Notes to the Financial Statements

for the year ended 30 June 2005

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal place of business of the Company is located at Unit 1906, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

These financial statements have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings, investment properties and short term investments, as further explained below.

Impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

For full convergence with International Financial Reporting Standards, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards 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 30 June 2005.

The Group has made a preliminary assessment of the impact of these new HKFRSs and has so far concluded that the adoption of Hong Kong Financial Reporting Standards ("HKFRS") 2 "Share-based payment", Hong Kong Accounting Standard ("HKAS") 40 "Investment property" and HK(SIC) Interpretation ("HK(SIC)-INT") 21 "Income taxes – Recovery of revalued non-depreciable assets" will have the following impact on the Group's financial statements.

HKAS 40 and HK(SIC)-INT 21

Under the existing accounting policy, movements in fair value of the Group's investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. HKAS 40 requires changes in the fair value of investment properties to be recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40. HK(SIC)-INT21 requires the provision of deferred taxation on these changes in fair value to be calculated at applicable profits tax rates. Upon adoption of the new accounting policies for accounting period beginning on or after 1 January 2005, the opening balance of retained profits as at 1 July 2005 will increase by HK$208,000 (2004: HK$126,000) to reflect all of the Group's previous investment property revaluation reserve relating to investment properties, while the investment property revaluation reserve will decrease by HK$208,000 (2004: HK$126,000).

Notes to the Financial Statements

for the year ended 30 June 2005

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

HKFRS 2

HKFRS 2 "Share-based payment" requires to determine the fair value of all share-based payments to employees as remuneration and recognise as expense in the profit and loss account. This treatment will result in an increase in loss as such items have not been recognised as expenses under the current accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment will apply to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7 November 2002 and had not yet vested on 1 January 2005 and to liabilities arising from share-based payment transactions existing on 1 January 2005.

The Group is in the process of making an assessment of the potential impact of the other new HKFRSs but is not yet in a position to determine the impact of these new HKFRSs on the results of operations and financial position of the Group.

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 subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

3. PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable.

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest. A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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 at the higher of the asset's value in use or its net selling price.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account 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/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account 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.

Fixed assets and depreciation

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

(ii) *Other fixed assets*

Fixed assets, other than investment properties are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

(ii) Other fixed assets (continued)

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of 40 years and the lease terms
Plant and machinery	10 years
Furniture, office equipment and motor vehicles	10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

(i) Finance leases

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) rental income, on a time proportion basis over the lease terms;

(iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(iv) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) 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 all 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 profit and loss account 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.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(ii) Retirement benefits scheme (continued)

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefits scheme (the "PRC Scheme") operated by the respective local municipal governments. These subsidiaries are required to contribute a certain sum of money as calculated under the relevant rules specified by the relevant PRC local government authorities to the PRC Scheme to fund the employees' retirement benefits. The contributions are charged to the profit and loss account as they become payable.

(iii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, equity is increased by the amount of the proceeds received. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Translation of foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to the Financial Statements

for the year ended 30 June 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly-controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

Notes to the Financial Statements

for the year ended 30 June 2005

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**138,262**	189,026
Other revenue		
Dividend income from listed investments	**67**	–
Interest income	**1,517**	855
Rental income	**259**	259
Others	**879**	409
	2,722	1,523
Total revenue	**140,984**	190,549

5. SEGMENTAL INFORMATION

Segmental information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of garment, which is managed according to the geographical location of the Group's customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

Notes to the Financial Statements

for the year ended 30 June 2005

5. SEGMENTAL INFORMATION (continued)

(a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenue, results, assets and liabilities are attributed to the segment based on the location of the customers.

The following tables represent revenue, (loss)/profit and certain assets, liabilities and expenditure information for the Group's geographical segments.

