

## 1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its principal subsidiaries are engaged in investment holding, property development and general trading.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of HK\$35,985,000 as at 30 June 2005. The Group is dependent upon the financial support of its bankers and other lenders. As explained in note 20, in July 2005, the Group entered into a loan agreement with certain banks and obtained a term loan of HK\$994 million to refinance the Hong Kong dollar term loan of HK\$591 million and other loan of HK\$155 million (both together with the accrued interest and other related charges). The term loan of HK\$994 million shall be repayable by two installments with the first repayment to reduce the outstanding term loan to HK\$442 million on the date falling six months after the date of the first advance of the loan (i.e. 22 January 2006) and the balance of the outstanding loan amount shall be repayable on the date falling twelve months after the date of signing the loan agreement (i.e. 21 July 2006). Taking into account the estimated proceeds from sale of developed properties, the directors consider that, with the continuous financial support of the Group's bankers and other lenders, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS(s)") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting period beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005.

HKFRS 3 is applicable to business combinations for which the agreement is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 30 June 2005.

For the year ended 30 June 2005

### 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS (Cont'd)

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and 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 30 June each year.

The results of the 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 inter-company transactions and balances within the Group are eliminated on consolidation.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Income from sale of developed properties is recognised on the execution of a binding sale agreement or when the relevant occupation permit is issued by the respective building authority, whichever is later. Payments received from the purchasers prior to this stage are recorded as deposits received on sales of properties and presented as current liabilities.

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### Property, plant and equipment

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

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

Leasehold land and buildings	Over the estimated useful lives of 50 years or the period of the lease, if shorter
Leasehold improvements	Over the estimated useful lives of 10 years or the period of the lease, if shorter
Office equipment, furniture and fixtures	15% – 25%

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.

##### Investments in subsidiaries

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

##### Investments in securities

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

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss.

##### Club debentures

Club debentures, which are held for long term investment purposes, are stated at cost less any identified impairment loss.

For the year ended 30 June 2005

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### **Properties held for sale**

Properties held for sale are stated at the lower of cost, being the carrying amount of the properties when they were transferred from the properties under development, and net realisable value.

##### **Properties under development**

Properties under development are stated at the lower of cost and net realisable value.

##### **Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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 is suspended during extended periods in which active development is interrupted. Capitalisation 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.

##### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### 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 periods, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, 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 the initial recognition (other than in a business combination) of 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 interests in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary 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.

For the year ended 30 June 2005

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### 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 exchange are dealt with in the income statement.

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

##### Retirement benefits scheme

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

#### 5. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods and properties sold, net of returns, during the year. An analysis of the Group's turnover is as follows:

	2005 HK\$'000	2004 HK\$'000
Sales of properties held for sale	489,833	–
Sales of goods	7,210	10,808
	<b>497,043</b>	10,808

For the year ended 30 June 2005

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into two main operating divisions – general trading and property development. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

### Year 2005

#### (i) Income statement

	General trading HK\$'000	Property development HK\$'000	Consolidated HK\$'000
<hr/>			
TURNOVER			
External sales	<b>7,210</b>	<b>489,833</b>	<b>497,043</b>
<hr/>			
RESULT			
Segment result	<b>(12,757)</b>	<b>148,608</b>	<b>135,851</b>
Release of investment property revaluation reserve upon sales of properties held for sale	–	<b>100,803</b>	<b>100,803</b>
Reversal of impairment loss previously recognised in respect of leasehold land and buildings	<b>52,450</b>	–	<b>52,450</b>
Reversal of impairment loss recognised in respect of club debenture	–	–	<b>2,500</b>
Impairment loss recognised in respect of investment securities	–	<b>(2,978)</b>	<b>(2,978)</b>
Profit from operations			<b>288,626</b>
Finance costs			<b>(64,083)</b>
Net profit for the year			<b>224,543</b>

For the year ended 30 June 2005

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)****Business segments (Cont'd)****Year 2005****(ii) Balance sheet**

