NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 August 1998 with limited liability. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction on 24 May 2000.

During the year, the principal activities of the Company were investment holding and of its principal subsidiaries were property development and property investment in the People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group and the Company had net deficiencies in assets as at 31 December 2004. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing and operating measures executed during the year, which include the followings:

(i) During the year ended 31 December 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party in relation to certain financial and construction arrangements for the property under development. Pursuant to the agreement, the Group has agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately HK$1,876 million. The consideration will be settled by a cash consideration of approximately HK$1,455 million payable in eight separate instalments and properties at an agreed value of approximately HK$421 million. During the year, cash consideration of HK$556 million has been received. The instalments are to be used to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, the passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by the CNC. The directors consider that the instalment payments to be received by the Group will be sufficient to enable the Group to complete the project and the Group is able to satisfy the conditions precedent to the sale.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. BASIS OF PRESENTATION *(Continued)*

(ii) On 14 September 2004, the Group disposed of its entire interests in New Rank (BVI 1) Limited ("New Rank (BVI 1)") to Sinoway Properties Limited at a consideration of HK$1 in cash and waiver of approximately HK$38 million due to New Rank (BVI 1). New Rank (BVI 1) is an investment holding company which indirectly holds investment properties in Beijing, the PRC. A gain on disposal of subsidiaries of approximately HK$172 million have been credited to current year's income statements. The disposal has strengthened the financial position of the Group by reducing its liabilities.

(iii) During the year, the management of the Group is negotiating with its bankers for the rescheduling or extension of the existing loan facilities and plans seeking to initiate negotiations with creditors for restructuring of amounts due to them. The directors are confident that, on the basis that the disposal of the property under development will be successfully completed and that the property as described above be self-financing, and assumed the negotiations with the bankers and creditors can be satisfactorily concluded, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

(iv) During the year, the directors have taken actions to tighten cost controls over various general and administrative expenses. In order to further develop the principal activity of the Group, the directors have decided to place more emphasis on the property development business. The directors expect that the cost control measures adopted will improve the profitability and cash flows of the Group.

Subsequent to the balance sheet date, the Group issued a convertible bond with principal amount of HK$12 million as detailed in note 41, the proceed from which would be used as working capital by the Group.

The directors are of the opinion that, in view of the measures taken to date, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Investments in subsidiaries

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised on the following bases:

(i) Rental income

Rental income under operating leases is recognised on the accrual basis over the term of the respective leases.

(ii) Interest income

Interest income is recognised on the accrual basis by reference to the principal amount outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation. Any revaluation increase arising on revaluation of land and buildings is credited to the property 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 charged to the income statement to the extent that it exceeds the balance, if any, on the property 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 retained profits.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into consideration a residual value of up to 10%, using the straight line method, at the following rates per annum:

Land and buildings	2.5%
Furniture, fixtures and equipment	20% to 33.3%
Motor vehicles	20%

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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 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 on 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 increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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 on investment properties except where the unexpired term of the relevant lease is 20 years or less.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property under development

Property under development for sale is included in current assets at the lower of cost or net realisable value.

Cost of property under development comprises land costs, fees for land use rights and development costs including interest charges and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further costs expected to be incurred to completion and direct selling expenses.

Impairment

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leased assets/Assets held under finance leases

As lessor

Rental income under operating leases is recognised on a straight-line basis over the relevant lease term.

As lessee

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Borrowing costs

Interest is expensed as incurred, except for the interest directly attributable to the construction or acquisition of the property under development which is capitalised as part of the cost of that property. Interest is capitalised at the actual interest incurred on the related borrowings up to the date of completion of that property.

All other borrowing costs are charged to income in the period in which they are incurred.

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 at the balance sheet date are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On consolidation, the assets and liabilities of overseas subsidiaries are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

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 items that are never taxable or deductible.

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 bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the 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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries operating in the PRC are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in the PRC. The respective local municipal government in the PRC, undertakes to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation of these subsidiaries with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement or capitalised as cost of property under development as they become payable in accordance with the rules of the Central Scheme.

Cash and cash equivalents

Cash and cash equivalents are carried at cost. Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from the date of investment, and bank overdrafts.

5. TURNOVER

Turnover represents rental income less business tax.