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
External sales	115,522	156,818	22,740	32,208	–	–	138,262	189,026
Inter-segment sales	19,025	27,755	1,271	1,855	(20,296)	(29,610)	–	–
Total revenue	134,547	184,573	24,011	34,063	(20,296)	(29,610)	138,262	189,026
Segment results	(26,977)	36,063	(6,872)	273			(33,849)	36,336
Unallocated revenue and other net (loss)/gain							(1,116)	2,177
Unallocated expenses							(83,930)	(15,324)
(Loss)/profit from operating activities							(118,895)	23,189
Finance costs							(152)	(141)
Share of (losses) /profits of jointly-controlled entities							(30,838)	10,509
(Loss)/profit before taxation							(149,885)	33,557
Taxation							(279)	(1,416)
(Loss)/profit before minority interests							(150,164)	32,141
Minority interests							–	(1,796)
Net (loss)/profit attributable to shareholders							(150,164)	30,345

5. SEGMENTAL INFORMATION (continued)

(a) Geographical segments based on the location of customers (continued)

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	250,885	263,891	111,429	89,928	–	–	362,314	353,819
Goodwill	–	–	–	–	–	101,886	–	101,886
Interests in jointly-controlled entities	–	–	–	–	19,509	43,170	19,509	43,170
Long term investment	–	–	–	–	–	6,667	–	6,667
Unallocated assets	–	–	–	–	88,969	14,409	88,969	14,409
Total assets	250,885	263,891	111,429	89,928	108,478	166,132	470,792	519,951
Segment liabilities	11,130	5,264	2,734	1,776	–	–	13,864	7,040
Unallocated liabilities	–	–	–	–	5,354	13,719	5,354	13,719
Total liabilities	11,130	5,264	2,734	1,776	5,354	13,719	19,218	20,759
Other segment information:								
Capital expenditure	737	881	24	48	–	88,133	761	89,062
Depreciation and amortisation	6,062	6,556	488	499	10,694	8,700	17,244	15,755
Provision for doubtful debts	3,522	2,059	–	–		–	3,522	2,059
Provision for obsolete inventories	13,000	–	421	–	–	–	13,421	–
Impairment losses	–	–	–	–	68,609	–	68,609	–

Notes to the Financial Statements

for the year ended 30 June 2005

5. SEGMENTAL INFORMATION (continued)

(b) Geographical segments based on the location of assets

Additional information in respect of segment assets and cost for capital expenditure, based on the location of assets, is as follows:

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**211,103**	352,567	**199,153**	102,244	**60,536**	65,140	**470,792**	519,951
Capital expenditure	**734**	89,014	**24**	48	**3**	–	**761**	89,062

(c) Business segments

No business segment information has been disclosed as the Group is solely engaged in the manufacture and sale of garments.

6. OTHER NET (LOSS)/GAIN

	Group	
	2005	2004
	HK$'000	*HK$'000*
Surplus on revaluation of leasehold land and buildings	**215**	1,168
Deficit on revaluation of investment properties, net	**(4,053)**	–
Net realised loss on disposal of short term investments	**–**	(514)
	(3,838)	654

Notes to the Financial Statements

for the year ended 30 June 2005

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting) the following:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Amortisation of goodwill		
(included in other operating expenses)	10,694	8,700
Auditors' remuneration	735	750
Cost of inventories sold	126,716	128,783
Depreciation		
– owned assets	6,440	6,945
– leased assets	110	110
Exchange loss	6	88
Gross rental income	(259)	(259)
Less: Outgoings	8	10
Net rental income	(251)	(249)
Impairment loss on goodwill		
(included in other operating expenses)	61,942	–
Impairment loss on long term investment		
(included in other operating expenses)	6,667	–
Loss on disposal of fixed assets	–	2
Minimum lease payments under		
operating leases on		
leasehold land and buildings	544	110
Net unrealised loss on short term investments	4,951	1,808
Provision for doubtful debts	3,522	2,059
Provision for obsolete inventories	13,421	–
Staff costs (excluding directors' emoluments)		
Wages and salaries	9,472	7,756
Retirement benefits scheme contributions	338	271

Notes to the Financial Statements

for the year ended 30 June 2005

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	2005 Total emoluments	2004 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. Ng Leung Ho	–	825	–	12	837	792
Mr. Ng Leung Tung*	–	375	–	6	381	662
Ms. Lee Ming Hin	–	675	–	12	687	662
Mr. Hu Xiaoming	–	144	–	–	144	–
Mr. Wang Weining	–	240	–	–	240	–
Non-executive director						
Mr. Ng Leung Tung*	–	300	–	6	306	–
Independent non-executive directors						
Mr. Lo Cheung Kin	33	–	–	–	33	33
Mr. Zou Zi Ping	33	–	–	–	33	33
Mr. Zhu Jian Hong	3	–	–	–	3	–
Total 2005	69	2,559	–	36	2,664	2,182
Total 2004	66	2,080	–	36		

* Mr. Ng Leung Tung has been re-designated to non-executive director since 3 January 2005.