	<b>General trading</b> HK\$'000	<b>Property development</b> HK\$'000	<b>Consolidated</b> HK\$'000
<b>ASSETS</b>			
Segment assets	<b>175,477</b>	<b>1,461,328</b>	<b>1,636,805</b>
Unallocated corporate assets			<u>10,889</u>
Consolidated total assets			<u><b>1,647,694</b></u>
<b>LIABILITIES</b>			
Segment liabilities	<b>5,204</b>	<b>398,895</b>	<b>404,099</b>
Unallocated corporate liabilities			<u>1,170,735</u>
Consolidated total liabilities			<u><b>1,574,834</b></u>

**(iii) Other information**

	<b>General trading</b> HK\$'000	<b>Property development</b> HK\$'000	<b>Consolidated</b> HK\$'000
Capital additions	<b>35</b>	–	<b>35</b>
Depreciation	<b>2,993</b>	–	<b>2,993</b>
Impairment loss recognised in respect of investment securities	–	<b>2,978</b>	<b>2,978</b>

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**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)****Business segments (Cont'd)****Year 2004****(i) Income statement**

	<b>General trading</b>	<b>Property development</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000
<hr/>			
TURNOVER			
External sales	10,808	–	10,808
			<hr/> <hr/>
RESULT			
Segment result	(10,169)	(17,721)	(27,890)
Reversal of impairment loss previously recognised in respect of leasehold land and buildings	40,991	–	40,991
Gain on disposal of leasehold land and buildings	8,891	–	8,891
Impairment loss recognised in respect of investment securities	–	(5,300)	(5,300)
Profit from operations			16,692
Finance costs			(5,780)
			<hr/>
Net profit for the year			10,912
			<hr/> <hr/>

For the year ended 30 June 2005

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)****Business segments (Cont'd)****Year 2004****(ii) Balance sheet**

	<b>General trading</b>	<b>Property development</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>			
Segment assets	126,613	1,121,434	1,248,047
Unallocated corporate assets			<u>18,971</u>
Consolidated total assets			<u><u>1,267,018</u></u>
<b>LIABILITIES</b>			
Segment liabilities	3,639	135,995	139,634
Unallocated corporate liabilities			<u>1,178,264</u>
Consolidated total liabilities			<u><u>1,317,898</u></u>

**(iii) Other information**

	<b>General trading</b>	<b>Property development</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000
Capital additions	1	–	1
Depreciation	2,579	–	2,579
Impairment loss recognised in respect of investment securities	–	5,300	<u><u>5,300</u></u>

**Geographical segments**

More than 90% of the Group's turnover for the years ended 30 June 2005 and 2004 were attributable to operations carried out in Hong Kong. Also, almost all of the Group's assets are located in Hong Kong. Therefore, no geographical segment information are presented.

For the year ended 30 June 2005

**7. PROFIT FROM OPERATIONS**

	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 9</i> )	374	286
Other staff costs, including retirement benefit scheme contributions	1,867	913
Total staff costs	2,241	1,199
Auditors' remuneration		
– current year	430	300
– underprovision in prior year	10	–
Depreciation	2,993	2,579
and after crediting:		
Interest income	47	–

**8. FINANCE COSTS**

	2005 HK\$'000	2004 HK\$'000
Interest on bank borrowings:		
– wholly repayable within five years	22,692	37,770
– not wholly repayable within five years	–	360
Other borrowing costs	100,513	103,054
Overprovision in prior years	(1,154)	–
Total borrowing costs	122,051	141,184
Less: Amount capitalised in respect of properties under development	(57,968)	(135,404)
	64,083	5,780

For the year ended 30 June 2005

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

### (a) Directors' emoluments

The emoluments paid or payable to each of the six (2004: seven) directors were as follows:

	Law Fong HK\$'000	Chen Te Kuang Mike HK\$'000	Oung Shih Hua, James HK\$'000	Zhu Pei Qing HK\$'000	Lu Ti Fen HK\$'000	Kwok Wai Chi HK\$'000	2005 Total HK\$'000
Directors' fees	-	-	-	-	30	108	138
Other emoluments:							
Salaries and other benefits	230	-	-	-	-	-	230
Retirement benefit scheme contributions	6	-	-	-	-	-	6
	236	-	-	-	-	-	236
Total	236	-	-	-	30	108	374

	Law Fong HK\$'000	Chen Te Kuang Mike HK\$'000	Oung Zhou Shiji HK\$'000	Shih Hua, James HK\$'000	Zhu Pei Qing HK\$'000	Lu Ti Fen HK\$'000	Cao Dacheng HK\$'000	2004 Total HK\$'000
Directors' fees	-	-	-	-	50	-	-	50
Other emoluments:								
Salaries and other benefits	230	-	-	-	-	-	-	230
Retirement benefit scheme contributions	6	-	-	-	-	-	-	6
	236	-	-	-	-	-	-	236
Total	236	-	-	-	50	-	-	286

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## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

### (b) Employees' emoluments

The five highest paid individuals of the Group included one (2004: one) executive director, details of whose emoluments are set out in (a) above. The emoluments of the remaining four (2004: four) individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	1,125	519
Retirement benefit scheme contributions	44	26
	<b>1,169</b>	545

The emoluments of each of these employees were less than HK\$1,000,000.

During both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both years, no director waived any emoluments.

For the year ended 30 June 2005

**10. TAXATION**

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

Taxation for the year can be reconciled to net profit for the year per the consolidated income statement as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Net profit for the year	<b>224,543</b>	10,912
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	<b>39,295</b>	1,910
Tax effect of income not taxable for tax purpose	<b>(27,265)</b>	(8,729)
Tax effect of expenses not deductible for tax purpose	<b>898</b>	1,219
Tax effect of tax losses not recognised	–	5,276
Utilisation of tax losses previously not recognised	<b>(13,270)</b>	–
Others	<b>342</b>	324
Taxation for the year	–	–

**11. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the net profit for the year of HK\$224,543,000 (2004: HK\$10,912,000) and on 528,271,615 (2004: 528,271,615) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company had no potential dilutive shares outstanding during both years.

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**12. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Office equipment, furniture and fixtures</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
<b>COST</b>				
At 1 July 2004	211,500	14,555	8,014	234,069
Additions	–	–	35	35
At 30 June 2005	211,500	14,555	8,049	234,104
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 July 2004	86,500	14,555	7,902	108,957
Provided for the year	2,962	–	31	2,993
Reversal of impairment loss previously recognised	(52,450)	–	–	(52,450)
At 30 June 2005	37,012	14,555	7,933	59,500
<b>NET BOOK VALUES</b>				
At 30 June 2005	174,488	–	116	174,604
At 30 June 2004	125,000	–	112	125,112

During the year, the Group reviewed the carrying amounts of leasehold land and buildings and identified that the estimated recoverable amounts of the leasehold land and buildings are greater than their carrying amounts. Accordingly, a reversal of impairment loss previously recognised amounting to HK\$52,450,000 is credited to the consolidated income statement to increase the carrying amounts of the leasehold land and buildings to their recoverable amounts which represent their net selling price.

The leasehold land and buildings of the Group are situated in Hong Kong and are held under long leases. They were pledged to banks to secure the credit facilities granted to the Group.

For the year ended 30 June 2005

**13. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>160,811</b>	160,811
Amounts due from subsidiaries	<b>969,220</b>	966,964
	<b>1,130,031</b>	1,127,775
Less: Allowance for amounts due from subsidiaries	<b>(482,405)</b>	(482,405)
	<b>647,626</b>	645,370

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors of the Company, repayment will not be made by the subsidiaries within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

Particulars of the Company's principal subsidiaries as at 30 June 2005 are set out in note 33.

None of the subsidiaries had any debt securities outstanding as at 30 June 2005 or at any time during the year.

