

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

1. GENERAL

The Company was incorporated in Bermuda under the Bermuda Companies Act 1981 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investment holding. The Group is principally engaged in trade related operations, travel related operations and property investment.

2. GOING CONCERN

For the year ended 30 June 2005, the Group had reported net loss for the year of approximately HK\$67,066,000. As at 30 June 2005, the Group had an outstanding bank loan of HK\$141,509,000 which was repayable on demand.

The management of the Group is currently in negotiation with the banker for a rescheduling of the repayment term of the bank loan. As the bank loan is secured by certain of the Group’s investment properties with carrying value at 30 June 2005 amounted to HK\$181,192,000, which exceeded the outstanding bank loan amount, the directors believe that the banker would not demand for immediate repayment when the properties market in the PRC remained stable.

With reference to the Company’s announcement dated 20 October 2005 in relation to the termination of certain agreements (the “Agreements”) entered into between Gainnew Group Limited (“Gainnew”), a subsidiary of the Company, and certain companies owned by Mr. Benny Ki (“Mr. Ki”), a minority shareholder of Gainnew, on 19 October 2005, the Group entered into an agreement with Mr. Ki and the relevant companies owned by Mr. Ki, pursuant to which the convertible note with principal amount of HK\$22,500,000 held by Mr. Ki would be cancelled and Mr. Ki agreed to pay an amount of approximately HK\$60,232,000 to the Company as compensation for the termination of the Agreements and settlement of interest accrued for the convertible note and amounts due from the relevant companies owned by Mr. Ki to the Group as at 19 October 2005. The payment from Mr. Ki has been received by the Group and will be used as general working capital of the Group.

In addition, the Group continues its efforts to minimise capital expenditures, rationalise costs and enhance operating results. In the opinion of the Company’s directors, the measures have improved and will continue to improve the Group’s working capital and debt maturity profile. Furthermore, the directors consider that the Group will be able to obtain ongoing support from its bankers and generate sufficient cashflows from future operations to cover its operating costs and to meet its financial commitments. Therefore, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the twelve months from 30 June 2005. Accordingly, assuming the performance of the business is in line with the directors’ expectations, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“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 already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its estimated useful economic life.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

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

Notes to the Financial Statements

For the year ended 30 June 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Service income is recognised when the services are rendered.

Interest income from bank and other deposits is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Property rental income under operating lease is recognised on a straight line basis over the terms of the relevant leases.

Property, plant and equipment

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

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

Leasehold improvements	Over the shorter of the term of the leases, or 5 years
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	18%

The gain or loss arising from 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.

Investment properties

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

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

Investments in 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 as reduced by any identified impairment loss.

Other investments are measured at fair value, with unrealised gains or losses included in net profit or loss for the year.

Impairment

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

Notes to the Financial Statements

For the year ended 30 June 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Taxation 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 items that are never taxable or deductible.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year 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.

Foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefit plans are charged as expenses as they fall due.

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.

Cash and cash equivalents

Cash and cash equivalents as presented in the balance sheet represent cash on hand, cash and time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents which have short-term maturity of generally within three months upon acquisition, together with bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of the Group's cash management, are included as components of cash and cash equivalents as presented in the consolidated cash flow statements.

Notes to the Financial Statements

For the year ended 30 June 2005

5. SEGMENT INFORMATION

(a) Business segments

For management purpose, the Group is currently organised into three operating divisions – trade related operations, travel related operations and property investment. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Income statement

	Trade related operations		Travel related operations		Property investment		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	-	152,770	111,255	832	10,812	7,358	122,067	160,960
Segment results	(1,413)	(667)	10,686	(7,539)	(48,534)	7,281	(39,261)	(925)
Unallocated corporate income less expenses							(6,842)	(4,146)
Loss from operations							(46,103)	(5,071)
Finance costs							(8,603)	(4,637)
Gain on disposal of a subsidiary	-	2,055	-	-	-	-	-	2,055
Loss before taxation							(54,706)	(7,653)
Taxation							-	-
Loss before minority interests							(54,706)	(7,653)
Minority interests							(12,360)	471
Net loss for the year							(67,066)	(7,182)