Notes to the Financial Statements

for the year ended 30 June 2005

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The emoluments of the five individuals with highest emoluments in the Group for the year included three (2004: three) directors, details of whose emoluments have been disclosed above.

Details of the emoluments of the remaining two (2004: two) non-director, highest paid individuals for the year are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Salaries, allowances and benefits in kind	1,175	1,021
Discretionary bonus	–	–
Retirement benefits scheme contributions	24	23
	1,199	1,044

The remuneration of each of the remaining two (2004: two) non-director, highest paid employees fell within the band of HK$ Nil – HK$1,000,000.

Notes to the Financial Statements

for the year ended 30 June 2005

9. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	135	105
Interest on a finance lease	17	36
Total finance costs	152	141

10. TAXATION

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current	6	400
– over provision in previous year	–	(585)
– deferred	–	(7)
Overseas tax		
– current	–	1,608
– under provision in previous year	273	–
	279	1,416

Hong Kong profits tax had been provided at 17.5% based on the estimated assessable profit for the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to the Financial Statements

for the year ended 30 June 2005

10. TAXATION (continued)

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate is as follows:

	Group	
	2005 *HK$'000*	2004 *HK$'000*
(Loss)/profit before taxation	**(149,885)**	33,557
Tax at Hong Kong profits tax rate of 17.5%	**(26,230)**	5,872
Tax effect of income that is not taxable in determining taxable profit	**(378)**	(2,328)
Tax effect of expenses that are not deductible in determining taxable profit	**25,537**	4,711
Tax effect of utilisation of tax losses not previously recognised	**–**	(4)
Tax effect of unused tax loss not recognised	**1,627**	531
Under/(over) provision of tax in previous year	**273**	(585)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(550)**	(6,781)
Taxation charge	**279**	1,416

11. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company was approximately HK$1,403,000 (2004: profit of HK$4,521,000).

12. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the net loss attributable to shareholders of HK$150,164,000 (2004: profit of HK$30,345,000) and the weighted average of 2,677,388,449 ordinary shares (2004: 2,393,347,677) in issue during the year.

(b) Diluted (loss)/earnings per share

No diluted loss per share has been presented for the year ended 30 June 2005 since the assumed exercise of the Company's outstanding share options would have no dilutive effect on loss per share.

The calculation of diluted earnings per share for the year ended 30 June 2004 is based on the net profit attributable to shareholders of HK$30,345,000 and the weighted average of 2,406,540,832 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of issuance.

Notes to the Financial Statements

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13. FIXED ASSETS

Group

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At beginning of year	14,790	57,220	45,389	10,633	128,032
Additions	–	–	49	712	761
(Deficit)/surplus on revaluation	(3,881)	4,110	–	–	229
At end of year	10,909	61,330	45,438	11,345	129,022
Accumulated depreciation					
At beginning of year	–	–	28,773	4,432	33,205
Provided during the year	–	1,529	4,015	1,006	6,550
Written back on revaluation	–	(1,529)	–	–	(1,529)
At end of year	–	–	32,788	5,438	38,226
Net book value					
At 30 June 2005	10,909	61,330	12,650	5,907	90,796
At 30 June 2004	14,790	57,220	16,616	6,201	94,827

Analysis of cost or valuation of the above assets is as follows:

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
At end of year					
At cost	–	–	45,438	11,345	56,783
At 30 June 2005 valuation	10,909	61,330	–	–	72,239
	10,909	61,330	45,438	11,345	129,022
At beginning of year					
At cost	–	–	45,389	10,633	56,022
At 30 June 2004 valuation	14,790	57,220	–	–	72,010
	14,790	57,220	45,389	10,633	128,032

Notes to the Financial Statements

for the year ended 30 June 2005

13. FIXED ASSETS (continued)

The Group's investment properties and leasehold land and buildings included above are held under the following lease terms:

	Group 2005 HK$'000	Group 2004 HK$'000
Investment properties at valuation:		
Medium term lease in Hong Kong	**1,650**	1,100
Medium term lease outside Hong Kong	**9,259**	13,690
	10,909	14,790
Leasehold land and buildings at valuation:		
Medium term lease in Hong Kong	**15,170**	6,240
Medium term lease outside Hong Kong	**46,160**	50,980
	61,330	57,220
	72,239	72,010

At 30 June 2005, the Group's investment properties in Hong Kong and the PRC were revalued on market value at approximately HK$1,650,000 and HK$9,259,000 respectively by LCH (Asia-Pacific) Surveyors Limited ("LCH"), a firm of independent chartered surveyors.

At 30 June 2005, the Group's leasehold land and buildings in Hong Kong were revalued on market value, based on their existing use, at HK$15,170,000 by LCH.

At 30 June 2005, the Group's leasehold land and buildings in Macau were revalued on market value, based on their existing use, by LCH at HK$630,000.

At 30 June 2005, the Group's leasehold land and buildings in the PRC were revalued on a depreciated replacement cost basis by LCH at HK$45,530,000.

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$7,526,000 (2004: HK$7,754,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$48,307,000 (2004: HK$49,691,000).

The net book value of the Group's fixed assets held under finance lease, included in the total amount of furniture, office equipment and motor vehicles as at 30 June 2005, amounted to approximately HK$682,000 (2004: HK$792,000).

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for the year ended 30 June 2005

14. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisitions of equity interests in subsidiaries, are as follows:

	Group
	HK$'000
Cost	
At beginning of year	121,912
Adjustment of consideration *(note b)*	(29,250)
At end of year	92,662
Accumulated amortisation and impairment losses	
At beginning of year	20,026
Amortisation for the year	10,694
Impairment loss for the year *(note a and c)*	61,942
At end of year	92,662
Net book value	
At 30 June 2005	–
At 30 June 2004	101,886

The goodwill represents the considerations paid over the net assets of two previously acquired subsidiaries of the Group, namely, Hi-Tech Market Limited ("Hi-Tech Market") and Charming World Investments Limited ("Charming World").

(a) Hi-Tech Market holds 36% indirect equity interest in Global Network Corporation, which is principally engaged in computer software and network system development. The directors had carried out annual reviews as to the valuation of Global Network Corporation at each previous financial year ends. During the year, a patented computer algorithm of Global Network Corporation used in compression of digital data, that once had demonstrated a promising market, cannot successfully convinced the directors as to its future profitability. Accordingly, the carrying value of goodwill related with acquisition of Hi-Tech market amounted to HK$30,475,000 at year end was fully impaired.

In addition, the Group's investment cost in Global Network Corporation amounted to approximately HK$6,667,000 was fully impaired during the year (Note 17).

Notes to the Financial Statements

for the year ended 30 June 2005

14. GOODWILL (continued)

(b) Charming World has 40% equity interest in Putian Keneng High Technology Co., Ltd. (while the remaining 60% equity interset in Putian Keneng High Technology Co., Ltd. was already held by the Group), which in turn has 55% equity interest in a jointly-controlled entity of the Group named Zhongke Nanotech Engineering Center Co., Ltd.. ("Zhongke Nanotech"). In March 2004, the Group had acquired the entire equity interest in Charming World with a total consideration of HK$98,000,000 subject to adjustment in the event that Zhongke Nanotech fail to attain a guaranteed profit. Details of the adjustment and guaranteed profit are disclosed in the Company's circular to its shareholders of 13 April 2004. Goodwill adjustment of HK$29,250,000 was adjusted for the year ended 30 June 2005.

(c) Zhongke Nanotech and its subsidiaries ("Zhongke Nanotech Group") were principally engaged in the development and sales of nano materials and transfer of related technology. Zhongke Nanotech Group owned certain patented technologies related with application and manufacturing of nano-metric materials, which had once demonstrated promising profitability. However, Zhongke Nanotech Group cannot meet the guaranteed profit for the year ended 30 June 2004 as described in (b) above. In addition, the performance of Zhongke Nanotech Group during the year ended 30 June 2005 had showed that the turnover and profitability were not as stable as originally expected. Based on the directors' assessment, the carrying amount of the related goodwill of HK$31,467,000 was fully impaired.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**64,522**	64,522
Due from a subsidiary	**286,316**	241,385
	350,838	305,907

At 30 June 2005, the amount due from a subsidiary is unsecured, interest-free and is not repayable before 30 June 2006.