**14. INVESTMENT SECURITIES**

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted equity investments, at cost	<b>23,353</b>	23,353
Less: Impairment loss recognised	<b>(23,353)</b>	(20,375)
	<b>–</b>	2,978

At 30 June 2005, the Group held 40% (2004: 40%) of the registered capital of Harbin Zheng Hua Real Estate Developing Company Limited ("Zheng Hua"), a company which is established in the People's Republic of China and is engaged in property development. The investment in Zheng Hua is not classified as an associate as, in the opinion of the directors of the Company, the Group is not able to exercise significant influence over its financial and operating policy decisions.

During the year, the Group reviewed the carrying amount of investment securities and identified that the estimated recoverable amount of the investment securities is less than its carrying amount. Accordingly, an impairment loss was made to reduce the carrying amount of the investment securities to zero at 30 June 2005.

For the year ended 30 June 2005

**15. CLUB DEBENTURE**

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
At cost	<b>8,000,000</b>	8,000,000
Less: Impairment loss recognised	<b>(500,000)</b>	(3,000,000)
	<b>7,500,000</b>	5,000,000

During the year, the Group reviewed the carrying amount of club debenture and identified that the estimated recoverable amount of the club debenture is greater than its carrying amount. Accordingly, a reversal of impairment loss previously recognised amounting to HK\$2,500,000 is credited to the consolidated income statement to increase the carrying amount of the club debenture to its recoverable amount which represents its net selling price at 30 June 2005.

**16. PROPERTIES UNDER DEVELOPMENT**

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<b>COST</b>		
At beginning of the year	<b>1,121,099</b>	906,772
Additions	<b>268,781</b>	214,327
Reclassified to properties held for sale	<b>(1,389,880)</b>	–
At end of the year	<b>–</b>	1,121,099

The properties under development has been completed in 2005 and the amount is reclassified to properties held for sale.

At 30 June 2004, borrowing costs capitalised in respect of properties under development amounted to HK\$209,390,000.

For the year ended 30 June 2005

**17. PROPERTIES HELD FOR SALE**

	<b>THE GROUP</b> HK\$'000
Carrying amount at 30 June 2005	1,055,869

At 30 June 2005, the properties held for sale are stated at cost.

**18. PROPERTY SALE RECEIVABLES**

At 30 June 2005, the property sale receivables of the Group are aged within 90 to 120 days. Subsequent to the balance sheet date, the property sale receivables are fully settled.

**19. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES/A DIRECTOR OF SUBSIDIARY****THE GROUP AND THE COMPANY**

The amounts are due to directors of subsidiaries/a director of a subsidiary including Lilian Oung, one of the shareholders of Five Star Investments Limited ("Five Star"), the controlling shareholder of the Company. The amounts are unsecured, non-interest bearing and repayable on demand.

**20. SECURED BANK LOANS**

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
The bank loans comprise:		
Hong Kong dollar term loan ("HK\$ term loan")	<b>591,000</b>	623,351
United States dollar term loan ("US\$ term loan")	–	78,000
	<b>591,000</b>	701,351

All the bank loans are repayable within one year.

## 20. SECURED BANK LOANS (Cont'd)

At 30 June 2005, the HK\$ term loan of HK\$591 million is secured by a first legal charge over the Group's properties held for sale (the "Property") and a floating charge over all other assets of Holyrood Limited ("Holyrood"), a wholly-owned subsidiary of the Company. Deposits, rental proceeds and sales proceeds regarding the Property are also assigned to the bank. The original maturity date of the HK\$ term loan was the earlier of (i) the date falling six months from the date of issuance of the occupation permit of the Property; and (ii) 30 September 2004. The HK\$ term loan bears interest at the prevailing market rates.

In March 2004, the maturity date of the HK\$ term loan was changed to the earlier of (i) the date falling one month from the date of issuance of the certificate of compliance of the Property; and (ii) 31 December 2004.

During the year ended 30 June 2005, the bank further extended the repayment date of the HK\$ term loan to a date falling one and a half months from the date of the issuance of the certificate of compliance of the Property (i.e. 15 August 2005).

