1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company and ultimate holding company is Five Star Investments Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group. As explained in note 38, since the year end the Group has refinanced three mortgage loans in the aggregate principal amount of HK$155,100,000. Provided that the Group raises approximately HK$66,000,000 being the planned proceeds from an open offer of 264,135,807 convertible redeemable preference shares at the subscription price of HK$0.25 per share and provided that the Group can continue to successfully refinance or to obtain sufficient bank and other borrowings, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24

By 30 June 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss.

From 1 July 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

On 1 July 2005, the Group classified its "investment securities" and "club debenture" with an aggregate carrying amount of HK$7,500,000 to "available-for-sale investments" and measured them in accordance with the requirements of HKAS 39. No adjustment has been made to the Group's accumulated losses at 1 July 2005.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

Financial instruments (Cont'd)

Financial assets and financial liabilities other than equity securities

From 1 July 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. There were no financial effects of the application of HKAS 39 on the Group's financial assets and financial liabilities other than equity securities for the year ended 30 June 2006.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In the opinion of the directors of the Company, the allocation between the land and buildings elements cannot be made reliably. Thus the entire lease is classified as finance lease and continues to be accounted for as property, plant and equipment.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 July 2005 onwards. The amount held in investment property revaluation reserve at 1 July 2005 has been transferred to the Group's accumulated losses (see note 4 for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

Investment properties (Cont'd)

The Group has not early applied the following new HKFRSs and HKFRS interpretations ("HK(IFRIC) – INT") that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these HKFRSs and HKFRS interpretations and anticipate that the adoption of these new HKFRSs and HKFRS interpretations will not have material impact on the consolidated financial statements of the Group, except for HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which require all financial guarantee contracts to be initially measured at fair value. The directors of the Company consider that the impact resulting from its amendment cannot be reasonably estimated as at the balance sheet date.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [6]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [7]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.
[6] Effective for annual periods beginning on or after 1 June 2006.
[7] Effective for annual periods beginning on or after 1 November 2006.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

No financial effects of changes in accounting policies described above on the results for the current and prior years.

The cumulative effects of the application of the new HKFRSs as at 30 June 2005 and 1 July 2005 are summarised below:

	As at 30 June 2005 *HK$'000* (Originally stated)	**Prospective adjustments** *HK$'000*	**As at 1 July 2005** *HK$'000* (Restated)
HKAS 39			
Club debenture	7,500	(7,500)	–
Available-for-sale investments	–	7,500	7,500
Total effects on assets		–	
HKAS 17			
Investment property revaluation reserve	318,656	(318,656)	–
Accumulated losses	(918,637)	318,656	(599,981)
Total effects on equity		–	

There were no financial effects of the application of the new HKFRSs to the Group's equity as at 1 July 2004.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and properties sold in the normal ordinary course of business, net of return.

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

Revenue from sale of developed properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Properties held for sale

Properties held for sale are stated at lower of cost and net realisable value.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including other receivables, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including other payables, amounts due to directors of subsidiaries, bank borrowings and other loans are subsequently measured at amortised cost, using the effective interest rate method.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity (Cont'd)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives

Derivatives that do not qualify for hedging accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Impairment

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit and loss in the period in which the foreign operation is disposed of.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 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 differences 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.

5. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Retirement benefit scheme

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 5, management had made the following estimates that have the most significant effect on the amounts recognised in the consolidated financial statements.

Fair value of option derivatives at fair value through profit or loss

The fair value of option derivatives is subject to the limitation of the Black-Scholes Options Pricing Model and the Binominal Option Pricing Model that incorporated market data and involved uncertainty in estimates used by the management in the assumptions. Because both models require the input of highly subjective assumptions, including the volatility of price indices, and changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions are disclosed in note 29.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, other receivables, pledged bank deposits, bank balances and cash, other payables, amounts due to directors of subsidiaries, option derivatives, bank borrowings and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group's foreign currency risk is insignificant as the Group's transactions are mainly denominated in Hong Kong dollars.