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15. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Holt Hire Holdings Limited	British Virgin Islands ("BVI")	Ordinary US$3	100%	Investment holding
Indirectly held				
Able Business Developments Limited	BVI	Ordinary US$10	100%	Investment holding
Cannon Ape Company Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding
Charming World Investments Limited	BVI	Ordinary US$2	100%	Investment holding
Clothes Galore Limited	BVI	Ordinary US$1	100%	Intellectual property holding
Digital 910 Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Fancy Spirit Limited	Hong Kong	Ordinary HK$2	100%	Property holding
Fujian Good Fellow Fashion Co., Ltd.	The PRC	Registered RMB10,000,000	100%	Trading of garments
Fujian Yingfu-Kerun Software Co., Ltd.	The PRC	Registered HK$15,000,000	100%	Investment holding

Notes to the Financial Statements

for the year ended 30 June 2005

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 30 June 2005 are as follows (continued):

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Good Country Investment Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000	100%	Property holding and trading of securities
Good Fellow (Macau) Commercial Offshore Limited	Macau	MOP100,000	100%	Trading of garments
Good Fellow Fashion (Group) Limited	Hong Kong	Ordinary HK$10,000	100%	Distribution of garments
Good Fellow Garment (Fujian) Co., Ltd.	The PRC	Registered US$5,000,000	100%	Manufacture and sale of garments
Hi-Tech Market Limited	BVI	Ordinary US$100	100%	Investment holding
Huatong Garment Co., Ltd. Putian	The PRC	Registered US$600,000	100%	Manufacture and sale of garments
Putian Keneng High Technology Co., Ltd.	The PRC	Registered RMB55,600,000	100%	Investment holding

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

Notes to the Financial Statements

for the year ended 30 June 2005

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets, unlisted	19,509	43,170

Particulars of the principal jointly-controlled entities as at 30 June 2005 are as follows:

Name	Form of business structure	Place of establishment and operation	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程中心有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Corporated	The PRC	55%	Development and sales of nano materials and transfer of related technology
中科納米技術工程（蘇州）有限公司 (Zhongke Nanotech Engineering (Suzhou) Co., Ltd.*)	Corporated	The PRC	68.5%	Development and sales of nano materials and transfer of related technology
北京中科納米高彈材料有限公司 (Beijing Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	38.5%	Manufacture and sales of nano high-elastic plastic and materials
北京時代科能科技開發有限公司 (Beijing Shidai Keneng Technology Development Co., Ltd.*) (formerly known as 北京時代科能化工材料有限公司 (Beijing Shidai Keneng Chemical Co., Ltd.*)	Corporated	The PRC	44%	Dormant

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16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities as at 30 June 2005 are as follows (continued):

Name	Form of business structure	Place of establishment and operation	Percentage of ownership interest attributable to the Group	Principal activities
中科安康醫療用品有限公司 (Beijing Zhongke Health Medical Products Co., Ltd.*)	Corporated	The PRC	35.4%	Sales of nano medical products
蘇州中科納米高彈材料有限公司 (Suzhou Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	34.9%	Development and sales of nano high elastic plastic

* *For identification only*

17. LONG TERM INVESTMENT

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Unlisted investment outside Hong Kong, at cost	6,667	6,667
Less: Impairment loss	6,667	–
	–	6,667

Notes to the Financial Statements

for the year ended 30 June 2005

17. LONG TERM INVESTMENT (continued)

Particulars of the investee company are as follows:

Name	Place of establishment	Paid-up registered capital	Percentage of equity attributable to the Group	Principal activities
Global Network Corporation	The PRC	RMB20,000,000	36%	Computer software and network system development

(a) The above investment is not equity-accounted for in accordance with Statement of Standard Accounting Practice 10 "Accounting for investments in associates" because the directors of the Company consider that the Group has no significant influence on the daily financial and operating decisions of Global Network Corporation.