In July 2005, the Group entered into a loan agreement with certain banks and obtained a term loan in an aggregate principal amount of HK\$994 million (the "New HK\$ Term Loan") comprising (i) HK\$919 million for refinancing the HK\$ term loan of HK\$591 million and the other loan of HK\$155 million from an unrelated company (both together with accrued interest and other related charges) (see note 21(c)); and (ii) HK\$75 million for financing the construction cost of the Property. The New HK\$ Term Loan shall be repayable by two installments with the first repayment to reduce the outstanding term loan to HK\$442 million on the date falling six months after the date of the first advance of the loan (i.e. 22 January 2006) and the balance of the outstanding loan amount shall be repayable on the date falling twelve months after the date of signing the loan agreement (i.e. 21 July 2006).

The US\$ term loan of HK\$78 million at 30 June 2004 was secured by the Group's leasehold land and buildings and borne interest at prevailing market rates. During the year ended 30 June 2005, the Group obtained an installment loan of HK\$80 million from an independent third party, namely Fine Chiffon Corporation Limited ("Fine Chiffon"). The installment loan was obtained by Fine Chiffon from a bank and was granted to the Group with the same terms offered by the bank for refinancing the US\$ term loan of HK\$78 million (together with the accrued interest and other bank charges). The Company provides a corporate guarantee of HK\$80 million to the bank and the Group's leasehold land and buildings are also pledged to the bank as security. This installment loan bears interest at prevailing market rates and shall be repayable by 180 monthly equal installments.

Details of the loan from Fine Chiffon are set out, inter alia, in the circular of the Company dated 7 February 2005.

For the year ended 30 June 2005

**21. OTHER LOANS**

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Other loans from:				
– related companies ( <i>note a</i> )	<b>271,013</b>	253,512	<b>767</b>	756
– unrelated companies ( <i>note b</i> )	<b>39,232</b>	34,589	–	–
– an unrelated company ( <i>note c</i> )	<b>155,000</b>	155,000	–	–
– an unrelated company ( <i>note d</i> )	<b>77,465</b>	–	–	–
	<b>542,710</b>	443,101	<b>767</b>	756
Less: Amounts due within one year shown under current liabilities	<b>(469,451)</b>	(443,101)	<b>(767)</b>	(756)
Amounts due after one year	<b>73,259</b>	–	–	–

*Notes:*

- (a) The loans are owed to companies in which Lilian Oung and/or Messrs. Oung Shih Hua, James and Chen Te Kuang Mike, directors of the Company, have controlling interests. The loans are unsecured, non-interest bearing and repayable on demand.
- (b) The loans are unsecured, non-interest bearing and repayable on demand.
- (c) The loan is secured, interest bearing at 2% per annum and repayable on the earlier of (i) the date falling the last date of six months period after the date of the issuance of the occupation permit of the Property; and (ii) 1 October 2004 (the "Maturity Date"). Repayment of this loan is subordinated to the HK\$ term loan obtained from a bank (together with the accrued interest and other bank charges) referred to note 20 above being repaid in full.

In addition, the Group agreed to pay the lender an amount equivalent to 10% of the excess of the value of the Group's properties under development as of 30 September 2004 performed by an independent professional valuer on an open value basis over HK\$660,000,000 (the "Additional Amount"). The Additional Amount was due for payment on the expiration of 31 days after the Maturity Date (i.e. 1 November 2004). The directors of the Company estimated that the Additional Amount would be HK\$134,000,000. At 30 June 2005, the Group has fully recognised the Additional Amount of HK\$134,000,000 as finance costs. A portion of the Additional Amount was recognised on a time basis, amounting to HK\$94,185,000, as finance costs for the year ended 30 June 2004 and the remaining balance of the Additional Amount of HK\$39,815,000 was recognised as finance costs for the year ended 30 June 2005. The Additional Amount of HK\$134,000,000 was included in other payables at 30 June 2005 (2004: HK\$94,185,000).