Business tax

The Group is subject to PRC business tax at 5% on its PRC rental income.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. SEGMENT INFORMATION

Business segments

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

Segment information is presented below:

2004

	Property development HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue	—	2,651	2,651
Results			
Segment results	(6,292)	(6,785)	(13,077)
Unallocated income			115
Unallocated corporate expenses			(18,443)
Loss from operations			(31,405)
Finance costs			(7,491)
Gain on disposal of subsidiaries			171,978
Profit before taxation			133,082
Taxation			3,911
Profit after taxation			136,993
ASSETS			
Segment assets	1,065,649	—	1,065,649
Unallocated corporate assets			112,790
Consolidated total assets			1,178,439
LIABILITIES			
Segment liabilities	807,784	—	807,784
Unallocated corporate liabilities			519,514
Consolidated total liabilities			1,327,298
OTHER INFORMATION			
Capital additions			
— Segment assets	1,934	—	1,934
— Unallocated assets	—	—	891
			2,825
Depreciation			
— Segment assets	368	—	368
— Unallocated assets	—	—	1,765
			2,133

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2003

	Property development *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Revenue	—	2,609	2,609
Results			
Segment results	(3,598)	(12,081)	(15,679)
Unallocated income			1,608
Unallocated corporate expenses			(23,838)
Loss from operations			(37,909)
Finance costs			(27,241)
Loss before taxation			(65,150)
Taxation			(407)
Loss after taxation			(65,557)
ASSETS			
Segment assets	769,660	161,633	931,293
Unallocated corporate assets			213,578
Consolidated total assets			1,144,871
LIABILITIES			
Segment liabilities	468,608	154,775	623,383
Unallocated corporate liabilities			803,333
Consolidated total liabilities			1,426,716
OTHER INFORMATION			
Capital additions			
Segment assets	94	—	94
Unallocated assets	—	—	30
			124
Depreciation			
Segment assets	168	—	168
Unallocated assets	—	—	2,341
			2,509

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and over 90% of Group's assets are located in the PRC.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. OTHER INCOME

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest income	**20**	62
Surplus arising from revaluation of investment properties	**—**	662
Sundry income	**95**	1,546
	115	2,270

8. LOSS FROM OPERATIONS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**973**	823
Depreciation of property, plant and equipment		
Owned assets	**1,876**	2,372
Leased assets	**257**	137
Exchange loss	**545**	153
Loss on disposal of property, plant and equipment	**2,222**	—
Operating lease rental of premises	**1,329**	1,908
Staff costs including directors' remuneration (note 10)	**4,988**	11,395
Retirement benefit scheme contributions, including those included in directors' remuneration (note 10)	**105**	167
Total staff costs	**5,093**	11,562
and after crediting:		
Net rental income less outgoings	**2,651**	2,609

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on:		
— Bank loans and overdrafts	**21,934**	23,961
— Other loans wholly repayable within five years	**2,916**	1,405
— Payables overdue	**—**	4,243
— Finance leases	**63**	34
Total borrowing costs	**24,913**	29,643
Less: Amounts capitalised	**(17,422)**	(2,402)
	7,491	27,241

10. DIRECTORS' REMUNERATION

	Group	
	2004	2003
	HK$'000	*HK$'000*
Directors' fees		
Executive	**770**	—
Independent non-executive	**240**	216
	1,010	216
Other remuneration		
Executive directors:		
Salaries and other benefits	**2,130**	2,962
Retirements benefit scheme contributions	**12**	10
	2,142	2,972
	3,152	3,188

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

10. DIRECTORS' REMUNERATION *(Continued)*

Remuneration of directors was within the following bands:

	Group	
	2004	2003
	Number of directors	Number of directors
Nil to HK$1,000,000	**5**	4
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**—**	1
	6	5

No director waived any remuneration in the year ended 31 December 2004 (2003: Nil).

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest remuneration in the Group, two (2003: two) were directors of the Company whose remuneration is set out in note 10 above. The remuneration of the remaining three (2003: three) employees was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**919**	1,445
Retirement benefit scheme contributions	**36**	24
	955	1,469

Their remuneration was within the following band:

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. TAXATION

	Group	
	2004	2003
	HK$'000	*HK$'000*
Deferred tax — credit/(charge) (note 30)	**3,911**	(407)

Income tax

The Group companies operating in Hong Kong are subject to profits tax at the rate of 17.5% (2003: 17.5%) on estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax for the years ended 31 December 2004 and 2003.