(b) Investment cost was fully impaired in current year due to reason as mentioned in note 14(a) to the financial statements.

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**15,933**	18,228
Work in progress	**645**	1,355
Finished goods	**16,443**	26,563
	33,021	46,146

At 30 June 2005, the carrying amount of inventories that are carried at net realisable value is approximately HK$9,040,000 (2004: HK$ Nil).

Notes to the Financial Statements

for the year ended 30 June 2005

19. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**18,189**	14,958
31 – 60 days	**5,731**	10,973
61 – 90 days	**5,422**	10,688
Over 90 days	**11,377**	9,537
	40,719	46,156

20. SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Securities listed in Hong Kong, at market value	**14,140**	10,821

At 30 June 2005, securities with market value of approximately HK$7,847,000 (2004: HK$Nil) have been pledged to a bank for the Group's banking facilities *(Note 23)*.

21. BANK AND CASH BALANCES

At 30 June 2005, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$86 million (2004: HK$73 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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22. INTEREST-BEARING BANK BORROWINGS

		Group	
	Note	**2005**	2004
		HK$'000	*HK$'000*
Bank overdrafts, secured	23	**88**	328
Bank loans, secured and repayable:			
Within one year		**–**	297
In the second year		**–**	306
In the third to fifth years, inclusive		**–**	977
Beyond five years		**–**	522
		88	2,430
Portion classified as current liabilities		**(88)**	(625)
Non-current portion		**–**	1,805

23. BANKING FACILITIES

At 30 June 2005, the Group's banking facilities were secured by the following:

(i) the Group's bank deposits of approximately HK$14,760,000 (2004: HK$36,690,000);

(ii) the Group's short term investments of approximately HK$7,847,000 (2004: HK$Nil); and

(iii) corporate guarantees given by the Company to the extent of HK$13,500,000 (2004: HK$16,800,000).

Notes to the Financial Statements

for the year ended 30 June 2005

24. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for general business purposes. The lease is classified as a finance lease and has remaining lease term of seven months as at 30 June 2005.

At 30 June 2005, the total future minimum lease payments under the finance lease and its present value were as follows:

Group

	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
	2005	**2005**	2004	2004
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	**123**	**120**	**212**	203
In the second year	**–**	**–**	**123**	112
Total minimum finance lease payments	**123**	**120**	**335**	315
Future finance charges	(3)		(20)	
Total net finance lease payable	**120**		**315**	
Portion classified as a current liability	(120)		(203)	
Non-current portion	–		112	

Notes to the Financial Statements

for the year ended 30 June 2005

25. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**1,950**	1,206
31 – 60 days	**39**	707
61 – 90 days	**34**	276
Over 90 days	**846**	1,022
	2,869	3,211

26. DEFERRED TAXATION

(a) The following are the deferred tax liabilities and (assets) recognised by the Group and movement thereon during the current and prior periods:

	Group		
	Accelerated tax depreciation	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1 July 2003	–	2,298	2,298
Credited to profit and loss account for the year	(7)	–	(7)
Credited to equity for the year	–	(135)	(135)
Balance at 30 June 2004	(7)	2,163	2,156
Charged to equity for the year	–	798	798
Balance at 30 June 2005	(7)	2,961	2,954

(b) At the balance sheet date the Group has unused tax losses of approximately HK$20,109,000 (2004: HK$8,209,000) available for offset against future profits. No deferred tax asset in relation to tax losses has been recognised due to the unpredictability of future taxable profit streams. These tax losses may be carried forward indefinitely.

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27. SHARE CAPITAL

	Number of shares		Ordinary share capital	
	2005	2004	2005	2004
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:	**5,000,000**	5,000,000	**500,000**	500,000
Issued and fully paid:				
At beginning of year	**2,459,575**	2,362,395	**245,958**	236,240
Shares issued on exercise of share options *(note i)*	**27,800**	–	**2,780**	–
Shares issued on exercise of warrants	**–**	97,180	**–**	9,718
Issue of shares *(note ii)*	**489,000**	–	**48,900**	–
Repurchase of shares *(note iii)*	**(34,888)**	–	**(3,489)**	–
At end of year	**2,941,487**	2,459,575	**294,149**	245,958

Notes:

(i) During the year ended 30 June 2005, options were exercised to subscribe for 27,800,000 shares in the Company at a total consideration of HK$6,672,000 of which HK$2,780,000 was credited to share capital and the balance of HK$3,892,000 was credited to the share premium account. These shares rank pari passu in all respects with the other shares in issue.