Notes to the Financial Statements

For the year ended 30 June 2005

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Balance sheet

	Trade related operations		Travel related operations		Property investment		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
ASSETS								
Segment assets	108,789	136,577	109,423	72	260,519	284,518	478,731	421,167
Unallocated corporate assets							966	20,198
Consolidated total assets							479,697	441,365
LIABILITIES								
Segment liabilities	9,703	4,147	1,676	30	14	14	11,393	4,191
Unallocated corporate liabilities							194,243	179,314
Consolidated total liabilities							205,636	183,505

Other information

	Trade related operations		Travel related operations		Property investment		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
Capital expenditures	8	635	-	-	30,241	-	30,249	635
Depreciation and amortisation	461	396	19,200	-	-	206	19,661	602
Deficit on revaluation of investment properties	-	-	-	-	47,143	-	47,143	-
Loss on disposal of investment properties	-	-	-	-	5,474	-	5,474	-
Loss on disposal of property, plant and equipment	9	-	-	-	-	-	9	-

Notes to the Financial Statements

For the year ended 30 June 2005

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical market and analysis of total assets and capital expenditures by the geographical area in which the assets are located.

	Hong Kong		People's Republic of China		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue	111,255	832	10,812	160,128	122,067	160,960
Total assets	110,389	20,270	369,308	421,095	479,697	441,365
Capital expenditures	8	–	30,241	635	30,249	635

6. LOSS FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	280	280
Depreciation included in administrative expenses	461	602
Amortisation of goodwill included in administrative expenses	19,200	10
(Gain)/loss on disposal of other investments	(986)	2,346
Loss on disposal of investment properties	5,474	–
Loss on disposal of property, plant and equipment	9	–
Staff costs (including directors' emoluments, note 8)		
Salaries and other benefits	7,576	8,515
Retirement benefits scheme contributions	218	355
	7,794	8,870
Operating lease rentals in respect of office premises	1,494	1,995
Rental income from investment properties	(10,812)	(7,358)
Bank interest income	(12)	(780)

Notes to the Financial Statements

For the year ended 30 June 2005

7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	7,834	4,637
Convertible note	769	–
	8,603	4,637

8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

(i) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive directors	500	600
Independent non-executive directors	602	245
Other emoluments to executive directors:		
Salaries and other benefits	4,855	5,553
Retirement benefits scheme contributions	162	191
	6,119	6,589

The emoluments of the directors are as follows:

Name of director	Fees HK\$'000	Retirement		2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
		Salaries and other benefits HK\$'000	benefits scheme contributions HK\$'000		
Executive directors					
Zhang Yang	250	3,900	120	4,270	4,320
Lam Cheung Shing, Richard	250	955	42	1,247	1,362
Yu Rui	–	–	–	–	719
Independent Non-executive directors					
Tam Sun Wing	250	–	–	250	150
Ko Ming Tung, Edward	214	–	–	214	38
Ng Ge Bun	138	–	–	138	–
Total 2005	1,102	4,855	162	6,119	–
Total 2004	845	5,553	191	–	6,589

Notes to the Financial Statements

For the year ended 30 June 2005

8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

(i) Directors' emoluments (Continued)

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

There was no arrangement under which a director had waived or agreed to waive any emoluments during the year.

(ii) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: three) were directors of the Company and their emoluments are set out above. The emoluments of the remaining three (2004: two) individuals are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other benefits	835	781
Retirement benefits schemes contributions	78	34
	913	815

During the year, the emoluments of each of the above three (2004: two) individuals was under HK\$1,000,000 per annum.

