000	—	70%	Inactive
寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan")	PRC for a term of 15 years commencing from 1989 *	RMB20,000,000	—	37.50%***	Property development
上海正輝房地產開發有限公司 Shanghai Chance Fair Real Estate Development Co., Ltd.	PRC for a term of 70 years commencing from 1999 *	US\$3,000,000	—	98%	Property development
寧波市江北眾城房地產開發有限公司	PRC for a term of 10 years commencing from 2004 *	RMB10,000,000	—	33.75%****	Property development
Co-operative joint venture:					
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project	PRC for a period of time to complete the project commencing from 1992 *	US\$12,112,472	—	65.63%	Property development

Notes to the Financial Statements

For the year ended 31st December, 2004

33. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

- * These are equity joint ventures established in the PRC.
- ** The rights and restrictions of the non-voting deferred shares of these subsidiaries are set out in paragraph (c) of the section headed "Group reorganisation" in Appendix VI of the prospectus dated 22nd May, 2002 issued by the Company.
- *** On 15th September, 1995, China Fair Ningbo, a wholly-owned subsidiary of the Company, entered into an irrevocable agreement (the "1995 Agreement") with Ningbo CSREDC, a 25% joint venture owner of Ningbo Tuozhan. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Ningbo.

On 11th May, 2001, China Fair Ningbo and Ningbo CSREDC entered into a confirmation and agreement confirming that the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC since the signing of the 1995 Agreement have always been voting in concert with and in accordance with the instructions of the directors appointed by China Fair Ningbo.

Based on the above-mentioned documents, the Company's directors consider that the Group effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, the Company regards Ningbo Tuozhan as a subsidiary and accounts for as such in these financial statements.

- **** Ningbo Tuozhan holds 90% equity interest in this company.

None of the subsidiaries had issued any debt securities at 31st December, 2004 or at any time during the year.