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**21. OTHER LOANS (Cont'd)**

In February 2005, the Group entered into a supplement deed with the lender in order to extend the repayment date of the loan and the Additional Amount of HK\$134,000,000 to 30 June 2005. The Group agreed to further pay an amount equivalent to 10% of the net value of the Property which is the excess of the estimated aggregate amount of sales proceeds of the Property over HK\$2,000,000,000 (the "Net Value Amount"). The directors of the Company estimated that the Net Value Amount would be HK\$27,020,000 and this amount has been recognised as finance costs for the year ended 30 June 2005 and was included in other payables at 30 June 2005.

In addition, the Group also agreed to pay default interest of HK\$21,577,000 and a lump sum compensation of HK\$7,592,000 to the lender. These amounts have been recognised as finance costs for the year ended 30 June 2005 and were included in other payables at 30 June 2005.

The Net Value Amount, the default interest and the lump sum compensation shall also be repayable on 30 June 2005.

In July 2005, the Group obtained a term loan of HK\$994 million from certain banks to refinance the loan together with accrued interest and other related charges (see notes 20 and 32, respectively).

- (d) The loan is owed to Fine Chiffon. The loan is secured, interest bearing at the prevailing market rates and repayable by 180 monthly equal installments. Details of the loan from Fine Chiffon are set out in note 20.

**22. SHARE CAPITAL**

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1 July 2003, 30 June 2004 and 30 June 2005	1,000,000,000	500,000
Issued and fully paid:		
At 1 July 2003, 30 June 2004 and 30 June 2005	528,271,615	264,136

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## 23. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Option Scheme") adopted at a special general meeting of the Company held on 23 September 1996, the directors of the Company may grant options as incentives to directors or employees of the Company or its subsidiaries to subscribe for shares in the Company within a period of ten years commencing from 23 September 1996. The subscription price of the shares is set to be the higher of the nominal value of the Company's shares or an amount which is 80% of the average closing price of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

The period during which an option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of approval of the Option Scheme.

The maximum number of shares in respect of which options may be granted cannot exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee cannot exceed 25% of the maximum number of shares in respect of which options may be granted under the Option Scheme. Consideration of HK\$1 is payable on each grant.

In accordance with The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), certain terms of the Option Scheme need to be amended, or alternatively, a new share option scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended, no more share is available for issue under the Option Scheme.

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

For the year ended 30 June 2005

**24. RESERVES**

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Capital reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>					
At 1 July 2003	279,617	132,176	16,410	(750,740)	(322,537)
Net loss for the year	–	–	–	(1,901)	(1,901)
At 30 June 2004	279,617	132,176	16,410	(752,641)	(324,438)
Net loss for the year	–	–	–	(2,461)	(2,461)
At 30 June 2005	279,617	132,176	16,410	(755,102)	(326,899)

The investment property revaluation reserve of the Group represents the balance of the surplus arising in previous years on revaluation of certain of the Group's existing properties which were formerly held for investment purposes. During the year ended 30 June 2005, the amount of HK\$100,803,000 has been credited to the consolidated income statement upon the sales of properties held for sale.

The contributed surplus of the Group and the Company represents the surplus arising on the acquisition of subsidiaries.

The capital reserve of the Company represents the revaluation of an investment property of a subsidiary prior to the formation of the Group.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (a) the Company, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors of the Company, the Company had no reserves available for distribution to shareholders as at 30 June 2005 and 30 June 2004.

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## 25. DEFERRED TAXATION

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

	<b>THE GROUP</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2003	9,559	(9,559)	–
Charge (credit) to consolidated income statement for the year	7,731	(7,731)	–
At 30 June 2004	17,290	(17,290)	–
Charge (credit) to consolidated income statement for the year	3,988	(3,988)	–
At 30 June 2005	21,278	(21,278)	–

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset in accordance with the conditions set out in the Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" issued by the HKICPA.