(ii) On 13 January 2005, Golden Prince Group Limited ("Golden Prince"), the entire issued share capital of which is directly wholly owned by Mr. Ng Leung Ho, the Chairman and executive director of the Company, entered into a placing agreement with an independent placing agent for the placement of 489,000,000 ordinary shares of the Company owned by Golden Prince at a price of HK$0.20 per share. Pursuant to a top-up subscription agreement of the same date, Golden Prince subscribed for 489,000,000 new ordinary shares of the Company at a price of HK$0.20 per share. The placement of shares raised total consideration of approximately HK$94,950,000 (net of issuing expenses) to provide general working capital for the Group and/or for any future possible acquisition, which is yet to be identified.

(iii) During the year ended 30 June 2005, the Company repurchased 34,888,000 ordinary shares on The Stock Exchange of Hong Kong Limited. All these repurchased shares were cancelled during the year.

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27. SHARE CAPITAL (continued)

Notes: (continued)

(iii) Details of these repurchases are as follows:

	Number of shares repurchased	Price per share Highest	Lowest	Aggregate price paid
		HK$	*HK$*	*$'000*
October 2004	9,608,000	0.33	0.21	2,477
February 2005	7,000,000	0.18	0.17	1,218
March 2005	10,326,000	0.14	0.13	1,437
April 2005	7,954,000	0.13	0.12	1,000
	34,888,000			6,132

28. SHARE OPTION SCHEMES

On 25 October 1998, the Company adopted a share option scheme (the "Old SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old SO Scheme include directors and employees of the Company and its subsidiaries as determined by the directors of the Company.

In compliance with the amendments to the Listing Rules, the directors of the Company consider that it is in the interest of the Company to terminate the Old SO Scheme and to adopt a new share option scheme (the "New SO Scheme"). An ordinary resolution was passed at the annual general meeting of the Company held on 23 November 2001 for the approval of the said adoption of the New SO Scheme and termination of the Old SO Scheme. Pursuant to the amendments to the Listing Rules, no further options may be granted under the Old SO Scheme thereunder but in other respects, the provisions of the Old SO Scheme remain in force and all outstanding options granted continue to be valid and exercisable in accordance therewith.

28. SHARE OPTION SCHEMES (continued)

(a) Old SO Scheme

As mentioned above, the Old SO Scheme was terminated on 23 November 2001 and no further options may be offered thereunder. The following share options were outstanding under the Old SO Scheme during the year:

	Number of share option						Price of the Company's shares *(note (ii))*	
Name or category of participant	At 1 July 2004	Exercise of share options	At 30 June 2005	Date of grant of share options *(note (i))*	Exercise period of share options	Exercise price of share options *HK$*	At grant date of options *HK$*	At exercise date of options *HK$*
Director								
Mr. Ng Leung Ho	7,200,000	–	7,200,000	1 February 1999	1 May 1999 – 24 October 2008	0.1	0.330	N/A

Notes:

(i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(ii) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

(iii) The above disclosed exercise price of share options of HK$0.10 has been adjusted for the effect of sub-division of shares accomplished subsequent to the grant of the subject share options.

(iv) During the year, no share options were lapsed or cancelled.

At 30 June 2005, the Company had 7,200,000 share options outstanding under the Old SO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,200,000 additional ordinary shares of the Company and additional share capital of HK$720,000.

(b) New SO Scheme

The New SO Scheme is adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the success of the Group's operations. Eligible participants of the New SO Scheme include directors and employees of the Company and its subsidiaries. The New SO Scheme will, unless otherwise cancelled or amended, remain in force for 10 years from 23 November 2001.