Credit risk

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest rate risk

The Group has exposed to cash flow interest rate risk through the impact of the rate changes on floating interest rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider to change the floating interest rate to fixed interest rate when significant interest rate exposure is anticipated.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

Liquidity risk

As mentioned in note 2, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its liquidity risk. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future provided that the Group raises approximately HK$66,000,000 being the planned proceeds from an open offer of 264,135,807 convertible redeemable preference shares at the subscription price of HK$0.25 per share and provided that the Group can continue to successfully refinance or to obtain sufficient bank and other borrowings.

8. TURNOVER

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

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**3,110**	7,210
Sales of properties held for sale	**–**	489,833
	3,110	497,043

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

Year 2006

(i) Income statement

	General trading	**Property development and investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	3,110	–	3,110
RESULT			
Segment result	(15,968)	25,463	9,495
Loss arising from issuance of option derivatives	–	–	(9,850)
Gain arising from change in fair value of option derivatives	–	–	740
Finance costs			(40,155)
Loss for the year			(39,770)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2006 (Cont'd)

(ii) Balance sheet

	General trading	Property development and investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	171,217	1,123,925	1,295,142
Unallocated corporate assets			31,972
Consolidated total assets			1,327,114
LIABILITIES			
Segment liabilities	9,167	190,408	199,575
Unallocated corporate liabilities			1,094,449
Consolidated total liabilities			1,294,024

(iii) Other information

	General trading	Property development and investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital additions	122	–	122
Depreciation of property, plant and equipment	4,681	–	4,681

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2005

(i) Income statement

	General trading	Property development and investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	7,210	489,833	497,043
RESULT			
Segment result	(12,757)	249,411	236,654
Reversal of impairment loss previously recognised in respect of leasehold properties	52,450	–	52,450
Reversal of impairment loss recognised in respect of club debenture	–	–	2,500
Impairment loss recognised in respect of investment securities	–	–	(2,978)
Finance costs			(64,083)
Profit for the year			224,543

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Year 2005 (Cont'd)

(ii) Balance sheet

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

(iii) Other information

	General trading	Property development and investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital additions	35	–	35
Depreciation of property, plant and equipment	2,993	–	2,993

Geographical segments

More than 90% of the Group's turnover for the years ended 30 June 2006 and 2005 were attributable to operations carried out in Hong Kong. Also, almost all of the Group's assets are located in Hong Kong. Therefore, no geographical segment information are presented.

10. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**34,210**	22,692
– not wholly repayable within five years	**2,164**	–
Other borrowing costs	**3,780**	100,513
Overprovision in prior years	**–**	(1,154)
Total borrowing costs	**40,154**	122,051
Less: Amount capitalised in respect of properties under development	**–**	(57,968)
	40,154	64,083

11. TAXATION

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

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

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit for the year	**(39,770)**	224,543
Tax (credit) charge at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**(6,960)**	39,295
Tax effect of income not taxable for tax purpose	**(10,767)**	(27,265)
Tax effect of expenses not deductible for tax purpose	**1,441**	898
Tax effect of unrealised profits on properties held for sale not recognised	**52,452**	–
Utilisation of tax losses previously not recognised	**(36,166)**	(13,270)
Others	**–**	342
Taxation for the year	**–**	–

12. (LOSS) PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Directors' remuneration *(note 13)*	**487**	374
Other staff costs, including retirement benefit scheme contributions	**2,931**	1,867
Total staff costs	**3,418**	2,241
Auditors' remuneration		
– current year	**660**	430
– (over)underprovision in prior years	**(10)**	10
Cost of inventories consumed	**3,149**	8,132
Cost of properties sold	**–**	334,011
Depreciation of property, plant and equipment	**4,681**	2,993
and after crediting:		
Interest income	**152**	47

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2005: six) directors were as follows:

	2006						
	Law Fong	**Chen Te Kuang Mike**	**Oung Shih Hua, James**	**Zhu Pei Qing**	**Lu Ti Fen**	**Kwok Wai Chi**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Directors' fees	**118**	**–**	**–**	**120**	**105**	**144**	**487**
Other emoluments:							
Salaries and other benefits	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Retirement benefit scheme contributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**	**–**
Total	**118**	**–**	**–**	**120**	**105**	**144**	**487**

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

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

During the year ended 30 June 2005, the five highest paid individuals of the Group included one (2006: nil) executive director, details of whose emoluments are set out in (a) above. The emoluments of the remaining four (2006: nil) individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,060**	1,125
Retirement benefit scheme contributions	**38**	44
	2,098	1,169

The emoluments of these employees fall within the following bands:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**3**	4
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	–
	5	4

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

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year of HK$39,770,000 (2005: profit for the year of HK$224,543,000) and on 528,271,615 (2005: 528,271,615) ordinary shares in issue during the year.