At 30 June 2005, the Group has unused tax losses of approximately HK\$388,443,000 (2004: HK\$464,272,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$121,589,000 (2004: HK\$98,800,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$266,854,000 (2004: HK\$365,472,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

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**26. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Capital expenditure relating to properties under development contracted for but not provided in the financial statements	–	1,306

The Company did not have any significant capital commitments at the balance sheet date.

**27. CONTINGENT LIABILITIES**

	<b>THE COMPANY</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Guarantees given to banks and an unrelated company in respect of credit facilities granted to subsidiaries of the Company	<b>1,050,148</b>	997,260
Guarantee given to a bank in respect of credit facility granted to Fine Chiffon	<b>80,000</b>	–
	<b>1,130,148</b>	997,260

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## 28. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to secure credit facilities granted to the Group:

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Properties held for sale	<b>1,055,869</b>	–
Properties under development	–	1,121,099
Leasehold land and buildings	<b>174,488</b>	125,000
Property sale receivables	<b>383,201</b>	–
Receivable from stakeholder's account	<b>21,923</b>	–
Bank deposits	<b>3,183</b>	10,631
	<b>1,638,664</b>	1,256,730

The issued ordinary shares of Holyrood were also pledged to a bank to secure credit facilities granted to the Group (also see note 20).

## 29. RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group joined the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65, death or total incapacity.

The aggregate employer's contributions during the year ended 30 June 2005 dealt with in the income statement of the Group amounted to HK\$49,000 (2004: HK\$43,000).

## 30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions.

- (a) The Group capitalised the Additional Amount of HK\$39,815,000 (2004: HK\$94,185,000), as explained in note 21(c), as the cost of the Group's properties under development and the amount was included in other payables at 30 June 2005.
- (b) Properties under development of HK\$1,389,880,000 (2004: nil) was transferred to properties held for sale.

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**31. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS**

- (a) Five Star pledged its interest in 50.7% of the issued share capital of the Company, representing 267,815,017 shares in the Company, to a bank to secure credit facilities to the extent of HK\$700,000,000 (2004: HK\$700,000,000) granted to the Group.
- (b) Lilian Oung, one of the shareholders of Five Star and a director of the Company's subsidiaries, has provided personal guarantees in respect of the following:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Credit facilities granted to the Group	<b>780,000</b>	840,400
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	<b>15,919</b>	15,919
	<b>795,919</b>	856,319

- (c) Details of the amounts due to directors of the Company's subsidiaries/a director of the Company's subsidiary including Lilian Oung are set out in note 19.
- (d) Details of the other loans from related companies in which the directors of the Company and Lilian Oung have controlling interests are set out in note 21(a).

**32. POST BALANCE SHEET EVENT**

Subsequent to 30 June 2005, the Group entered into a loan agreement with certain banks and obtained a term loan in an aggregate principal amount of HK\$994 million comprising (i) HK\$919 million for refinancing the HK\$ term loan of HK\$591 million and the other loan of HK\$155 million from an unrelated company (both together with accrued interest and other related charges) (see notes 20 and 21(c), respectively); and (ii) HK\$75 million for refinancing the construction cost of the Property.

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### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 30 June 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid up share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Banhart Company Limited	Hong Kong	Ordinary HK\$9,998  Non-voting deferred* HK\$2	–	100%	Property holding
Bowen Hill Limited	British Virgin Islands <sup>#</sup>	US\$1	–	100%	Investment holding
Holyrood Limited	Hong Kong	Ordinary HK\$999,998  Non-voting deferred* HK\$2	99.9%	0.1%	Property development
Homjade Trading Ltd.	British Virgin Islands/ Hong Kong	US\$1	100%	–	General trading
Paladin Trading Ltd.	British Virgin Islands <sup>#</sup>	US\$1	100%	–	Investment holding
Six Gain Investments Limited	Hong Kong	Ordinary HK\$2	100%	–	Investment holding

\* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or to vote at any general meetings of the company or to participate in any distribution on winding up.

<sup>#</sup> These are investment holding companies which have no specific principal place of operations.

All the above subsidiaries operate in Hong Kong.

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