The Group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (2003: 33%). No provision for PRC enterprise income tax has been made as the Group has no assessable profits for PRC enterprise income tax for the years ended 31 December 2004 and 2003.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. TAXATION *(Continued)*

Details of deferred taxation are set out in note 30.

The charge for the year is reconciled to loss per the consolidated income statement as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**133,082**	(65,150)
Tax at the PRC income tax rate of 33% (2003: 33%)	**43,917**	(21,500)
Tax effect of income not taxable for tax purpose	**(56,452)**	—
Tax effect of expenses not deductible	**5,275**	—
Tax effect of tax losses not recognised	**4,782**	18,585
Tax effect of revaluation of properties	**(3,911)**	407
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,478**	2,946
Others	**—**	(31)
Taxation (credit)/charge for the year	**(3,911)**	407

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the following data:

	2004	2003
	HK$'000	*HK$'000*
Profit/(loss) for the year	**136,993**	(65,494)

	2004	2003
Number of shares for the calculation of basic earnings/(loss) per share	**271,758,000**	271,758,000

No diluted earnings (2003: loss) per share for the years ended 31 December 2004 and 2003 has been presented as the potential ordinary shares of the Company are anti-dilutive.

14. INVESTMENT PROPERTIES

	Group
	HK$'000
At 1 January 2004	157,514
Disposed on disposal of subsidiaries	(157,514)
At 31 December 2004	—

Investment properties were revalued at their open market value at 31 December 2003 by RHL Appraisal Limited, an independent valuer, on an open market value basis. This valuation gave rise to a revaluation increase of HK$662,000 which had been credited to the income statement for the year ended 31 December 2003. All the investment properties were disposed of upon the disposal of certain subsidiaries during the year.

The investment properties were located in Beijing, the PRC and held under medium term lease.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION				
At 1 January 2004	86,411	3,242	5,040	94,693
Additions	—	1,239	1,597	2,836
Disposals	(10,561)	(40)	—	(10,601)
Disposed on disposal of subsidiaries	(75,850)	(1,811)	(910)	(78,571)
At 31 December 2004	—	2,630	5,727	8,357
Comprising:				
At cost	—	2,630	5,727	8,357
ACCUMULATED DEPRECIATION				
At 1 January 2004	—	2,425	4,643	7,068
Provided for the year	1,396	431	306	2,133
Eliminated on disposals	(143)	(15)	—	(158)
Eliminated on disposal of subsidiaries	—	(1,437)	(819)	(2,256)
Eliminated on revaluation	(1,253)	—	—	(1,253)
At 31 December 2004	—	1,404	4,130	5,534
NET BOOK VALUES				
At 31 December 2004	—	1,226	1,597	2,823
At 31 December 2003	86,411	817	397	87,625

The land and buildings were located in Beijing, the PRC and held under medium term lease. The land and buildings were disposed of upon the disposal of subsidiaries.

The net book value of property, plant and equipment included an amount of HK$1,454,000 (2003: HK$125,000) in respect of assets held under finance leases.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**306,695**	306,695
Impairment losses recognised	**(283,000)**	(283,000)
	23,695	23,695

The balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

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

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB")	Sino-foreign co-operative joint venture	PRC	US$25,000,000 Registered	—	51% (see note 39(b))	Property development
NR (BVI) Holdings Limited	Limited liability company	British Virgin Islands	US$47,001 Ordinary	100%	—	Investment holding
New Rank (BVI 2) Limited	Limited liability company	British Virgin Islands	US$36,000 Ordinary	—	100%	Investment holding
New Rank Services Limited	Limited liability company	Hong Kong	HK$2 Ordinary	—	100%	General management

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Polywell Finance Corporation	Limited liability company	British Virgin Islands	US$1 Ordinary	100%	—	Inactive
Precise Assets Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Inactive
Team Success Management Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Investment holding
Tong Sun Limited ("Tong Sun")	Limited liability company	Samoa	US$49 Class A Ordinary US$51 Class B Ordinary	—	51%	Investment holding
Very Best Investments Limited	Limited liability company	British Virgin Islands	US$1 Ordinary	—	100%	Inactive

Note:

Other than the subsidiary established in the PRC, whose place of operations are in the PRC, the place of operations of other subsidiaries are basically in Hong Kong.