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

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 July 2004, 30 June 2005 and 1 July 2005	–
Transferred from properties held for sale	113,244
Increase in fair value recognised in the consolidated income statement	54,656
At 30 June 2006	167,900

The fair value of the Group's investment properties as at 30 June 2006 has been arrived at on the basis of a valuation carried out on that day by Messrs. Savills Valuation And Professional Services Limited, independent qualified professional property valuers not connected with the Group. Messrs. Savills Valuation And Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications. The valuation, which conforms to The Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transactions prices for similar properties.

All the Group's leasehold interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Leasehold improvements	Office equipment, furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 July 2004	211,500	14,555	8,014	234,069
Additions	–	–	35	35
At 30 June 2005	211,500	14,555	8,049	234,104
Additions	–	–	122	122
At 30 June 2006	211,500	14,555	8,171	234,226
DEPRECIATION AND IMPAIRMENT				
At 1 July 2004	86,500	14,555	7,902	108,957
Provided for the year	2,962	–	31	2,993
Reversal of impairment loss previously recognised	(52,450)	–	–	(52,450)
At 30 June 2005	37,012	14,555	7,933	59,500
Provided for the year	4,636	–	45	4,681
At 30 June 2006	41,648	14,555	7,978	64,181
CARRYING VALUES				
At 30 June 2006	169,852	–	193	170,045
At 30 June 2005	174,488	–	116	174,604

Note: Owner-occupied leasehold land situated in Hong Kong is included in property, plant and equipment as the allocation between the land and building elements cannot be made reliably.

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold properties	Over the estimated useful lives of 50 years or the period of the lease, whichever is the shorter
Leasehold improvements	Over the estimated useful lives of 10 years or the period of the lease, which is the shorter
Office equipment, furniture and fixtures	15-25%

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

During the year ended 30 June 2005, the Group reviewed the carrying amounts of the leasehold properties and identified that the estimated recoverable amounts of the leasehold properties were greater than their carrying amounts. Accordingly, a reversal of impairment loss previously recognised amounting to HK$52,450,000 was credited to the consolidated income statement for that year to increase the carrying amounts of the leasehold properties to their recoverable amounts.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**31,353**	–
Less: Impairment loss recognised	**(23,853)**	–
	7,500	–

At 30 June 2006, the above unlisted equity investments are comprised of (i) 40% interest in the registered capital of Harbin Zheng Hua Real Estate Developing Company Limited ("Zheng Hua"), which was a company established in the People's Republic of China ("PRC") and is engaged in property development, with nil carrying amount; and (ii) the club debenture with carrying amount of HK$7,500,000.

The investment in Zheng Hua is not classified as an associate as, in the opinion of the directors of the Company, the Group is not able to exercise significant influence over its financial and operating policy decisions.

The available-for-sale investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value of the investments cannot be measured reliably.

18. INVESTMENT SECURITIES

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	–	23,353
Less: Impairment loss recognised	–	(23,353)
	–	–

At 30 June 2005, the Group held 40% of the registered capital of Zheng Hua, a company which is established in the PRC and is engaged in property development. The investment in Zheng Hua is not classified as an associate as, in the opinion of the directors of the Company, the Group is not able to exercise significant influence over its financial and operating policy decisions.

During the year ended 30 June 2005, the Group reviewed the carrying amount of the investment securities and identified that the estimated recoverable amount of the investment securities was less than its carrying amount. Accordingly, an impairment loss of HK$2,978,000 was made to reduce the carrying amount of the investment securities to zero at 30 June 2005.