Notes to the Financial Statements

For the year ended 30 June 2005

9. TAXATION

No provision of Hong Kong profits tax has been made in the financial statements as the Group has no assessable income for both years.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	(54,706)	(7,653)
Tax at the income tax rate of 33% (2004: 33%)	(18,053)	(2,525)
Tax effect of expenses not deductible for tax purpose	54,165	157
Tax effect of income not taxable for tax purpose	(40,393)	(2,405)
Tax effect of tax losses not recognised	4,281	4,773
Taxation for the year	–	–

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$67,066,000 (2004: HK\$7,182,000) and on the weighted average number of 4,165,437,000 (2004: 3,747,183,000) shares in issue during the year.

Diluted loss per share for the year has not been presented as the conversion of convertible notes outstanding during the year had an anti-dilutive effect. For the year ended 30 June 2004, there were no dilutive potential ordinary shares in issue.

Notes to the Financial Statements

For the year ended 30 June 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
Cost				
At 1 July 2004	1,114	511	1,090	2,715
Additions	–	8	–	8
Disposals	(539)	(21)	–	(560)
At 30 June 2005	575	498	1,090	2,163
Depreciation				
At 1 July 2004	939	198	236	1,373
Provided for the year	175	89	197	461
Eliminated on disposals	(539)	(12)	–	(551)
At 30 June 2005	575	275	433	1,283
Net book value				
At 30 June 2005	–	223	657	880
At 30 June 2004	175	313	854	1,342

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
THE COMPANY			
Cost			
At 1 July 2004	539	198	737
Additions	–	3	3
Disposals	(539)	(10)	(549)
At 30 June 2005	–	191	191
Depreciation			
At 1 July 2004	539	78	617
Provided for the year	–	31	31
Eliminated on disposals	(539)	(5)	(544)
At 30 June 2005	–	104	104
Net book value			
At 30 June 2005	–	87	87
At 30 June 2004	–	120	120

Notes to the Financial Statements

For the year ended 30 June 2005

12. INVESTMENT PROPERTIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Valuation		
At beginning of the year	278,858	268,868
Additions	30,241	–
Disposals	(22,100)	–
(Deficit)/surplus arising on revaluation	(71,474)	9,990
At end of the year	215,525	278,858

The Group's investment properties are revalued at 30 June 2005 by Shanghai Real Estate Appraisers Co. Ltd., on an open market value basis. This valuation gave rise to a revaluation deficit of HK\$71,474,000 (2004: surplus of HK\$9,990,000), of which HK\$24,331,000 (2004: HK\$9,990,000) has been charged/credited to the investment property revaluation reserve and the remaining balance of HK\$47,143,000 (2004: Nil) charged to income statement.

The Group has pledged certain of its investment properties with carrying amount of HK\$181,192,000 to secure general banking facilities granted to the Group.

The Group's investment properties are situated in the PRC and are held under medium-term leases.

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	320,474	320,466
Less: Impairment loss recognised	(118,297)	(67,085)
	202,177	253,381

Notes to the Financial Statements

For the year ended 30 June 2005

13. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation or registration/ operations	Issued share capital/ registered capital	Attributable equity interest of the Company		Principal activities
			Directly %	Indirectly %	
國欽國際貿易(上海)有限公司(「國欽」) [#]	PRC	US\$20,000,000	100	–	Trading and investment holding
Ecflyer.com Limited	Hong Kong	HK\$2	–	100	Travel agency services (ticketing and provision of hotel reservation services)
Wealth Sea Investment Limited	British Virgin Islands/PRC	US\$1	100	–	Property investment
Trend Glory Investments Limited	British Virgin Islands/PRC	US\$1	–	100	Property investment
Gainnew Group Limited	British Virgin Islands/Hong Kong	US\$100	–	60	Provision of services relating to marketing and introduction of customers to Omar III and provision of the settlement service

[#] 國欽 is a wholly-owned foreign enterprise.