The maximum number of unexercised share options currently permitted to be granted under the New SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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28. SHARE OPTION SCHEMES (continued)

(b) New SO Scheme (continued)

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the New SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

Movements in share options during the year are as follows:

	2005 Number	2004 Number
At beginning of year	–	–
Granted *(note i)*	244,800,000	–
Exercised *(note ii)*	(27,800,000)	–
At end of year	217,000,000	–
Options vested and unexercised at 30 June	217,000,000	–

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28. SHARE OPTION SCHEMES (continued)

(b) New SO Scheme (continued)

Notes:

(i) Details of share options granted during the year:

Exercise period	Exercise price per share *HK$*	2005 Number	2004 Number
10 January 2005 – 23 November 2011	0.24	244,800,000	–

(ii) Details of share options exercised during the year:

Exercise date	Exercise price per share *HK$*	Proceeds received *HK$'000*	2005 Number
13 January 2005	0.24	5,772	24,050,000
14 January 2005	0.24	900	3,750,000
		6,672	27,800,000

Terms of unexpired and unexercised share options under new so scheme at balance sheet date are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per share *HK$*	2005 Number	2004 Number
Directors	10 January 2005	10 January 2005 – 23 November 2011	0.24		
Mr. Ng Leung Ho				20,000,000	–
Mr. Ng Leung Tung				20,000,000	–
Ms. Lee Ming Hin				20,000,000	–
Mr. Hu Xiaoming				20,000,000	–
Mr. Wang Weining				20,000,000	–
				100,000,000	–
Employees	10 January 2005	10 January 2005 – 23 November 2011	0.24	117,000,000	–
Total				217,000,000	–

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29. RESERVES

Company

	Share premium account HK$'000	Subscription right reserve HK$'000 (note i)	Retained profits HK$'000	Total HK$'000
At 1 July 2003	–	24,543	4,685	29,228
Arising on exercise of warrants	26,239	–	–	26,239
Net profit for the year	–	–	4,521	4,521
Proposed final dividends	–	–	(4,919)	(4,919)
At 30 June 2004 and 1 July 2004	26,239	24,543	4,287	55,069
Arising on exercise of share options – note 27(i)	3,892	–	–	3,892
Issue of shares – note 27(ii)	48,900	–	–	48,900
Expenses incurred in connection with issue of shares	(2,850)	–	–	(2,850)
Repurchase of shares – note 27(iii)	(2,643)	–	–	(2,643)
Net loss for the year – note 11	–	–	(1,403)	(1,403)
At 30 June 2005	73,538	24,543	2,884	100,965

Note (i) Subscription right reserve represents net proceeds received from issue of warrants.

30. CONTINGENT LIABILITIES

The Company has given guarantees in favour of certain banks to the extent of HK$13,500,000 (2004: HK$16,800,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 30 June 2005, the banking facilities utilised by these subsidiaries amounted to approximately HK$88,000 (2004: HK$2,431,000).

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31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 30 June 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	–	249
In the second to fifth years, inclusive	–	662
	–	911

(b) As lessee

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	426	54
In the second to fifth years, inclusive	1,870	86
	2,296	140

Notes to the Financial Statements

for the year ended 30 June 2005

32. COMMITMENTS

At 30 June 2005, the Group had commitments, so far as not provided for in the consolidated financial statements, as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Capital commitments in relation to Group's interests in jointly-controlled entities		
Contracted but not provided for	**7,600**	7,600
Group's share of capital commitments of jointly-controlled entities		
Contracted but not provided for	**13,935**	15,486

33. EVENTS AFTER THE BALANCE SHEET DATE

On 26 October 2005, the Company entered into a sale and purchase agreement with two parties (the "Vendors") in relation to an acquisition of a target company which holds 70% equity interest in a sino-foreign joint venture company principally engaged in the business of tree planting and management, manufacture and distribution of forest products such as timber and wood pulp. Pursuant to the sale and purchase agreement, the total consideration for the aforesaid acquisition is HK$560 million which shall be satisfied by (i) as to HK$50 million in cash to the Vendors; (ii) as to HK$69.6 million by issue of 580,000,000 new ordinary shares in the Company to the Vendors (i.e. equivalent to HK$0.12 per share); (iii) as to HK$210.4 million by issue of convertible notes with a conversion price at HK$0.12 to the Vendors; and (iv) the remaining balance of HK$230 million will be left as promissory loan note payable to the Vendors. A press announcement as well as a circular to the Company's shareholders setting out details of the proposed acquisition will be released in due course.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 October 2005.