19. CLUB DEBENTURE

	2006	2005
	HK$'000	*HK$'000*
At cost	–	8,000
Less: Impairment loss recognised	–	(500)
	–	7,500

During the year ended 30 June 2005, the Group reviewed the carrying amount of club debenture and identified that the estimated recoverable amount of the club debenture was greater than its carrying amount. Accordingly, a reversal of impairment loss previously recognised amounting to HK$2,500,000 was credited to the consolidated income statement for that year to increase the carrying amount of the club debenture to its recoverable amount.

20. PROPERTIES UNDER DEVELOPMENT

	2006	2005
	HK$'000	*HK$'000*
COST		
At beginning of the year	–	1,121,099
Additions	–	268,781
Reclassified to properties held for sale	–	(1,389,880)
At end of the year	–	–

The properties under development had been completed during the year ended 30 June 2005 and the amount was reclassified to properties held for sale.

21. PROPERTIES HELD FOR SALE

At 30 June 2006 and 2005, the properties held for sale are stated at cost.

22. PROPERTY SALE RECEIVABLES

At 30 June 2005, the property sale receivables of the Group were aged within 90 to 120 days. During the year ended 30 June 2006, the property sale receivables were fully settled.

23. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The pledged bank deposits are carried at an average fixed interest rate of 3.38% and the directors of the Company considered that the fair value of the pledged bank deposits at 30 June 2006 was approximate to the corresponding carrying amount.

24. BANK BALANCES AND CASH

The directors of the Company considered that the fair value of bank balances and cash at 30 June 2006 was approximate to the corresponding carrying amount.

25. OTHER PAYABLES

The directors of the Company considered that the fair value of other payables at 30 June 2006 was approximate to the corresponding amount.

26. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

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

The directors of the Company considered that the fair value of amounts due to directors of subsidiaries at 30 June 2006 was approximate to the corresponding carrying amount.

27. SECURED BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loan	**142,911**	591,000
Mortgage loans	**629,136**	–
	772,047	591,000
Less: Amount due within one year shown under current liabilities	**(154,965)**	(591,000)
Amount due after one year	**617,082**	–

At the balance sheet date, the Group's bank borrowings are repayable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**154,965**	591,000
In more than one year but not more than two years	**14,031**	–
In more than two years but not more than three years	**14,031**	–
In more than three years but not more than four years	**14,031**	–
In more than four years but not more than five years	**14,031**	–
Over five years	**560,958**	–
	772,047	591,000

27. SECURED BANK BORROWINGS (Cont'd)

The term loan of HK$591,000,000 as at 30 June 2005 (the "Old Term Loan") was secured by a first legal charge over the Group's properties held for sale (the "Property") and a floating charge over all assets of Holyrood Limited ("Holyrood"), a wholly-owned subsidiary of the Company. Deposits, rental proceeds and sales proceeds regarding the Property were also assigned to the bank. The Old Term Loan was at variable-rate and the effective interest rate was at Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum.

The original maturity date of the Old Term Loan was the earlier of (i) the date falling six months from the date of issuance of the occupation permit of the Property; and (ii) 30 September 2004. In March 2004, the maturity date of the Old Term Loan was changed to the earlier of (i) the date falling one month from the date of issuance of the certificate of compliance of the Property; and (ii) 31 December 2004.

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

On 22 July 2005, the Group entered into a loan agreement with certain banks and obtained a term loan facility in an aggregate principal amount of HK$994,000,000 (the "New Term Loan") comprising (i) HK$919,000,000 for refinancing the Old Term Loan of HK$591,000,000 and the other loan of HK$155,000,000 from an unrelated company (both together with accrued interest and other related charges); and (ii) HK$75,000,000 for financing the construction cost of the Property. The Group has drawn down approximately HK$665,846,000 of the New Term Loan during the year ended 30 June 2006. The New Term Loan shall be repayable by two instalments with the first repayment to reduce the outstanding term loan to HK$442,000,000 on the date falling six months after the date of the first advance of the New Term Loan (i.e. 22 January 2006) and the balance of the outstanding loan amount shall be repayable on the date falling twelve months after the date of signing the loan agreement (i.e. 21 July 2006).

The New Term Loan is secured by a first legal charge over the Property and a floating charge over all assets of Holyrood. Deposits, rental proceeds and sales proceeds regarding the Property were also assigned to the banks. The New Term Loan was at variable-rate and the effective interest rate was at HIBOR plus 1.75% to 3.5% per annum.