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

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

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

Notes to the Financial Statements

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14. INVESTMENTS IN SECURITIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Non-current assets		
Investment in securities:		
Unlisted investment in Hong Kong, at cost	650	650
Impairment loss recognised	(650)	(650)
Current assets		
Other investments:		
Legal person shares in PRC	–	18,009
Total investments in securities	–	18,009

15. GOODWILL

	THE GROUP HK\$'000
Cost	
As at 1 July 2004	–
Addition (Note 28)	96,000
At 30 June 2005	96,000
Amortisation and impairment	
As at 1 July 2004	–
Charge for the year	19,200
As at 30 June 2005	19,200
Net book value	
As at 30 June 2005	76,800
As at 30 June 2004	–

The amortisation period adopted for goodwill is 20 months.

Notes to the Financial Statements

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16. DEPOSITS FOR ACQUISITION OF INVESTMENT PROPERTIES

THE GROUP

The amounts represents deposits paid for acquisition of certain commercial properties in Beijing, PRC. Details of the acquisition are set out in the Company's circular dated 27 June 2005.

17. TRADE RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The aged analysis of trade receivables is as follows:

	2005 HK\$'000	2004 HK\$'000
0 – 30 days	7,800	989
31 – 60 days	16,103	22,218
61 – 90 days	8,276	943
Over 90 days	4,020	2,852
	36,199	27,002

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

THE GROUP

At 30 June 2004, included in prepayments, deposits and other receivables was an amount of RMB120,000,000 which was paid to a supplier for the purchase of oil products. The transaction was ultimately cancelled and the amount was refunded during the year.

19. DEPOSIT FOR ACQUISITION OF LAND

THE GROUP

The amount represents deposit paid for acquisition of a piece of land at Zha Bei District, Shanghai. Details of the acquisition are set out in the Company's circular dated 6 September 2004.

20. TRADE PAYABLES

The aged analysis of the trade payables is as follow:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	342	–
31 – 60 days	779	–
61 – 90 days	358	–
Over 90 days	187	–
	1,666	–

21. AMOUNT DUE TO A RELATED COMPANY

THE GROUP AND THE COMPANY

The amount represents advance from Sourcebase Developments Limited, in which Mr. Zhang Yang, a director of the Company, has beneficial interest, and is unsecured, non-interest bearing and has no fixed terms of repayment.

22. BANK LOANS, SECURED

THE GROUP

The amount bears interest at 5.31% per annum, repayable on demand and is secured by certain of the Group's investment properties with carrying amount of HK\$181,192,000.

23. CONVERTIBLE NOTE

THE GROUP AND THE COMPANY

During the year, the Company issued convertible note with principal amount of HK\$46,000,000 as consideration for the acquisition of a subsidiary, Gainnew. The convertible note bears interest at the rate of 5% per annum, payable semi-annually in arrears on 30 August and 28 February of each year commencing 30 August 2005. Unless previously redeemed, converted or purchased and cancelled, the convertible note will be redeemed at 105% of the outstanding principal amount together with interest accrued.

The convertible note is convertible after 1 March 2005 up to and including 28 February 2008 into fully paid ordinary shares with a par value of HK\$0.1 each of the Company at an initial conversion price, subject to certain events, of HK\$0.162 per share.

Notes to the Financial Statements

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24. DEFERRED TAXATION

THE GROUP

The following is the deferred tax liabilities/(assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 July 2003	21	(21)	5,368	5,368
(Credit)/charge to income for the year	(6)	6	–	–
Charge to equity for the year	–	–	3,297	3,297
At 30 June 2004	15	(15)	8,665	8,665
(Credit)/charge to income for the year	(6)	6	–	–
Credit to equity for the year	–	–	(8,665)	(8,665)
At 30 June 2005	9	(9)	–	–

At 30 June 2005, the Group has estimated unused tax losses of approximately HK\$33,674,000 (2004: HK\$41,507,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$54,000 (2004: HK\$88,000) of the tax losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of approximately HK\$33,620,000 (2004: HK\$41,419,000) due to uncertainty of future profits streams. Included in unrecognised tax losses are losses of approximately HK\$9,809,000 (2004: HK\$7,486,000) that will expire on 2010. Other losses may be carried forward indefinitely.