17. RESTRICTED CASH

As at 31 December 2004, no cash balance is restricted for use by the Group. As at 31 December 2003 pursuant to the terms of certain guarantee agreements, cash of approximately HK$118,000 were restricted by way of being designated as guarantee against mortgage facilities provided by the bank to the buyers of the Group's properties.

18. PROPERTY UNDER DEVELOPMENT FOR SALE

	Group	
	2004	2003
	HK$'000	*HK$'000*
At cost	**947,789**	744,400

The property under development for sale represents a property development project in Beijing, the PRC.

During the year ended 31 December 2003, the shareholders of the Company approved the disposal of 49% interest in a wholly-owned subsidiary, Tong Sun which holds indirectly the above property under development to Starry Joy Properties Investments Limited ("Starry Joy"). The sale transaction includes, among other things, Starry Joy to subscribe for 49 new shares in Tong Sun and grant an interest free loan up to HK$165 million and an interest bearing loan of HK$45 million from the holding company of Starry Joy to the Company. Details of the transaction has been disclosed in the circular to the shareholders dated 3 June 2003. In connection with the above disposal, the subsidiary in the PRC (the "PRC Subsidiary") holding the property under development also entered into a master standstill agreement with its creditors in respect of, among other things, the settlement of the disputes between the PRC Subsidiary and its creditors and other parties, withholding of legal action against the PRC Subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and monies due from the PRC Subsidiary to its creditors. Consequently, the freeze of the property was released. The construction work was recommenced in October 2003 after the adoption of a new development plan.

During the year ended 31 December 2003, the Group entered into an agreement with CNC in relation to certain financial and construction arrangements for the property under development, details of which are set out in note 2(i) above.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

19. ACCOUNTS RECEIVABLES

The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts.

The aged analysis of accounts receivables as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 3 months	–	233
Over 1 year	–	18,527
	–	18,760

20. PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest free loan (note)	**37,623**	37,623
Amount due from Guozheng Economic Development Company Limited ("Guozheng") (note 39(b))	**61,215**	4,695
Temporary advances	**17,314**	7,034
Prepaid expenses and deposits	**9,201**	7,687
	125,353	57,039

Note:

During the year ended 31 December 2003, the Group entered into a triparty agreement with the borrower and another enterprise in the PRC. Under the agreement, the loan of HK$37,623,000 was assigned to the PRC enterprise.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

21. AMOUNT DUE FROM A FORMER DIRECTOR

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mr. Leung Kwo	**2,460**	3,761	**2,460**	2,460

22. AMOUNTS DUE FROM FORMER RELATED COMPANIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Name of company		
Beijing Profit Mark Property Management Company Limited ("PMP") Interest bearing loan	–	6,426
北京世源光華房地產開發有限公司 Beijing Shiyuan Guanghua Real Estate Development Limited ("Beijing Shiyuan")	–	47
	–	6,473

PMP provided building management services to the Group. The interest bearing loan was unsecured and had no fixed terms of repayment.

The amount due from Beijing Shiyuan was unsecured, non-interest bearing and had no fixed terms of repayment.

The above companies were controlled by former directors of the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. ACCOUNTS PAYABLES

The aged analysis of accounts payables as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 3 months	**52,856**	9,534
4-6 months	**4,642**	—
7-9 months	**5,515**	—
10-12 months	**—**	5,189
Over 1 year	**150,401**	192,891
	213,414	207,614

24. LAND DEVELOPMENT COST PAYABLE

	Group	
	2004	2003
	HK$'000	*HK$'000*
Amounts repayable within one year	**26,570**	204,140

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. AMOUNT DUE TO A FORMER RELATED COMPANY

Amount due to a former related company as at the balance sheet date is as follow:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Beijing Tian Sha Building Decoration Engineering Co., Limited	—	179

The above amount was unsecured, non-interest bearing and had no fixed terms of repayment. The above company was controlled by former directors of the Company.

26. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases				
Within one year	**757**	131	**751**	100
In the second to fifth year inclusive	**50**	120	**47**	92
	807	251	**798**	192
Less: Future finance charges	**(9)**	(59)	—	—
	798	192	**798**	192
Less: Amounts due within one year shown under current liabilities			**(751)**	(100)
Amounts due after one year			**47**	92

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

27. BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loans	**280,374**	371,995
Secured (Note 38)	**280,374**	280,374
Unsecured	**—**	91,621
	280,374	371,995

The maturity of the above loans is as follows:

On demand or within one year	**280,374**	91,621
More than one year, but not exceeding two years	**—**	280,374
	280,374	371,995
Less: Amounts due within one year shown under current liabilities	**(280,374)**	(91,621)
Amounts due after one year	**—**	280,374

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. OTHER BORROWINGS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest free (Note 1 and 2)	**165,000**	142,000	**—**	—
Interest bearing (Note 1 and 3)	**45,000**	45,000	**45,000**	45,000
	210,000	187,000	**45,000**	45,000
Less: Amounts due with one year shown under current liabilities	**(210,000)**	—	**(45,000)**	—
	—	187,000	**—**	45,000

Note:

(1) The above loans represent the loans granted to the Group pursuant to the disposal of 49% interest in Tong Sun (note 18) and are secured on the shares in the Company held by a director and a former director. The repayment of the loans is in priority to the dividend payment by Tong Sun to the Group.

(2) The loan is interest free and for a term of 2 years from June 2003 repayable on maturity and will be applied exclusively to finance the working capital requirement of the property under development for sale.

(3) The loan is for a term of 2 years from June 2003 and bears interest at the rate of 6% per annum and is repayable in one lump sum upon maturity and will be applied to finance the general working capital and settlement of accounts payable of the Group.

29. LONG-TERM PAYABLES

The amount was due to a former minority shareholder of a subsidiary of the Group and is further detailed in note 39(b).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. DEFERRED TAXATION

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

	Revaluation of properties
THE GROUP	*HK$'000*
At 1 January 2003	11,789
Charge to income for the year	407
Charge to equity for the year	3,819
At 31 December 2003	16,015
Credit to income for the year	(3,911)
Charge to equity for the year	769
Released on disposal of subsidiaries	(12,873)
At 31 December 2004	—

At the balance sheet date, the Group have unused tax losses of HK$90,650,000 (2003: HK$63,324,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Shares of HK$0.001 each		
Authorised:		
Balance as at 1 January 2004 and 31 December 2004	500,000,000	500
Issued and fully paid:		
Balance as at 1 January 2004 and 31 December 2004	271,758,000	272

32. SHARE OPTIONS

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 share option scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 share option scheme shall continue to be subject to the provisions of the 2000 share option scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of such outstanding options.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

32. SHARE OPTIONS *(Continued)*

The New Share Option Scheme was adopted for the purpose of attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effect and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted under the New Share Option Scheme since its adoption.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

32. SHARE OPTIONS *(Continued)*

As at 31 December 2004, no share option remaining outstanding under the 2000 share option scheme.

As at 31 December 2003, the number of shares in respect of which options had been granted and remaining outstanding under the 2000 share option scheme was 6,000,000, representing 2.2% of the shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the years:

2004

	Outstanding at 1 January 2004	Lapsed during the year	Outstanding at 31 December 2004
Option type			
2000	—	—	—
2001B	5,000,000	(5,000,000)	—
2001C	1,000,000	(1,000,000)	—
	6,000,000	(6,000,000)	—

2003

	Outstanding at 1 January 2003	Lapsed during the year	Outstanding at 31 December 2003
Option type			
2000	1,450,000	(1,450,000)	—
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
	7,450,000	(1,450,000)	6,000,000

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

32. SHARE OPTIONS *(Continued)*

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1 January 2003, 31 December 2003 and 1 January 2004	Lapsed during the year	Outstanding at 31 December 2004
Option type			
2001B	5,000,000	(5,000,000)	—

Details of specific categories of options are as follows:

	Date of grant	Exercise period	Exercise price
			HK$
2000	27 July 2000	27 July 2000 to 26 July 2003	1.04
2001A	13 February 2001	13 February 2001 to 12 February 2004	0.64
2001B	15 February 2001	15 February 2001 to 14 February 2004	0.69
2001C	21 February 2001	21 February 2001 to 20 February 2004	0.96

Note:

No charge was recognised in the income statement in respect of the value of options granted.

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2004 and 2003 are presented in the consolidated statement of changes in equity.