On 24 January 2006, the Group entered into a supplemental loan agreement with those banks to amend the terms of the loan agreement of the New Term Loan dated 22 July 2005. Under the terms of the supplemental loan agreement, the Group partially repaid the outstanding New Term Loan in an amount of approximately HK$57,930,000 to those banks on 26 January 2006 and the remaining outstanding loan amount of approximately HK$528,543,000 shall be repayable on 28 April 2006.

27. SECURED BANK BORROWINGS (Cont'd)

During the year ended 30 June 2006, the Group obtained two mortgage loans in an aggregate amount of HK$630,000,000 from certain banks to repay part of the outstanding New Term Loan. The two mortgage loans are comprised of (i) a mortgage loan with a principal amount of HK$80,000,000 that shall be repayable by 240 monthly instalments with an effective interest rate of 2% per annum below the Hong Kong dollars Prime Rate and (ii) a mortgage loan with a principal amount of HK$550,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.35% per annum below the Hong Kong dollars Prime Rate. The two mortgage loans are secured by certain apartments of the Property to the banks.

At 30 June 2006, the outstanding balance of the New Term Loan was HK$142,911,000 and the Group obtained unanimous consent from the banks to extend the outstanding New Term Loan on a monthly basis unless the Group is default to pay the interest thereof.

Subsequent to 30 June 2006, the Group obtained three new mortgage loans from banks in an aggregate principal amount of HK$155,100,000 to settle in full the outstanding New Term Loan of HK$142,911,000. The new mortgage loans are secured and shall be repayable by 240 to 300 monthly instalments (see note 38(a)).

The fair value of the Group's bank borrowings was approximate to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date. The Group's bank borrowings are all denominated in Hong Kong dollars.

28. OTHER LOANS

	2006	2005
	HK$'000	*HK$'000*
Other loans from:		
– related companies *(note a)*	**183,323**	271,013
– unrelated companies *(note b)*	**34,739**	39,232
– an unrelated company *(note c)*	**91,459**	77,465
– an unrelated company *(note d)*	**–**	155,000
	309,521	542,710
Less: Amount due within one year shown under current liabilities	**(239,577)**	(469,451)
Amount due after one year	**69,944**	73,259

28. OTHER LOANS (Cont'd)

Notes:

(a) The loans are owed to companies in which Lilian Oung and/or Messrs. Oung Shih Hua, James and Chen Te Kuang Mike, directors of the Company, have controlling interests. The loans are unsecured, non-interest bearing and repayable on demand.

(b) The loans are unsecured, non-interest bearing and repayable on demand.

(c) The loans are owed to Fine Chiffon Corporation Limited ("Fine Chiffon"), an independent third party. At 30 June 2006, the loans are comprised of (i) an interest bearing instalment loan of HK$73,698,000 (2005: HK$77,465,000) and a non-interest bearing loan of HK$17,761,000 (2005: nil) from Fine Chiffon.

During the year ended 30 June 2005, the Group obtained an interest bearing instalment loan of HK$80,000,000 from Fine Chiffon. The instalment loan was obtained by Fine Chiffon from a bank and was granted to the Group with the same terms offered by the bank. The Company provides a corporate guarantee of HK$80,000,000 to the bank and the Group's leasehold properties are also pledged to the bank as security. The loan is repayable by 180 monthly instalments and is carried at variable interest rate with 2.5% per annum below the Hong Kong dollars Prime Rate. At 30 June 2006, the outstanding interest bearing instalment loan amounted to HK$73,698,000 (2005: HK$77,465,000).

During the year ended 30 June 2006, as announced by the Company on 5 April 2006, the Group entered into a loan agreement with Fine Chiffon to obtain a new non-interest bearing loan facility up to HK$42,000,000. The loan is unsecured, non-interest bearing and non-revolving in nature. The loan shall be repayable on or before the date falling 36-months after the first drawdown of the loan. However, Fine Chiffon has a right to withdraw the loan facility at any time prior to the repayment date and accordingly, the loan is classified as current liabilities in the consolidated balance sheet. At 30 June 2006, the outstanding non-interest bearing loan amounted to HK$17,761,000 (2005: nil).