THE COMPANY

At 30 June 2005, the Company has estimated unused tax losses of approximately HK\$7,716,000 (2004: HK\$17,204,000) available for offset against future profits. No deferred tax asset has been recognised due to uncertainty of future profit streams. Losses may be carried forward indefinitely.

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25. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 July 2003, 30 June 2004 and 2005, shares of HK\$0.1 each	5,000,000	500,000
Ordinary shares, issued and fully paid:		
At 1 July 2003 and 2004, shares of HK\$0.1 each	3,747,183	374,718
Conversion of convertible notes (Note)	737,500	73,750
At 30 June 2005, shares of HK\$0.1 each	4,484,683	448,468

Note: During the year, the Company issued HK\$88,500,000 convertible notes which bore interest at 3% per annum and carried a right to convert at any time prior to the expiry of thirty six months from the date of issue into ordinary shares of the Company at an initial conversion price of HK\$0.12 per share, subject to adjustment.

On 6 December 2004, the HK\$88,500,000 convertible notes of the Company were converted into 737,500,000 ordinary shares of the Company at an initial conversion price of HK\$0.12 per share.

26. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 July 2003	117,480	16,048	(248,941)	(115,413)
Net loss for the year	–	–	(4,170)	(4,170)
At 30 June 2004	117,480	16,048	(253,111)	(119,583)
Conversion of convertible notes	14,750	–	–	14,750
Net loss for the year	–	–	(83,144)	(83,144)
At 30 June 2005	132,230	16,048	(336,255)	(187,977)

The contributed surplus of the Company brought forward represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the group reorganisation completed on 15 October 1996, over the nominal value of the Company's shares issued in exchange therefor.

Notes to the Financial Statements

For the year ended 30 June 2005

26. RESERVES (continued)

In accordance with the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

- (a) it is, 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, the Company has no reserves available for distribution to its shareholders at the balance sheet date.

27. DISPOSAL OF A SUBSIDIARY

For the year ended 30 June 2004, the Group entered into an agreement with an independent third party to dispose of its 80% equity interest in 上海時美科汽車有限公司 (「時美科」) to the third party at a consideration of approximately HK\$6,642,000. The net assets of 時美科 at the date of disposal were as follows:

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	35
Trade receivables	–	1,351
Prepayments, deposits and other receivables	–	5,321
Bank balances and cash	–	3,629
Other payables and accrued charges	–	(4,707)
Minority interests	–	(1,126)
	–	4,503
Attributable goodwill	–	84
	–	4,587
Gain on disposal of a subsidiary	–	2,055
Total consideration, satisfied by cash	–	6,642
Analysis of net cash outflow in respect of disposal of a subsidiary:		
Cash consideration	–	6,642
Bank balances and cash disposal of	–	(3,629)
	–	3,013

The subsidiary disposed of during the year ended 30 June 2004 contributed HK\$5,490,000 to the Group's turnover and HK\$1,886,000 to the Group's loss from operations for the year ended 30 June 2004.

Notes to the Financial Statements

For the year ended 30 June 2005

28. ACQUISITION OF A SUBSIDIARY

	2005 HK\$'000	2004 HK\$'000
Net assets acquired	–	–
Goodwill (Note 15)	96,000	–
Total consideration	96,000	–
Satisfied by:		
Cash	50,000	–
Convertible note (note 23)	46,000	–
	96,000	–
Analysis of net cash outflow in respect of acquisition of the subsidiary:		
Cash consideration	(50,000)	–

The subsidiary acquired during the year had turnover and profit before taxation of HK\$110,496,000 and HK\$30,890,000, respectively, for the period between the date of acquisition and 30 June 2005.

29. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments of HK\$696,000 (2004: HK\$595,000) and HK\$2,320,000 (2004: Nil) in respect of office premises which fall due within one year and two to five years, respectively.

Leases are mainly negotiated for an average terms of four years and rentals are fixed over the terms of the leases.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments of HK\$6,792,000 (2004: HK\$5,770,000) which fall due within one year.