Company

	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	20,773	306,450	(329,415)	(2,192)
Loss for the year	—	—	(49,655)	(49,655)
At 31 December 2003	20,773	306,450	(379,070)	(51,847)
Loss for the year	—	—	(4,659)	(4,659)
At 31 December 2004	20,773	306,450	(383,729)	(56,506)

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the corporate reorganisation prior to the listing of the Company's shares in 2000.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

34. DISPOSAL OF SUBSIDIARIES

On 14 September 2004, the Company disposed of its entire equity interests in New Rank (BVI 1) and its subsidiaries at cash consideration of HK$1 and waive of the amount due to New Rank (BVI 1) of HK$37,558,000. The gain arising from the disposal amounted to HK$171,978,000. The net liabilities of New Rank (BVI 1) and its subsidiaries at the date of disposal were as follows:

	As at 14 September 2004
	HK$'000
Property, plant and equipment	**76,315**
Investment properties	**157,514**
Accounts receivables	**20,169**
Prepayments and other receivables	**252,205**
Restricted cash	**161**
Bank balances and cash	**594**
Accounts payables	**(63,420)**
Accruals and other payable	**(302,457)**
Advances from customers	**(135)**
Taxation	**(166,381)**
Bank borrowings	**(91,621)**
Deferred taxation	**(12,873)**
	(129,929)
Translation reserve released	**(1,919)**
Investment properties revaluation reserve released	**(2,572)**
	(134,420)
Gain on disposal of subsidiaries	**171,978**
Total consideration	**37,558**
Satisfied by:	
Cash	**—**
Amount due to New Rank (BVI 1) waived	**37,558**
	37,558
Net cash outflow on disposal of subsidiaries	
Cash consideration received	**—**
Bank balances and cash of disposed subsidiaries	**(594)**
	(594)

The subsidiaries disposed of during the year contributed HK$2,651,000 to the Group's turnover and loss of HK$8,030,000 to the Group's loss after taxation.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

35. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the leases contracts of HK$1,777,000.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**2,551**	2,264
In the second to fifth year inclusive	**1,101**	—
	3,652	2,264

Operating lease payments represent rentals payable by the Group for certain of office properties. Leases are negotiated for an average term of two year (2003: one year).

At 31 December 2004, the Company had no commitments under non-cancellable operating lease (2003: Nil).

The Group as lessor

Net property rental income earned during the year was HK$2,651,000 (2003: HK$2,609,000). All the investment properties were disposed of upon the disposal of certain subsidiaries.

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	—	609

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

37. CAPITAL AND CONSTRUCTION COMMITMENTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
At the balance sheet date, the Group had the following capital and construction commitments:		
Expenditure in relation to the property under development	**446,811**	703,915

At the balance sheet date, the Company did not have any capital commitments.

38. PLEDGE OF ASSETS

At 31 December 2004, the Group had pledged its property under development with an aggregate net book value of approximately HK$947,789,000 (2003: HK$744,400,000) to secure bank loans granted and amounts payable in respect of land development cost totalling approximately HK$306,944,000 (2003: HK$522,718,000).

39. RELATED PARTY TRANSACTIONS

(a) 13,587,900 and 54,351,600 shares in the Company held directly or indirectly by a director and a former director respectively have been charged to secure loans granted to the Group. No commission or charges have been paid to the director and the former director in respect of the charges.

(b) In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of Tong Sun. Accordingly, the amount due from Guozheng of HK$61,215,000 was included in prepayments and other receivable as at 31 December 2004 and the previous capital investment of HK$46,642,000 made by Guozheng was fully repaid to Guozheng during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

40. CONTINGENT LIABILITIES

(a) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalising the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement as mentioned under note 18 above. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in 2002.

During the year ended 31 December 2003, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

(b) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss is necessary.

(c) During the year ended 31 December 2003, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss is necessary.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2004

40. CONTINGENT LIABILITIES *(Continued)*

(d) The Group has given guarantees to banks in respect of the loans of the amounts USD 2,500,000 and RMB 14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company entered into the subscription agreement with Tritime Holdings Limited for an interest bearing at 3% per annum convertible bond in the principal amount of HK$12 million ("Convertible Bond") to be issued by the Company at a conversion price of HK$0.30 per share. The conversion of Convertible Bond, if exercised in full, will be convertible into 40,000,000 ordinary shares, representing approximately 14.7% of the issued share capital of the Company.

The Convertible Bond was issued on 1 March 2005. The net proceeds from the issue of the Convertible Bond will be used as working capital.