In addition, the Group also granted two options to Fine Chiffon for purchasing (i) part of the Group's leasehold properties at a consideration of HK$32,000,000 and (ii) 20% of the share capital of Banhart Company Limited ("Banhart"), which is a wholly-owned subsidiary of the Company and is also the beneficial owner of the Group's leasehold properties, at a consideration of HK$10,000,000 in substitution for the repayment of the outstanding loan at the end of the loan period. Fine Chiffon is also entitled to exercise the options prior to the expiry of the 36-months loan period and the options are non-transferable. Details of the above are set out, inter alia, in the announcement of the Company dated 5 April 2006.

(d) The loan was secured, interest bearing at 2% per annum and repaid in full during the year ended 30 June 2006.

The directors of the Company considered that the fair value of the other loans at 30 June 2006 was approximate to the corresponding carrying amount.

29. OPTION DERIVATIVES

	2006	2005
	HK$'000	*HK$'000*
Option derivatives – fair value	**9,110**	–

During the year ended 30 June 2006, the Group granted two options to Fine Chiffon for purchasing (i) part of the Group's leasehold properties at a consideration of HK$32,000,000 and (ii) 20% of the share capital of Banhart, which is the beneficial owner of the Group's leasehold properties, at a consideration of HK$10,000,000 in substitution for the repayment of the outstanding loan at the end of the loan period. Fine Chiffon is entitled to exercise the options prior to the expiry of 36-months loan period and the options are non-transferable (see note 28(c)).

On application of HKAS 39, the fair value of the option derivatives granted by the Group is determined by using the Block-Scholes Options Pricing Model and the Binomial Option Pricing Model. The fair value of the option derivatives amounting to HK$9,850,000 at initial recognition and the loss arising from issuance of the option derivatives amounting to HK$9,850,000 has been recognised in the consolidated financial statements for the year ended 30 June 2006. The gain on change in fair value of the option derivatives from the date of issuance to 30 June 2006 amounted to HK$740,000.

The fair value of the option derivatives are calculated by using the Black-Scholes Option Pricing Model and the Binominal Option Pricing Model. The inputs into both models are as follows:

Block-Scholes Option Pricing Model

	2006
Exercise price	HK$32,000,000
Expected volatility	23.33%
Expected life	3 years
Risk-free rate	4.4%

Expected volatility is determined by using the historical volatility of the price indices for Grade A office in core districts in Hong Kong over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

29. OPTION DERIVATIVES (Cont'd)

Binomial Option Pricing Model

	2006
Exercise price	HK$10,000,000
Expected volatility	23.33%
Expected life	3 years
Risk-free rate	4.4%

Expected volatility is determined by using the historical volatility of the price indices for Grade A office in core districts in Hong Kong over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The fair value of the option derivative to purchase 20% of the share capital of Banhart depends on the net asset value of Banhart, which is equivalent to the potential of obtaining economic benefits deriving from the positive net asset value of Banhart that appears when the value of the leasehold properties held by Banhart exceeds the value of its total liabilities. A discount of 40% to the net asset value of Banhart is used in view of the lack of marketability and minority interest for the 20% equity interests in Banhart.

30. SHARE CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.50 each		
Authorised:		
At 1 July 2004, 30 June 2005 and 30 June 2006	1,000,000,000	500,000
Issued and fully paid:		
At 1 July 2004, 30 June 2005 and 30 June 2006	528,271,615	264,136

31. SHARE OPTION SCHEME

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

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

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

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

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

32. DEFERRED TAXATION

The following are the deductible temporary differences not recognised by the Group in the consolidated financial statements.

	2006	2005
	HK$'000	*HK$'000*
Tax losses	**448,760**	655,423
Unrealised profits on properties held for sale	**299,726**	–
Accelerated tax depreciation	**599**	–
	749,085	655,423

At 30 June 2006, the Group has unused tax losses of approximately HK$448,760,000 (2005: HK$655,423,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

The other deductible temporary difference of approximately HK$300,325,000 (2005: nil) as at 30 June 2006 had not been recognised as it was not probable that taxable profit would be available against which the other deductible temporary difference can be utilised.