The lease is negotiated for an average term of one year.

The Company did not have any significant operating lease commitment at the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2005

30. CAPITAL COMMITMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of investment properties	40,078	29,167

The Company did not have any significant capital commitment as at the balance sheet dates.

31. SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the Company on 17 April 2002 (the "Option Scheme"). The major terms of the Option Scheme are summarised as follows:

1. The purpose of the Option Scheme is to provide incentives to the participants.
2. The participants of the Option Scheme include any employee or director of any member of the Group.
3. The maximum number of shares in respect of which options might be granted under the Option Scheme must not exceed 10% of the issued share capital of the Company from time to time and should be a maximum of 448,468,000 shares at 30 June 2005.
4. The maximum number of shares in respect of which option might be granted to a participant, when aggregated with the total number of shares issued and issuable under any option granted to the same participant under the Option Scheme, must not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Option Scheme from time to time.
5. No minimum period of holding is required before the option became exercisable.
6. The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.

31. SHARE OPTION SCHEME (continued)

7. The subscription price shall not be lower than the higher of:
 - (i) the closing price of the shares as stated in the Stock Exchange daily quotation sheets on the date of grants, which must be a trading date;
 - (ii) the average closing price of the shares as stated in the Stock Exchange daily quotation sheets for the five trading days immediately proceeding the date of grant; and
 - (iii) the nominal value of the share.
8. The Option Scheme will be expired on 17 April 2012.

No share options were granted or exercised under the Option Scheme during the year.

32. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The retirement benefits cost charged to income statement represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the Scheme. Where there are employees joined the MPF Scheme who leave the MPF Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. For the year ended 30 June 2005, no forfeit voluntary contributions of the MPF Scheme credited to the income statement.

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of their current employees to the pension scheme to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of services in accordance with the relevant government regulation. The PRC government is responsible for the pension liability to these retired staff.

The total cost charged to income statement of approximately HK\$218,000 (2004: HK\$355,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

Notes to the Financial Statements

For the year ended 30 June 2005

33. RELATED PARTY TRANSACTIONS

Apart from the amount due to a related company disclosed in note 21, the Group entered into the following related party transactions during the current and prior years:

	Related companies in which Mr. Zhang Yang has beneficial interests	
	2005 HK\$'000	2004 HK\$'000
Service income from the travel related operations	586	615

The transaction was transacted at prices agreed between the parties.

34. POST BALANCE SHEET EVENTS

- (i) Subsequent to 30 June 2005, the Group disposed of certain investment properties with carrying amount of approximately RMB14,755,000 (equivalent to approximately HK\$13,999,000). No gain or loss arised on the disposal.
- (ii) On 16 September 2005, the Group entered into agreements with independent third parties to purchase certain investment properties in Beijing, PRC, at a total consideration of approximately RMB75,317,000 (equivalent to approximately HK\$72,420,000). The transaction is subjected to the approval by shareholders at special general meeting.
- (iii) In July 2005, the Company redeemed part of the convertible note with principal amount of HK\$23,500,000 at 105% of its principal amount together with interest accrued.
- (iv) With reference to the Company's announcement dated 20 October 2005 in relation to the termination of certain agreements (the "Agreements") entered into between Gainnew Group Limited ("Gainnew"), a subsidiary of the Company, and certain companies owned by Mr. Benny Ki ("Mr. Ki"), a minority shareholder of Gainnew, on 19 October 2005, the Group entered into an agreement with Mr. Ki and the relevant companies owned by Mr. Ki, pursuant to which the convertible note with principal amount of HK\$22,500,000 held by Mr. Ki would be cancelled and Mr. Ki agreed to pay an amount of approximately HK\$60,232,000 to the Company as compensation for the termination of the Agreements and settlement of interest accrued for the convertible note and amounts due from the relevant companies owned by Mr. Ki to the Group as at 19 October 2005. The payment from Mr. Ki has been received by the Group and will be used as general working capital of the Group.