33. CONTINGENT LIABILITIES

At 30 June 2006, the Group had given guarantee of HK$80,000,000 (2005: HK$80,000,000) to a bank to secure the credit facilities granted to Fine Chiffon.

In addition, the Group had the following outstanding litigation as at 30 June 2006.

(a) In 2005, Osmar Far East Limited (of which the beneficial owners are independent third parties) and Holyrood referred disputes on the construction work for the Property to arbitration. Osmar Far East Limited has claimed against Holyrood for approximately HK$6 million in relation to disputes on construction cost for the Property and Holyrood counterclaimed against Osmar Far East Limited for approximately HK$9 million in relation to the defective works performed by Osmar Far East Limited. The arbitration is still in proceeding.

33. CONTINGENT LIABILITIES (Cont'd)

(b) In 2005, P&T Architects Engineers Limited (of which the beneficial owners are independent third parties) and Holyrood referred disputes in relation to architect fees for the Property to arbitration. P&T Architects Engineers Limited has claimed against Holyrood for approximately HK$1 million in relation to disputes on architect fees for the Property and Holyrood counterclaimed against P&T Architect Engineers Limited for approximately HK$20 million in relation to breach of professional duty of care. The arbitration is still in proceeding.

(c) On 30 November 2005, Holyrood filed an indorsement against P&T Architects Engineers Limited in relation to P&T Architects Engineers Limited's professional negligence as a structural engineer on a construction work for the Property. The litigation is still ongoing and the amount of the claim against P&T Architects Engineers Limited is to be determined.

(d) On 26 July 2005, Brightland Corporation Limited (of which the beneficial owners are all independent third parties) issued a writ against Banhart claiming for a sum of approximately HK$858,000 together with interest and other relief in relation to a sale and purchase agreement entered into by Banhart for the sale of part of the Group's leasehold properties in December 2004. The sale and purchase agreement was subsequently cancelled at the beginning of 2005 as a result of the dispute of the transaction between both parties. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (e) was made by the court on 9 June 2006. The litigation is still ongoing and the date of trial is yet to be fixed by the court.

(e) On 27 February 2006, Crowning Success Limited (of which the beneficial owners are all independent third parties), a sub-purchaser of the part of the Group's leasehold properties, issued a summons against Banhart for the purpose of joining Banhart as the second defendant against Brightland Corporation Limited. On 13 April 2006, the court ordered that Banhart be joined as the second defendant in the action. The amended writ and the amended statement of claim were filed and served on 27 April 2006. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (d) above was made by the court on 9 June 2006. The amount of the claim by Crowning Success Limited shall not exceed the amount that Brightland Corporation Limited could claim against Banhart for the breach of the agreement. The litigation is still ongoing and the date of trial is yet to be fixed by the court.

(f) On 4 May 2006, Savills (Hong Kong) Limited (of which the beneficial owners are independent third parties) commenced a proceeding against Holyrood in relation to a claim of approximately HK$1.3 million for agency fee owned by Holyrood to Savills (Hong Kong) Limited. This case was settled in a sum of HK$400,000 by Holyrood to Savills (Hong Kong) Limited and the claim by Savills (Hong Kong) Limited was dismissed on 2 August 2006.

33. CONTINGENT LIABILITIES (Cont'd)

(g) On 11 May 2006, Savills (Hong Kong) Limited commenced a proceeding against the Company in relation to a claim of approximately HK$55,000 being costs and disbursements paid for and on behalf of the Company in connection with services provided by Savills (Hong Kong) Limited. This case was settled in a sum of HK$5,000 by the Company to Savills (Hong Kong) Limited and the claim by Savills (Hong Kong) Limited was dismissed on 2 August 2006.

(h) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) commenced a proceeding against Holyrood in relation to a sale and purchase in respect of an apartment and a car parking space of the Property. The claim by Chinese Regency Limited was for general damages to be assessed. Holyrood denied the claims and shall defend the actions according to the laws.

(i) A claim by Hip Hing Construction Limited (of which the beneficial owners are independent third parties) against Holyrood for approximately HK$59 million in relation to disputes on construction work performed by Hip Hing Construction Limited in relation to the redevelopment project at the Peak Road. The contracts between Hip Hing Construction Limited and Holyrood have incorporated arbitration provisions and in 2006, both parties have agreed to refer to the disputes to arbitration. Holyrood is preparing a claim against Hip Hing Construction Limited for defective works, rectification costs and damages for an amount to be determined. Although Holyrood has made provision for approximately HK$16 million is relation to the construction cost, as the proceedings between the parties are presently at an early stage and an arbitrator has been appointed, the outcome of this matter cannot be determined with reasonable certainty at this time.

34. PLEDGE OF ASSETS

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

	2006	2005
	HK$'000	*HK$'000*
Properties held for sale	**948,525**	1,055,869
Investment properties	**167,900**	–
Leasehold properties	**169,852**	174,488
Bank deposits	**20,144**	3,183
Property sale receivables	**–**	383,201
Receivable from stakeholder's account	**–**	21,923
	1,306,421	1,638,664

The issued ordinary shares of Holyrood were also pledged to a bank to secure credit facilities granted to the Group (also see note 27).

35. RETIREMENT BENEFIT SCHEME

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

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

The aggregate employer's contributions during the year ended 30 June 2006 dealt with in the consolidated income statement of the Group amounted to HK$46,000 (2005: HK$49,000).

36. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) Five Star pledged its interest in 50.7% of the issued share capital of the Company, representing 267,815,017 shares in the Company, to a bank to secure credit facilities to the extent of HK$1,464,000,000 (2005: HK$700,000,000) granted to the Group.

(b) Lilian Oung, one of the shareholders of Five Star and a director of the Company's subsidiaries, has provided personal guarantees in respect of the following:

	2006	2005
	HK$'000	*HK$'000*
Credit facilities granted to the Group	**1,544,000**	780,000
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	**15,919**	15,919
	1,559,919	795,919

(c) Details of the amounts due to directors of the Company's subsidiaries including Lilian Oung are set out in note 26.

(d) Details of the other loans from related companies in which the directors of the Company and Lilian Oung have controlling interests are set out in note 28(a).

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**922**	512

The remuneration of directors and key executives are determined by the remuneration committee and the executive directors, respectively, having regard to the performance of individuals and market trends.

37. OPERATING LEASE ARRANGEMENTS

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

The Group as lessor

	2006	2005
	HK$'000	*HK$'000*
Within one year	**6,507**	–
In the second year	**6,507**	–
	13,014	–

Under the leases entered by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have committed tenants for a term of two years.

38. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30 June 2006:

(a) The Group entered into loan agreements with banks to obtain three mortgage loans in an aggregate principal amount of HK$155,100,000 to settle in full the outstanding New Term Loan of HK$142,911,000. The new mortgage loans are secured and shall be repayable by 240 to 300 monthly instalments (see note 27).

(b) As announced by the Company on 8 June 2006, the Company proposed an open offer of 264,135,807 convertible redeemable preference shares at the subscription price of HK$0.25 per convertible redeemable preference share in the proportion of one convertible redeemable preference share for every two existing shares of the Company held. Details of this are set out, inter alia, in the circular and the prospectus of the Company dated 20 July 2006 and 22 August 2006, respectively.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 30 June 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid up share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Banhart Company Limited	Hong Kong	Ordinary HK$9,998 Non-voting deferred* HK$2	–	100%	Property holding
Bowen Hill Limited	British Virgin Islands#	US$1	–	100%	Investment holding
Holyrood Limited	Hong Kong	Ordinary HK$999,998 Non-voting deferred* HK$2	99.9%	0.1%	Property holding
Homjade Trading Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	General trading
Paladin Trading Limited	British Virgin Islands#	US$1	100%	–	Investment holding
Six Gain Investments Limited	Hong Kong	Ordinary HK$2	100%	–	Investment holding
Alpard Limited	Hong Kong	Ordinary HK$10	100%	–	Property investment
World Modern International Limited	Hong Kong	Ordinary HK$1	100%	–	Property investment

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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

These are investment holding companies which have no specific principal place of operations.

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

None of the subsidiaries had issued any debt securities at 30 June 2006 as at any time during the year.